

NATIONAL FINANCIAL SERVICES LLC AND SUBSIDIARIES

Consolidated Statement of Financial Condition

June 30, 2010
(Unaudited)

Executing, Clearing and Carrying Broker
for Major Financial Institutions

Consolidated Statement of Financial Condition as of June 30, 2010

(Dollars in Thousands)

(Unaudited)

ASSETS

Cash.....	\$ 85,395
Cash and securities segregated under federal regulations (includes securities of \$4,546,559).....	20,615,438
Securities borrowed.....	4,711,419
Securities received as collateral.....	14,705
Receivable from brokers, dealers, and clearing organizations	1,130,461
Receivable from customers, net of allowance of \$14,632	9,009,184
Securities owned—at fair value (\$352,521 pledged as collateral).....	604,642
Resale agreements	282,889
Furniture, office equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$101,063.....	89,235
Receivable from affiliate.....	17,299
Other assets	320,532
TOTAL ASSETS.....	<u>\$36,881,199</u>

LIABILITIES AND MEMBER'S EQUITY

LIABILITIES:

Payable to customers.....	\$ 30,982,662
Securities loaned.....	1,377,859
Payable to brokers, dealers, and clearing organizations..	925,075
Accrued expenses and other liabilities.....	512,474
Repurchase agreements.....	330,938
Securities sold, but not yet purchased—at fair value	296,571
Payable to affiliate	32,301
Obligation to return securities received as collateral from affiliate	14,705
TOTAL LIABILITIES.....	<u>34,472,585</u>
MEMBER'S EQUITY.....	<u>2,408,614</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY.....	<u>\$36,881,199</u>

See notes to Consolidated Statement of Financial Condition.

Notes to Consolidated Statement of Financial Condition as of June 30, 2010

(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 with the Securities and Exchange Commission (“SEC”), and is a member of the Financial Industry Regulatory Authority (“FINRA”). The Company is also a member of various national and regional stock exchanges, and is licensed to transact business on the NYSE Euronext. NFS provides a wide range of security-related services to a diverse customer base primarily in the United States. The Company’s customer base includes institutional and individual investors, introducing broker-dealers, investment advisors, and corporations. NFS’ customers include a significant affiliated broker-dealer, Fidelity Brokerage Services LLC (“FBS”), which provides discount brokerage services to retail customers, 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 customers. NFS also transacts business on a principal basis for itself and the customers for which it clears.

Securities Transactions

Principal 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, while the related commission revenues, 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, collateral in the customer account and an assessment of the customer’s financial condition. An allowance for doubtful receivables is established through a combination of specific identification of accounts and percentages based on aging. Commission revenue is presented net of payouts to introducing brokers and dealers or customers. 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, principal 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 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 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 the economic useful life of the improvement or the term 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. As a corporation, CSC is required to recognize the tax benefits or expenses on the temporary differences between the financial reporting and tax basis of assets and liabilities. The Company applies a more-likely-than-not recognition threshold for all tax uncertainties as the Company is permitted to recognize only those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities.

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 as well as corporate bonds. 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.

Derivatives

Derivatives are typically defined as an instrument whose value is “derived” from underlying assets, indices or reference rates, such as a future, forward, swap, or option contract, or other financial instrument with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (e.g., currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (e.g., options to buy or sell securities or currencies).

The Company enters into forward foreign currency exchange contracts to facilitate certain customer segregation requirements. The Company reports its derivative instruments separately as assets and liabilities unless a legal right of set-off exists under a master netting agreement enforceable by law. The Company’s derivative instruments are recorded at their fair value and are included in other assets and other liabilities, as applicable, on the Consolidated Statement of Financial Condition.

Fair Value of Financial Instruments

Fair Value—The Company categorizes the financial assets and liabilities carried at fair value in its Consolidated Statement of Financial Condition based upon a three-level valuation hierarchy (See Note 3). The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable valuation inputs (Level 3). If the inputs used to measure a financial asset or liability cross different levels of the hierarchy, categorization is based on the lowest level input that is significant to the fair value measurement. Management’s assessment of the significance of a particular input to the overall fair value measurement of a financial asset or liability requires judgment, and considers factors specific to the asset or liability.

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.

Subsequent Events

Any material events or transactions that occurred subsequent to June 30, 2010 were reviewed for purposes of determining whether any adjustments or additional disclosures were to be made to the accompanying Consolidated Statement of Financial Condition.

Recent Accounting Pronouncement

Fair Value Measurements—In January 2010, the FASB amended its standard on fair value measurements and disclosures to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and gross presentation of activity within Level 3 roll forward with separate disclosures about purchases, sales, issuances, and settlements. The amended standard also clarifies existing fair value disclosures about the level of disaggregation as well as inputs and valuation techniques used to measure fair value. The Company adopted the amended standard effective January 1, 2010, except for the gross presentation of the Level 3 roll forward, which will be effective beginning January 1, 2011. Adoption of this amended standard did not have a material impact on the Consolidated Statement of Financial Condition.

2. Cash and Securities Segregated Under Federal Regulations

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

Resale agreements	\$ 14,608,344
Government securities	3,707,479
Interest-bearing cash deposits	1,460,535
Securities guaranteed by the TLGP	839,080
	<u>\$ 20,615,438</u>

The Temporary Liquidity Guarantee Program (TLGP)— This program covers debt of banks, thrifts and/or certain holding companies that are guaranteed under the FDIC Temporary Liquidity Guarantee Program. This debt is backed by the full faith and credit of the United States Government. It consists of full-term guaranteed commercial paper and non-convertible debt securities issued by an unaffiliated entity pursuant to the Program.

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	\$ 117,107
Debt:	
U.S. Government and Agency	190,818
Corporates	132,923
Municipals	101,830
Equities	60,206
Other	1,758
Total	<u>\$ 604,642</u>

Securities sold, but not purchased—at fair value:

Debt:	
Corporates	144,617
U.S. Government and Agency	86,072
Municipals	13,918
Equities	47,909
Other	4,055
Total	<u>\$ 296,571</u>

During the period ended June 30, 2010, there were no changes to the valuation techniques used by the Company to determine fair value nor were there transfers between levels.

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, 2010:

Fair Value Measurements on a Recurring Basis

	Level 1	Level 2	Level 3	Total
Assets:				
Securities segregated under federal regulations	\$3,707,479	\$839,080	\$ –	\$4,546,559
Securities received as collateral	14,705	–	–	14,705
Securities owned	386,781	217,861	–	604,642
Liabilities:				
Securities sold, but not yet purchased	\$134,129	\$162,442	\$ –	\$296,571
Obligation to return securities received as collateral from affiliate	14,705	–	–	14,705

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 investors, 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 (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, equal to the greater of \$1,500 or 2% of aggregate debit items arising from customer transactions. At June 30, 2010, NFS had net capital of \$2,031,803,962 which was 14.86% of aggregate debit items and exceeds its minimum requirement by \$1,758,311,500.

During 2010, NFS performed the computations for the assets in the proprietary accounts of its introducing brokers (PAIB) in accordance with the customer reserve computation set forth under SEC Rule 15c3-3.

7. Transactions with Affiliated Companies

A significant portion of the Company's revenue is derived from executing and clearing securities transactions on a fully disclosed basis for FBS, which transacts exclusively through the Company. The Company also earns commissions on transactions performed by mutual funds that are managed by an affiliate.

Payable to and receivable from customers related to FBS' customers were \$22,597,066 and \$6,301,406, respectively, at June 30, 2010.

The Company earned asset- and account-based fees from affiliated companies related to mutual fund transactions and balances.

Various charges, such as occupancy, administration, computer processing, systems development and certain employee benefits are paid by FMR and charged to the Company.

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. Receivable from affiliate represents the amounts owed to FMR.

The Company entered into non-cash loan versus pledge securities transactions with FBS. The fair value of the collateral was \$14,705 at June 30, 2010.

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 Reimbursement 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. Commitments and Contingencies

Assets Pledged and Other Secured Transactions

In the normal course of business, the Company executes, settles and finances customer, correspondent and principal 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 activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors trade date customer exposure and collateral values daily and requires customers 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

The Company is required to disclose information about its obligations under certain guarantee arrangements. Guarantees are defined as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying related to an asset, liability or equity security of a guaranteed party. Guarantees are also defined 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, 2010, the fair value of securities received as collateral by the Company that can be repledged, delivered or otherwise used was approximately \$33,718,297. 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 \$23,318,407 were delivered or repledged, generally as collateral under repurchase, securities lending agreements, to cover securities sold, but not yet purchased 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 \$14,705 at June 30, 2010.

Leases

The Company occupies office space under noncancelable operating leases expiring at various dates through 2016. Future minimum rentals under these leases are \$6,371, \$12,754, \$8,181, \$3,325 and \$3,276 for each of the years ending December 2010 through December 2014, respectively, and \$6,279 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 any required reserves if a loss is probable and the amount of such loss can be reasonably estimated. 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.

The Company has been named in a FINRA arbitration matter brought by a defunct broker-dealer for which the Company provided clearing services and its principal alleging that the Company contributed to the loss of their business. The Company plans to defend this matter vigorously.

Letters of Credit

At June 30, 2010, the Company had unsecured letters of credit outstanding of approximately \$9,000. Letters of credit approximating \$995 were used as collateral for securities borrowed with a market value of approximately \$989 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, 2010.

The Company also has an uncommitted \$1,000,000 line of credit and a \$1,000,000 subordinated loan facility with FMR. There were no amounts drawn down during the year. There were no borrowings under these facilities during the period and no amounts outstanding at June 30, 2010. The Company has not sought approval of the subordinated loan facility from FINRA, and therefore the loan facility cannot be used for capital purposes at this time.

10. Subsequent Events

The Company evaluated events and transactions that occurred subsequent to June 30, 2010 for purposes of determining whether any adjustments or additional disclosures should be made to the accompanying Consolidated Statement of Financial Condition. In September 2010, a significant introducing broker for which the Company provided a wide range of security-related services terminated their contract and ceased utilizing the services of the Company. This event did not have a material impact on the financial condition of the Company.

SIPC Disclosure

The securities in your account are protected in accordance with the Securities Investor Protection Corporation ("SIPC"). For more details on SIPC, or to request a SIPC brochure, visit www.sipc.org or call 1-202-371-8300.

For additional information, the Company's Consolidated Statement of Financial Condition at December 31, 2009, 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.