

NATIONAL FINANCIAL SERVICES LLC AND SUBSIDIARIES

Affiliate of Fidelity Brokerage Services LLC

Consolidated Statement of Financial Condition

June 30, 2009

(Unaudited)



Consolidated Statement of Financial Condition as of June 30, 2009

(Dollars in Thousands)

(Unaudited)

ASSETS

Cash.....	\$ 92,017
Federal funds sold.....	50,000
Cash and securities segregated under federal regulations (includes securities of \$5,531,299).....	16,278,496
Securities borrowed.....	5,515,259
Securities received as collateral.....	438,154
Receivable from brokers, dealers, and clearing organizations	871,433
Receivable from customers, net of allowance of \$25,692	6,685,722
Securities owned—at fair value (\$259,761 pledged as collateral).....	2,272,220
Resale agreements	277,284
Furniture, office equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$74,612	77,068
Intercompany receivable	23,523
Other assets.....	185,469
TOTAL ASSETS.....	<u>\$32,766,645</u>

LIABILITIES AND MEMBER'S EQUITY

LIABILITIES:

Securities loaned	\$ 1,421,355
Obligation to return securities received as collateral from affiliate	438,154
Payable to brokers, dealers, and clearing organizations	1,070,248
Payable to customers.....	25,128,902
Repurchase agreements.....	987,240
Securities sold, but not yet purchased—at fair value .	327,644
Payable to affiliates.....	44,140
Accrued expenses and other liabilities	425,235
TOTAL LIABILITIES.....	<u>29,842,918</u>
MEMBER'S EQUITY.....	<u>2,923,727</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY.....	<u>\$32,766,645</u>

See notes to consolidated statement of financial condition.

Notes to Consolidated Statement of Financial Condition as of June 30, 2009

(Dollars in Thousands)

1. Description of Business and Summary of Significant Accounting Policies

Basis of Presentation

The consolidated statement of financial condition includes the accounts of National Financial Services LLC (“NFS”) and its wholly owned subsidiaries, Correspondent Services Corporation (“CSC”) and Combined Collateral LLC (collectively referred to as the “Company”). All material intercompany transactions and balances have been eliminated.

Description of Business

The Company is wholly owned by Fidelity Global Brokerage Group, Inc. (the “Parent”), a wholly owned subsidiary of FMR LLC (“FMR”). NFS is a registered broker-dealer, a member of various national and regional stock exchanges, and is licensed to trade on the New York Stock Exchange, Inc. NFS provides a wide range of securities related services to a diverse customer base primarily in the United States. The Company’s customer base includes institutional and individual investors, other broker-dealers and corporations, all of which effect transactions in a wide array of financial instruments. NFS engages in brokerage, clearance, custody and financing activities for which it receives fees from a diverse group of correspondent brokers and dealers. NFS also trades on a proprietary basis for itself and the correspondent firms for which it clears.

Securities Transactions

Proprietary inventory transactions and the related principal transactions revenues are recorded on a trade date basis. Securities owned are reported at fair value and any fluctuations are reported as a component of principal transactions.

Customer Transactions

Receivable from and payable to customers include amounts related to both cash and margin transactions. The Company records customer transactions on a settlement date basis, which is generally three business days after trade date, while the related commission revenues and clearing fees and related expenses are recorded on a trade date basis. The Company’s customer base is monitored through a review of account balance aging and assessment of customer financial condition. An allowance against doubtful receivables is established through a combination of specific identification of accounts and percentages based on aging. Securities owned by customers, including those that collateralize margin transactions, are not reflected in the accompanying Consolidated Statement of Financial Condition.

Brokerage and Customer Related Interest and Dividends

NFS collects and distributes introducing brokers’ customer related interest pursuant to their clearing agreements. Additionally NFS recognizes interest and dividend income and incurs interest and dividend expense from various sources such as collateralized securities transactions, proprietary trading activities and overnight sweep deposits.

Use of Estimates

Preparation of the consolidated statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions regarding the outcome of litigation and other matters that affect the reported amounts and the disclosure of

contingencies in the consolidated statement of financial condition. Actual results could differ from these estimates.

Cash

For the purposes of reporting cash flows and amounts in the Consolidated Statement of Financial Condition, the Company defines cash as cash on hand and demand deposits. Cash equivalents are reported as securities owned at fair value in the Consolidated Statement of Financial Condition.

Furniture, Office Equipment and Leasehold Improvements

Depreciation of furniture and office equipment is computed on a straight-line basis using estimated useful lives which range from three to five years. Amortization of leasehold improvements is provided on a straight-line basis over the lesser of their useful lives or the life of the lease.

Income Taxes

As single-member limited liability companies, NFS and Combined Collateral LLC are disregarded as entities separate from their owner and the operations are included in the federal and state income tax returns of the Parent. Therefore, the Company has no income tax expense/benefit or tax assets/liabilities except with regards to CSC. CSC accounts for income taxes in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*, which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and tax basis of assets and liabilities.

Collateralized Securities Transactions

Resale and repurchase agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest and are presented on a net-by-counterparty basis, where permitted by accounting principles generally accepted in the United States of America. These agreements are generally collateralized by U.S. government and government agency securities. It is the Company's policy to take possession of securities purchased under resale agreements with a market value in excess of the principal amount loaned plus accrued interest to collateralize these transactions. Similarly, the Company is generally required to provide securities to counterparties in order to collateralize repurchase agreements. This collateral is valued daily and the Company or the counterparty may be required to deposit additional securities or return securities pledged when appropriate. A portion of securities obtained as collateral under resale agreements are segregated for the exclusive benefit of customers pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934.

Securities borrowed and securities loaned are recorded based on the amount of cash collateral advanced or received. Securities borrowed transactions facilitate the settlement process and require the Company to deposit cash, letters of credit or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash or other collateral. The amount of collateral required to be deposited for securities borrowed, or received for securities loaned, is an amount generally in excess of the market value of the applicable securities borrowed or loaned. In non-cash loan versus pledge securities transactions, the Company, as lender, records the collateral received as both an asset and as a liability, recognizing the obligation to return the collateral to the borrower. The Company monitors the market value of securities borrowed and loaned, with excess collateral retrieved, or additional collateral obtained, when deemed appropriate.

Interest related to collateralized securities transactions is recorded on an accrual basis.

Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48, *“Accounting for Uncertainty in Income Taxes”* (“FIN 48”), which prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken or expected to be taken in a tax return. In December 2008, the FASB issued FASB Staff Position (“FSP”) FIN48-3 which defers the effective date of FIN 48 for certain non public enterprises to the annual financial statements for fiscal years beginning after December 15, 2008. The Company has elected the deferral under the FSP but does not expect FIN 48, when adopted to have a material effect on the Company’s consolidated financial statements. Currently the Company evaluates uncertain tax positions under SFAS No. 5, *Accounting for Contingencies*.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, (“SFAS 141(R)”). SFAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS 141(R) applies to all transactions or other events in which the Company obtains control of one or more businesses, including those sometimes referred to as “true mergers” or “mergers of equals” and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority interest veto rights. The adoption of FSP 141(R) on January 1, 2009 did not impact the Company’s consolidated financial statements but may have an impact in the future to the extent the Company enters into a business combination.

In February, 2008, the FASB issued FSP 157-2, *“Effective Date of FASB Statement No. 157,”* (“FSP 157-2”), which delays the effective date of SFAS No. 157, *Fair Value Measurements* (“SFAS 157”) for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of these delayed provisions on January 1, 2009 did not have a material impact on the Company’s consolidated financial statements.

In October, 2008, the FASB issued FSP 157-3, *“Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active,”* (“FSP 157-3”), which provided additional interpretative guidance on the application of SFAS 157. FAS 157-3 was effective upon issuance, including for prior periods for which financial statements have not yet been issued. The issuance of interpretative guidance on the application of SFAS 157 did not have a material impact on the Company’s consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (“FSP 157-4”) to provide additional guidance in measuring the price that would be received to sell an asset or transfer a liability in an orderly transaction (that is,

not a forced liquidation or distressed sale) between market participants under market conditions at the measurement date. FSP 157-4 indicates that if an entity determines that either the volume and/or level of activity for an asset or liability has significantly decreased from normal conditions or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. Application of FSP 157-4 did not have a material effect on the consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events ("SFAS 165"), which codifies the guidance regarding disclosure of events occurring subsequent to the balance sheet date. SFAS 165 does not change the definition of a subsequent event (i.e., an event or transaction that occurs after the balance sheet date but before the financial statements are issued) but requires disclosure of the date through which subsequent events were evaluated when determining whether adjustment to or disclosure in the financial statements is required. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009, and applied prospectively. The Company evaluated subsequent events through September 16, 2009. Since SFAS 165 requires only additional disclosures concerning subsequent events, the adoption of the standard did not have an affect on the consolidated financial statements.

Fair Value of Financial Instruments

SFAS 157 as adopted by the Company on January 1, 2008, defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The Company accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurements. Assets, including cash, federal funds sold, resale agreements, securities borrowed, receivables, and other assets, are carried at amounts which approximate fair value. Securities owned and securities sold, but not yet purchased are recorded at fair value using quoted market prices for exchange traded securities or dealer price quotations for actual or similar instruments. Securities loaned, repurchase agreements, accrued expenses, payables and other liabilities are carried at amounts which approximate fair value.

2. Cash and Securities Segregated Under Federal Regulations

Cash and securities segregated under federal regulations consist of the following:

Interest bearing cash deposits	\$ 1,301,314
Certificates of deposit	1,701,585
Government securities	3,829,714
Resale Agreements	<u>9,445,883</u>
	<u>\$ 16,278,496</u>

3. Fair Value Measurements

The Company's securities owned and securities sold, but not yet purchased consist of the following:

Securities owned—at fair value:

Money Market Funds	\$ 1,630,000
Certificates of Deposit	49,991
Debt:	
Corporates	215,987
U.S. Government and Agency	223,865
Municipals	86,543
Equities	20,500
Other	45,334
Total	<u>\$ 2,272,220</u>

Securities sold, but not purchased—at fair value:

Debt:	
U.S. Government and Agency	\$ 142,251
Corporates	60,452
Municipals	7,991
Equities	43,195
Options	73,520
Other	235
Total	<u>\$ 327,644</u>

The Company categorizes its financial instruments recorded at fair value into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Consolidated Statement of Financial Condition are categorized based on the inputs to the valuation techniques as follows:

Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Because valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2—Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in non-active markets;
- c) Pricing models whose inputs are observable for substantially the full term of the asset or liability; and

d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3—Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include private equity investments, certain residential and commercial mortgage related assets (including loans, securities and derivatives), and long-dated or complex derivatives including certain foreign exchange options).

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2009:

Fair Value Measurements on a Recurring Basis

	Level 1	Level 2	Level 3	Total
Assets:				
Securities segregated under federal regulations	\$3,829,714	\$1,701,585	\$ —	\$5,531,299
Securities received as collateral	438,154	—	—	438,154
Securities owned	1,969,796	302,424	—	2,272,220
Liabilities:				
Securities pledged as collateral	\$438,154	\$ —	\$ —	\$438,154
Securities sold, but not yet purchased	260,401	67,243	—	327,644

4. Receivable from and Payable to Brokers, Dealers and Clearing Organizations

Receivable from brokers, dealers and clearing organizations include amounts receivable for securities not delivered by the Company to a purchaser by the settlement date, margin deposits, commissions, net receivables arising from unsettled trades and the Company's introducing brokers' margin loans.

Payable to brokers, dealers and clearing organizations include amounts payable for securities not received by the Company from a seller by the settlement date, clearing deposits from introducing brokers, commissions, net payables arising from unsettled trades and amounts payable to the Company's introducing brokers.

5. Concentrations of Credit Risk

The Company provides brokerage, clearance, financing and related services to a diverse customer base primarily in the United States, including institutional and individual investors and brokers and dealers, including affiliates. The Company's exposure to credit risk associated with these transactions is measured on an individual customer or counterparty basis. To reduce the potential for risk

concentration, credit limits are established and continually monitored in light of changing customer and market conditions. In the normal course of providing such services, the Company requires collateral on a basis consistent with industry practice or regulatory requirements. The type and amount of collateral is continually monitored and counterparties are required to provide additional collateral as necessary.

6. Net Capital Requirements

As a registered broker-dealer, NFS is subject to the Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934 (the "Rule") in addition to the rules of FINRA and other principal exchanges of which it is a member. NFS has elected the alternative method permitted by the Rule which requires that minimum net capital, as defined, be the greater of \$1,000 or 2% of aggregate debit items arising from customer transactions. At June 30, 2009, NFS had net capital of \$2,499,619, which was 22.37% of aggregate debit items and exceeded its minimum requirement by \$2,276,142.

7. Transactions with Affiliated Companies

The Company earned clearing fees for executing and clearing securities transactions on a fully disclosed basis for Fidelity Brokerage Services LLC ("FBS") and mutual funds managed by an affiliate, respectively.

NFS collects and distributes FBS customer related interest pursuant to their clearing agreement.

Transactions with affiliated companies are settled with FMR, with the exception of transactions with FBS which are settled directly. Payable to affiliate represents the amounts due to FBS based on their clearing agreement. The payable to FBS is \$42,132 at June 30, 2009. Receivable from FMR of \$23,523 is included in inter-company receivable on the Consolidated Statement of Financial Condition.

The Company entered into non-cash loan versus pledge securities transactions with FBS. The fair value of the collateral was \$438,154 at June 30, 2009.

8. Employee Benefit Plans

The Company participates in FMR's defined contribution profit sharing plans covering substantially all employees. Annual contributions to the profit sharing plan are based on either stated percentages of eligible employee compensation or employee contributions.

The Company also participates in FMR's Retiree Health Retirement Plan, a health reimbursement arrangement covering all eligible employees. The charge is based on the number of full-time and part-time employees participating in the plan.

The Company participates in various FMR share based compensatory plans and is assessed a compensation charge that is amortized over the period in which it is earned. The FMR share plans are accounted for as share appreciation rights and provide holders with participation in changes in FMR's Net Asset Value per share over their respective terms. These plans are cash-settled at the end of their defined term or in the event employee participants are no longer eligible holders. The accumulated value of these plans including certain additional cash bonuses on select plans is amortized over the applicable vesting periods with a charge to employee compensation and benefits expense.

9. Exit Costs

The Company accounts for exit costs in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which generally fall into two categories, severance related costs and costs to terminate contracts, including leases.

The Company recognizes expense and records the associated liability for exit activities when such activity has been approved by FMR management, communicated to the affected population or counterparty, and determined to be unlikely that significant changes to the plan will occur or that the plan will be withdrawn.

At June 30, 2009, the Company's liability related to exit costs totaled \$3,936.

10. Commitments and Contingencies

Assets Pledged and Other Secured Transactions

In the normal course of business, the Company executes, settles and finances customer, correspondent and proprietary securities transactions. Customer and correspondent transactions include the sale of securities sold, but not yet purchased (short sales) and the writing of options. These activities may expose the Company to off-balance-sheet risk arising from the potential that the customer or counterparty may fail to satisfy its obligations and the collateral will be insufficient. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers and counterparties.

The Company seeks to control the risks associated with its customer and correspondent activities by requiring customers and correspondents to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors trade date customer and correspondent exposure and collateral values daily and requires customers and correspondents to deposit additional collateral or reduce positions when necessary.

Securities sold, but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price, and thereby create a liability to purchase the security in the market at prevailing prices. Accordingly, these transactions result in exposure to market risk as the Company's ultimate obligation to purchase securities sold, but not yet purchased may exceed the amount recognized in the Consolidated Statement of Financial Condition.

In the normal course of business, the Company borrows and lends securities to finance securities transactions and to facilitate the settlement process. In loaning securities, the Company utilizes securities owned by customers collateralizing margin debt and securities borrowed.

Liabilities to other brokers and dealers related to unsettled transactions (e.g., securities failed to receive) are recorded at the amounts for which the securities were acquired and are paid upon the receipt of securities from the other brokers and dealers.

The Company seeks to control the risks associated with these transactions by establishing and monitoring credit limits for significant counterparties for each type of transaction and monitoring collateral and transaction levels daily.

Guarantees

FASB Interpretation No. 45 ("FIN 45"), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires the Company to disclose information about its obligations under certain guarantee arrangements. FIN 45 defines guarantees as contracts and

indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. FIN 45 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

The Company is a member of numerous exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral as well as meet certain minimum financial standards. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is recorded in the Consolidated Statement of Financial Condition for these arrangements.

Collateral

At June 30, 2009, the fair value of securities received as collateral by the Company that can be repledged, delivered or otherwise used was approximately \$25,780,585. This collateral was generally obtained under reverse repurchase, securities borrowed or margin lending agreements. Of these securities received as collateral, those with a fair value of approximately \$9,056,710 were delivered or repledged, generally as collateral under repurchase or securities lending agreements or to cover short sales or to satisfy margin requirements with the Options Clearing Corp.

In relation to non-cash loan versus pledge securities transactions, the Company recorded collateral received from FBS and a related obligation to return this collateral. The collateral had a fair value of \$438,154 at June 30, 2009.

Leases

The Company occupies office space under noncancelable operating leases expiring at various dates through 2016. Future minimum rentals under these leases are \$6,368, \$12,740, \$12,754, \$8,181 and \$3,325 for each of the years ending December 2009 through December 2013, respectively, and \$9,555 thereafter. Certain leases contain escalation clauses and renewal options.

Risks and Uncertainties

The Company generates a significant portion of its revenues by providing securities trading, brokerage and clearing activities to domestic customers. Revenues for these services are transaction based. As a result, the Company's revenues could vary based on the performance of financial markets around the world. The Company's financing is sensitive to interest rate fluctuations that may have an impact on the Company's profitability.

Litigation

In the normal course of business as a clearing broker-dealer, the Company has been named as a defendant in several legal actions and lawsuits. The Company reviews such actions and lawsuits on a case by case basis and establishes its reserves in accordance with SFAS No. 5, *Accounting for Contingencies*. Although the ultimate outcome of these actions cannot be ascertained at this time, it is the

opinion of management, after consultation with counsel, that the resolution of such actions will not have a material adverse effect on the financial condition or results of operations of the Company.

Letters of Credit

At June 30, 2009, the Company had unsecured letters of credit outstanding of approximately \$222,000. Letters of credit approximating \$119,072 were used as collateral for securities borrowed with a market value of approximately \$111,956 and the remaining letters of credit were used primarily to satisfy margin requirements.

Other

The Company has entered into multiple overnight, uncommitted, unsecured bank loans with large financial institutions. These loans are drawn down periodically to satisfy the daily operating needs of the Company and there were no balances outstanding at June 30, 2009. On October 10, 2008, the Company entered into an uncommitted \$1,000,000 line of credit with FMR. There were no amounts drawn down during the year. On September 29, 2005, FMR approved a subordinated loan facility for \$1,000,000 to be used by NFS. There were no borrowings under this facility during the year. The Company has not asked for approval from FINRA so the loan facility cannot be used for capital purposes at this time.

For additional information, the Company's Consolidated Statement of Financial Condition at December 31, 2008, filed pursuant to Rule 17a-5 (e) (3) under the Securities Exchange Act of 1934, is available for examination and photocopying at the principal office of the Company and at the Boston Regional Office of the Securities and Exchange Commission.

National Financial Services LLC, Member NYSE, SIPC
Fidelity Brokerage Services LLC, Member NYSE, SIPC