

National Securities Clearing Corporation

Consolidated Balance Sheets

(unaudited)

	2006	September 30, 2005
	(in thousands, except share data)	
ASSETS		
Cash and cash equivalents	\$2,996,541	\$2,586,818
U.S. Treasury securities	139,228	94,511
Accounts receivable	6,571	8,510
Clearing fund	327,661	405,774
Fixed assets, less accumulated depreciation and amortization of \$66,331,000 and \$54,344,000 at September 30, 2006 and 2005, respectively	35,089	38,347
Other assets	15,417	14,411
Total assets	\$3,520,507	\$3,148,371
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities:		
Accounts payable and other liabilities	\$50,196	\$82,949
Payable to participants	248,209	181,302
Long-term debt	22,614	24,656
Clearing fund:		
Cash deposits	2,821,827	2,406,219
Other deposits	327,661	405,774
Total liabilities	3,470,507	3,100,900
Contingent liabilities		
Shareholder's equity:		
Common stock, \$.50 par value: 30,000 shares authorized, 20,000 shares issued and outstanding	10	10
Paid in capital	590	590
Retained earnings	49,400	46,871
Total shareholder's equity	50,000	47,471
Total liabilities and shareholder's equity	\$3,520,507	\$3,148,371

The accompanying notes are an integral part of these consolidated financial statements.

National Securities Clearing Corporation
Consolidated Statements of Income and Retained Earnings
(unaudited)

	For the Nine Months Ended September 30,	
	2006	2005
	(in thousands)	
Revenues:		
Clearing services	\$151,544	\$187,534
Distribution and other services	68,007	75,350
Interest income	119,829	59,468
Total revenues	339,380	322,352
Discounts and other refunds to participants	(230,867)	(169,351)
Net revenues	108,513	153,001
Expenses:		
Employee compensation and related benefits	74,055	76,373
Information technology	10,008	29,467
Professional and other services	11,362	15,103
Occupancy	9,622	11,313
Other general and administrative	3,546	3,485
(Reimbursement) service from affiliates	(80)	3,454
Total expenses	108,513	139,195
Income before income taxes	-	13,806
Provision for income taxes	-	6,210
Net income	-	7,596
Retained earnings, beginning of period	49,400	39,275
Retained earnings, end of period	\$49,400	\$46,871

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National Securities Clearing Corporation
Consolidated Statements of Income and Retained Earnings
(unaudited)

	For the Three Months Ended September 30,	
	2006	2005
	(in thousands)	
Revenues:		
Clearing services	\$49,466	\$63,337
Distribution and other services	22,427	25,452
Interest income	42,053	23,066
Total revenues	113,946	111,855
Discounts and other refunds to participants	(78,935)	(61,261)
Net revenues	35,011	50,594
Expenses:		
Employee compensation and related benefits	24,533	25,642
Information technology	1,225	9,465
Professional and other services	4,257	6,085
Occupancy	3,769	3,036
Other general and administrative	1,254	955
(Reimbursement) service from affiliates	(27)	809
Total expenses	35,011	45,992
Income before income taxes	-	4,602
Provision for income taxes	-	2,070
Net income	-	2,532
Retained earnings, beginning of period	49,400	44,339
Retained earnings, end of period	\$49,400	\$46,871

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National Securities Clearing Corporation

Consolidated Statements of Cash Flows

(unaudited)

	For the Nine Months Ended September 30,	
	2006	2005
	(in thousands)	
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Cash flows from operating activities:		
Net income	\$ -	\$7,596
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	8,956	7,833
Net discount accreted on securities owned	(1,337)	(606)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	4,894	14,225
Decrease in other assets	84	58
Decrease in accounts payable and other liabilities	(43,773)	(13,777)
Decrease in payable to participants	(10,324)	(70,358)
Increase in clearing fund cash deposits	533,060	204,289
Net cash provided by operating activities	491,560	149,260
Cash flows from investing activities:		
Maturities of investments in U.S. Treasury securities	75,000	135,000
Purchases of investments in U.S. Treasury securities	(98,656)	(94,039)
Purchases of fixed assets	(6,294)	(4,980)
Net cash (used in) provided by investing activities	(29,950)	35,981
Cash flows from financing activities:		
Capitalized leases	1,501	703
Principal payments on debt and capital lease obligations	(2,747)	(2,383)
Net cash used in financing activities	(1,246)	(1,680)
Net increase in cash and cash equivalents	460,364	183,561
Cash and cash equivalents, beginning of period	2,536,177	2,403,257
Cash and cash equivalents, end of period	\$2,996,541	\$2,586,818
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Supplemental disclosure:		
Income taxes paid	\$2,793	\$5,089
Interest paid	\$836	\$914

The accompanying notes are an integral part of these consolidated financial statements.

National Securities Clearing Corporation

Notes to Consolidated Financial Statements (unaudited)

September 30, 2006

Note 1 - National Securities Clearing Corporation (NSCC) is a clearing agency registered with the U.S. Securities and Exchange Commission that provides various services to members of the financial community, consisting principally of securities trade comparison, clearance and settlement. The quarterly financial statements of NSCC, which have been prepared in accordance with accounting principles generally accepted in the United States of America, should be read in conjunction with the annual financial statements as of December 31, 2005. NSCC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC).

Note 2 - NSCC's rules require certain participants to maintain clearing fund deposits based on calculated requirements, which at September 30, 2006 totaled \$2,331,669,000. The clearing fund is available to secure participants' obligations and certain liabilities of NSCC, should they occur. All clearing fund cash and securities deposits are recorded on the balance sheet. A summary of the total deposits held at September 30, 2006 including \$971,353,000 in excess of calculated requirements follows:

Cash	\$2,821,827,000
Securities issued or guaranteed by the U.S. Government, at market	327,661,000
Letters of credit issued by authorized banks	<u>153,534,000</u>
Total	<u><u>\$3,303,022,000</u></u>

Note 3 - All eligible employees of NSCC participate in DTCC's trustee, noncontributory defined benefit pension plan. In addition, NSCC participates in DTCC's nonqualified benefit plans which provide for certain benefits to eligible executives of NSCC upon retirement. Further, NSCC participates in DTCC's life insurance program which provides payment of death benefits to beneficiaries of eligible retired employees and DTCC's health insurance program which provides benefits to eligible retired employees.

In September, the Financial Accounting Standards Board issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," which requires companies to recognize a net asset or liability to report the funded status of their defined benefit pension and other postretirement benefit plans. DTCC plans to adopt this standard as of December 31, 2006.

Based on September 30 estimates, the impact on NSCC will be a charge of approximately \$21 million, assuming a discount rate of 5.73% and a return of 8% on the pension plan assets. The actual impact of this new standard will not be determined until December 31, when the year-end discount rate and the fair market value of the pension plan assets are finalized.

Note 4 - In connection with the relocation of staff to other business locations, the company entered into an agreement to surrender leased office space at one of its facilities prior to the expiration of the remaining lease term. Accordingly, a provision of \$768,000 was recorded to reflect the net cost of surrendering the space, including the impairment in the carrying value of leasehold improvements.

Note 5 - Under the terms of a prior agreement, the Securities Industry Automation Corporation (SIAC), an entity owned by the NYSE Group and the American Stock Exchange, had provided computer facilities, personnel and support services to NSCC. Beginning in 2004, NSCC and SIAC agreed to the migration of certain systems applications to DTCC. The insourcing of these applications was completed on October 29, 2004.

In accordance with Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," NSCC accrued \$31,604,000 in 2004 to recognize its estimated obligations for real estate, severance pay, fixed asset abandonment, overhead and related expenses. During 2005, \$11,076,000 related to this agreement was paid and there was a net increase of \$1,949,000 in the accrual. At December 31, 2005, amounts payable to SIAC associated with these agreements were \$22,477,000. During the first quarter of 2006, an additional \$3,454,000 was paid. In July, NSCC reached a final settlement with SIAC and paid \$15,546,000 to satisfy all remaining obligations relating to the insourcing agreement. Accordingly, NSCC reversed the remaining accrual balance of \$3,477,000 that was previously included in accounts payable and other liabilities.

Note 6 - Certain reclassifications of 2005 amounts have been made in the accompanying financial statements to conform to the 2006 presentation.