



2006

NATIONAL SECURITIES CLEARING CORPORATION

Annual Financial Statements

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To NSCC Participants:

We are pleased to provide you with a copy of the audited financial statements of NSCC.

Jill M. Considine

Chairman

The Depository Trust & Clearing Corporation



The Depository Trust & Clearing Corporation

www.dtcc.com

*National Securities Clearing Corporation
A subsidiary of The Depository Trust & Clearing Corporation*

Report of Independent Auditors



PricewaterhouseCoopers LLP
300 Madison Avenue
New York, NY 10017

To the Board of Directors and Shareholder of
National Securities Clearing Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of National Securities Clearing Corporation and its subsidiary at December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 5 to the consolidated financial statements, the Parent changed the manner in which it accounts for its defined benefit pension and other postretirement plans in 2006.

PricewaterhouseCoopers LLP

February 15, 2007

Consolidated Balance Sheets

(IN THOUSANDS, EXCEPT SHARE DATA)

December 31,	2006	2005
Assets		
Cash and cash equivalents	\$2,750,773	\$2,536,177
U.S. Treasury securities	119,517	114,235
Accounts receivable	5,358	11,465
Clearing fund	331,839	350,967
Fixed assets, less accumulated depreciation and amortization of \$69,237,000 and \$57,375,000 at December 31, 2006 and 2005, respectively	36,474	37,751
Deferred income taxes, net	21,963	12,969
Other assets	2,482	2,532
Total assets	\$3,268,406	\$3,066,096
Liabilities and Shareholder's Equity		
Liabilities:		
Accounts payable and other liabilities	\$84,831	\$93,969
Payable to participants	275,258	258,533
Long-term debt	21,687	23,860
Clearing fund:		
Cash deposits	2,504,791	2,288,767
Other deposits	331,839	350,967
Total liabilities	3,218,406	3,016,096
Commitments and contingent liabilities (Note 9)		
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	49,400
Total shareholder's equity	50,000	50,000
Total liabilities and shareholder's equity	\$3,268,406	\$3,066,096

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

Consolidated Statements of Income and Retained Earnings

	<i>(IN THOUSANDS)</i>	
For the Year Ended December 31,	2006	2005
Revenues:		
Clearing services	\$206,080	\$254,061
Distribution and other services	92,695	101,814
Interest income	168,473	89,876
Total revenues	467,248	445,751
Discounts and other refunds to participants	(298,501)	(240,969)
Net revenues	168,747	204,782
Expenses:		
Employee compensation and related benefits	118,378	102,539
Information technology	15,117	39,693
Professional and other services	16,796	20,979
Occupancy	13,422	14,928
Other general and administrative	5,029	5,083
(Reimbursement) service from affiliates	(107)	4,264
Total expenses	168,635	187,486
Income before income taxes	112	17,296
Provision for income taxes	112	7,171
Net income	—	10,125
Retained earnings, beginning of year	49,400	39,275
Retained earnings, end of year	\$49,400	\$49,400

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

Consolidated Statements of Cash Flows

(IN THOUSANDS)

For the Year Ended December 31,	2006	2005
Cash flows from operating activities:		
Net income	\$ —	\$10,125
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	10,555	10,864
Loss on fixed asset disposals	27	—
Net discount accreted on securities owned	(1,745)	(941)
Deferred income taxes accrued	(8,994)	(1,254)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	6,107	11,270
Decrease in other assets	50	222
Decrease in accounts payable and other liabilities	(9,138)	(2,757)
Increase in payable to participants	16,725	6,873
Increase in clearing fund cash deposits	216,024	86,837
Net cash provided by operating activities	229,611	121,239
Cash flows from investing activities:		
Maturities of investments in U.S. Treasury securities	115,000	155,000
Purchases of investments in U.S. Treasury securities	(118,537)	(133,428)
Purchases of fixed assets	(8,890)	(7,415)
Transfer of fixed assets from Fixed Income Clearing Corporation	(415)	—
Net cash (used in) provided by investing activities	(12,842)	14,157
Cash flows from financing activities:		
Capitalized leases	1,501	781
Principal payments on debt and capital lease obligations	(3,674)	(3,257)
Net cash used in financing activities	(2,173)	(2,476)
Net increase in cash and cash equivalents	214,596	132,920
Cash and cash equivalents, beginning of year	2,536,177	2,403,257
Cash and cash equivalents, end of year	\$2,750,773	\$2,536,177
Supplemental disclosure:		
Income taxes paid	\$14,700	\$7,583
Interest paid	\$1,161	\$1,240

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

NOTE 1 BUSINESS AND OWNERSHIP

National Securities Clearing Corporation (NSCC), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides various services to members of the financial community (participants), consisting principally of securities trade comparison, netting, risk management, clearance and settlement.

NSCC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). The other principal operating subsidiaries of DTCC are The Depository Trust Company (DTC), Fixed Income Clearing Corporation (FICC), DTCC Deriv/SERV LLC and DTCC Solutions LLC.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The consolidated financial statements include the accounts of NSCC and its wholly-owned subsidiary. Intercompany accounts and transactions are eliminated in consolidation.

Cash Equivalents: NSCC invests funds in overnight reverse repurchase agreements, commercial paper and money market accounts which are considered cash equivalents. Reverse repurchase agreements provide for NSCC's delivery of cash in exchange for securities having a market value which is at least 102% of the amount of the agreement. Custodians designated by NSCC that are participants take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled \$2,620,736,000 and \$2,402,499,000 at December 31, 2006 and 2005, respectively. At December 31, 2006, the counterparties to these agreements were nine major financial institutions that are also participants.

Overnight investments in commercial paper totaling \$20,491,000 and \$20,467,000 are included in cash equivalents at December 31, 2006 and 2005, respectively. At December 31, 2006, the issuer of the commercial paper was one major U.S. bank holding company that is also a participant.

Money market accounts with participants are used to sweep any remaining funds available. Overnight investments made in money market accounts totaling \$108,793,000 and \$112,010,000, representing deposits received from participants to facilitate their compliance with customer protection rules of the SEC, are also included in cash equivalents at December 31, 2006 and 2005, respectively.

U.S. Treasury Securities: U.S. Treasury securities are recorded at amortized cost and are considered to be held-to-maturity securities. The market values of these securities, which are due in less than one year, at December 31, 2006 and 2005 are \$119,479,000 and \$113,963,000, respectively. At December 31, 2006 and 2005, these securities were held with a participant in an account for the exclusive benefit of participants to facilitate their compliance with customer protection rules of the SEC.

Notes to Consolidated Financial Statements December 31, 2006

Fixed Assets: Fixed assets consist of the following at December 31, 2006 and 2005:

(Dollars in thousands)	2006	2005
Land	\$1,540	\$1,156
Buildings and improvements	14,724	12,917
Leasehold improvements	10,336	10,395
Furniture and equipment	30,318	27,519
Software	43,238	39,085
Leased property under capital leases	5,555	4,054
Total cost	105,711	95,126
Less accumulated depreciation and amortization	69,237	57,375
Net book value	\$36,474	\$37,751

Buildings and improvements are primarily amortized over 39 years using the straight-line method. Leasehold improvements are amortized using the straight-line method over their useful lives or the remaining term of the related lease, whichever is shorter. Furniture and equipment are depreciated over estimated useful lives ranging from three to eight years, principally using accelerated methods. Software is amortized using the straight-line method over an estimated useful life of three years.

NSCC capitalized costs related to software that was developed for internal use or purchased totaling \$4,153,000 and \$6,048,000 in 2006 and 2005, respectively. The amortization of capitalized software costs was \$5,030,000 in 2006 and \$5,183,000 in 2005. The depreciation of other fixed assets was \$5,525,000 in 2006 and \$5,681,000 in 2005.

In 2006, FICC transferred certain computer equipment with a net book value of \$415,000 to NSCC, resulting in the addition of \$1,754,000 and \$1,339,000, respectively, to the related cost and accumulated depreciation and amortization accounts.

During 2006, fixed asset disposals resulted in a charge of \$27,000 and the removal of \$59,000 and \$32,000, respectively, from the related cost and accumulated depreciation and amortization accounts.

Income Taxes: Deferred tax assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amount and tax basis of assets and liabilities. The net deferred tax asset is expected to be fully realized and, accordingly, no valuation allowance was established.

Discounts: NSCC provides discounts on its billing to participants based upon the amount of earnings to be retained in a given year with due regard to current and anticipated needs, as determined by its Board of Directors. Such discounts amounted to \$146,626,000 in 2006 and \$160,774,000 in 2005.

Payable to Participants: Payable to participants includes settlement accounts payable of \$227,330,000 at December 31, 2006 and \$225,588,000 at December 31, 2005 which primarily represent deposits received from participants to facilitate their compliance with customer protection rules of the SEC.

Revenue Recognition: Revenue is recognized as services are rendered. Activities are captured daily and billed on a monthly basis.

Expense Allocations: Substantially all expenses are recorded at DTCC and are allocated to its subsidiaries based upon their use of such goods or services as determined by applicable allocation factors.

Financial Instruments: Management believes that the carrying value of all financial instruments which are short-term in nature approximates current market value. Due to the fixed term nature of long-term debt, if the company was to seek the same financing at December 31, 2006, the fixed rates assigned to these loans would be current borrowing rates available to companies with similar credit ratings.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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.

Reclassifications: Certain reclassifications of 2005 amounts have been made in the accompanying consolidated financial statements to conform to the 2006 presentation.

NOTE 3 CLEARING FUND

NSCC's rules require certain participants to maintain clearing fund deposits based on calculated requirements, which were \$1,814,897,000 and \$1,497,141,000, at December 31, 2006 and 2005, respectively. The clearing fund is available to secure participants' obligations and certain liabilities of NSCC should they occur. All clearing fund cash and securities are recorded on the balance sheet. A summary of the total deposits held at December 31, 2006 and 2005, including \$1,137,267,000 and \$1,268,397,000, respectively, in excess of calculated requirements follows:

(Dollars in thousands)	2006	2005
Cash	\$2,504,791	\$2,288,767
Securities issued or guaranteed by the U.S. Government, at market value	331,839	350,967
Letters of credit issued by authorized banks	115,534	125,804
Total	\$2,952,164	\$2,765,538

NSCC invests available clearing fund cash deposits principally in overnight reverse repurchase agreements. The earnings on these investments are passed through to participants and are included in interest income and discounts and other refunds to participants. Such earnings totaled \$151,875,000 and \$80,195,000 in 2006 and 2005, respectively.

NOTE 4 TRANSACTIONS WITH RELATED PARTIES

SIAC: 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. SIAC charged NSCC for these services based on its direct and overhead costs arising from providing such services. There were no charges under this agreement in 2006. Charges under this agreement included in information technology expenses totaled \$20,450,000 in 2005.

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

Notes to Consolidated Financial Statements

December 31, 2006

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, the remaining accrual balance of \$3,477,000 was reversed and is included as a reduction of information technology expenses.

DTCC: NSCC has an agreement with DTCC whereby DTCC disburses substantially all funds required to sustain the operations of NSCC. The principal exceptions are SIAC and DTC costs. The related expenses are allocated to NSCC based upon NSCC's use of such goods or services. Further, the agreement provides that DTCC performs credit and quantitative risk services, and certain other services for NSCC including administrative, internal audit, financial and legal services which are billed at 110% of cost. The fee representing the amount over actual cost included in professional and other services expense was \$3,270,000 in 2006 and \$3,088,000 in 2005. At December 31, 2006 and 2005, the net payable to DTCC included in accounts payable and other liabilities totaled approximately \$79,892,000 and \$60,902,000, respectively.

DTC: DTC fees in 2006 and 2005 included \$53,000 and \$160,000, respectively, relating to charges for NSCC participants which NSCC sponsors at DTC. Such amounts are rebilled to the related participants and are included in revenues from services. Further, NSCC provided various computer services to DTC through SIAC under NSCC's agreement with SIAC. As a result of the insourcing of certain systems applications to DTCC, NSCC has discontinued providing these services to DTC. The net amounts payable to DTC included in accounts payable and other liabilities at December 31, 2006 and 2005 were \$3,000 and \$53,000, respectively.

NYSE and NASD: NSCC collects certain regulatory fees on behalf of NYSE and NASD. At December 31, 2006 and 2005, no amounts were due to NYSE or NASD.

EMCC: NSCC had an agreement with Emerging Markets Clearing Corporation (EMCC), a former subsidiary of DTCC, whereby NSCC provided risk management and membership services to EMCC. NSCC also provided various computer services to EMCC through its agreement with SIAC. These services were terminated in March 2005, when EMCC discontinued its operations. In December 2005, the liquidation of EMCC was completed and the final cash distributions were made to its shareholders. At December 31, 2005, no amount was due from EMCC.

FICC: NSCC had an agreement with FICC whereby NSCC provided credit and quantitative risk services to FICC. Effective October 1, 2006, this agreement was terminated and DTCC began providing these services under its service agreement with FICC. NSCC also provided various computer services to FICC through SIAC under NSCC's agreement with SIAC. Beginning in 2005, FICC and SIAC agreed to migrate the systems applications to DTCC. The insourcing of these applications as specified in the agreement was completed on October 15, 2005. As a result, NSCC has discontinued providing these services to FICC. Further, NSCC has an agreement with FICC whereby FICC provides real-time trade matching services to NSCC. At December 31, 2006 and 2005, no amounts were due from FICC.

Omgeo LLC: DTCC has an agreement with Omgeo LLC (Omgeo), a joint venture with Thomson Financial whereby, if Omgeo reduces or terminates certain services it receives from DTCC or its affiliates, Omgeo will pay certain extraction costs as specified in the agreement. Such charges relating to NSCC included in reimbursement from affiliates were \$107,000 in 2006 and \$96,000 in 2005.

Notes to Consolidated Financial Statements December 31, 2006

A summary of the charges from/(to) DTC, EMCC, FICC and Omgeo by NSCC for the years ended December 31, 2006 and 2005, follows:

(Dollars in thousands)	Employee Compensation and Related Benefits	SIAC	Professional and Other Services	Occupancy	Other General and Administrative	(Reimbursement) Service from Affiliates	Total
2006							
DTC	\$—	\$122	\$—	\$—	\$—	\$—	\$122
FICC	90	—	263	(1,102)	2	—	(747)
Omgeo	—	—	—	—	—	(107)	(107)
Total	\$90	\$122	\$263	(\$1,102)	\$2	(\$107)	(\$732)
2005							
DTC	\$—	(\$787)	\$—	\$—	\$—	\$—	(\$787)
EMCC	(54)	(7)	(8)	(5)	(1)	—	(75)
FICC	321	(6,490)	157	(1,101)	(7)	4,360	(2,760)
Omgeo	—	—	—	—	—	(96)	(96)
Total	\$267	(\$7,284)	\$149	(\$1,106)	(\$8)	\$4,264	(\$3,718)

NOTE 5 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

All eligible employees of NSCC participate in DTCC's trustee, noncontributory defined benefit pension plan. In addition, NSCC participates in DTCC's noncontributory supplemental executive retirement and benefit restoration 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 healthcare program which provides benefits to eligible retired employees. DTCC's costs for these plans aggregated \$54,418,000 in 2006 and \$48,711,000 in 2005.

In September 2006, 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. In connection with the early adoption of this standard in 2006, DTCC recorded a charge of \$121,718,000 on a pre-tax basis to accumulated other comprehensive loss.

In addition, DTCC recorded a credit of \$24,400,000 to accumulated other comprehensive income due to the net reduction of its additional minimum pension liability. The reduction in the additional minimum pension liability resulted primarily from an increase in the interest rate used to discount the projected benefit obligation to its present settlement amount, and an increase in the fair value of plan assets reflecting the actual rate of return exceeding the expected return in 2006.

On December 31, 2005, DTCC recorded a credit of \$6,411,000 to accumulated other comprehensive income due to the net reduction of its additional minimum pension liability. The reduction in the additional minimum pension liability resulted primarily from an increase in the fair value of the plan assets reflecting the actual rate of return exceeding the expected return in 2005.

NSCC's share of the periodic and accumulated other comprehensive charges totaled \$29,738,000 in 2006 based primarily upon the proportion of NSCC's salary costs to aggregate salary costs for DTCC and its subsidiaries. Such amount is included in employee compensation and related benefits. The equivalent amount for 2005 was \$9,834,000.

Notes to Consolidated Financial Statements December 31, 2006

Disclosures of pension and other post-retirement benefit obligations, expense components and actuarial assumptions for the DTCC plans are included in DTCC's consolidated financial statements.

NOTE 6 INCOME TAXES

NSCC files consolidated Federal and combined New York State and New York City income tax returns with DTCC. The provision for income taxes calculated on a separate company basis for the years ended December 31, 2006 and 2005, consists of the following:

(Dollars in thousands)	2006	2005
Current income taxes:		
Federal	\$8,183	\$6,851
State and Local	923	1,574
Deferred income tax benefit:		
Federal	(8,903)	(1,238)
State and Local	(91)	(16)
Provision for income taxes	\$112	\$7,171

NSCC's 2006 tax provision reflects an increase in state and local taxes attributable to higher business income, partially offset by the reversal of tax accruals established to provide for open tax examinations that were subsequently settled. Since NSCC is filing consolidated Federal and combined New York State and New York City income tax returns with DTCC, the current taxes represent an amount payable to DTCC, net of estimated payments made by NSCC.

The major temporary differences that gave rise to the deferred tax assets (liabilities) at December 31, 2006 and 2005 are as follows:

(Dollars in thousands)	2006	2005
Employee benefit related	\$21,297	\$11,951
Depreciation and amortization	1,297	1,650
Capitalization of software developed for internal use	(2,854)	(3,109)
Lease abandonment costs	462	453
Other	1,761	2,024
Net deferred income tax asset	\$21,963	\$12,969

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," which establishes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, effective for fiscal years beginning after December 15, 2006. The impact of applying this interpretation beginning in 2007 is not expected to have a material effect on the financial position of the company.

Notes to Consolidated Financial Statements December 31, 2006

NOTE 7 LONG-TERM DEBT AND LINES OF CREDIT

Long-term debt at December 31, 2006 and 2005 consists of the following:

(Dollars in thousands)	2006	2005
Notes payable	\$16,911	\$19,005
Sale-leaseback obligation	1,454	1,625
Capital lease obligations	3,322	3,230
Total	\$21,687	\$23,860

Notes payable at December 31, 2006, consist of secured borrowings totaling \$10,200,000 from two insurance companies at a fixed rate of 4.62%. The notes are secured by property, plant and equipment. Principal and interest payments are due semi-annually on March 15 and September 15 of each year through 2012. Interest expense related to these notes totaled \$509,000 in 2006 and \$586,000 in 2005. Notes payable also include unsecured borrowings totaling \$6,711,000 from an insurance company to finance the acquisition of real estate, at a fixed rate of 5.03%. Principal payments are due annually on December 15 of each year through 2023. Interest payments are due semi-annually on June 15 and December 15 of each year, through the same period. Interest expense related to these notes totaled \$357,000 in 2006 and \$377,000 in 2005.

In March 2003, the company entered into a sale-leaseback transaction covering certain assets aggregating \$1,800,000. The company treated this transaction as a financing arrangement and depreciates the assets using its normal depreciation policy. Payments under this arrangement are due in installments from 2004 to 2009. The implicit interest rate on the obligation is 4.7%.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. At December 31, 2006, future minimum payments including interest, which are due through 2010, totaled \$3,759,000. Payments over the next four years are \$1,488,000, \$1,277,000, \$820,000 and \$174,000, respectively.

At December 31, 2006, NSCC maintained a committed line of credit of \$3,100,000,000 with 22 major banks that are primarily participants to provide for potential liquidity needs. In addition, a \$50,000,000 shared credit line with DTC and DTCC is maintained with a participant to support potential short-term operating cash requirements. During 2006, there were no borrowings under these credit facilities.

NOTE 8 SHAREHOLDER'S EQUITY

(Dollars in thousands)	Common Stock	Paid in Capital	Retained Earnings
Balance at December 31, 2004	\$10	\$590	\$39,275
Net income 2005	—	—	10,125
Balance at December 31, 2005	10	590	49,400
Net income 2006	—	—	—
Balance at December 31, 2006	\$10	\$590	\$49,400

NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES

The CNS system interposes NSCC between participants in securities clearance and settlement. CNS transactions are generally guaranteed as of the later of midnight of T+1, or midnight of the day they are reported to the membership as compared/recorded. Since all trades submitted to NSCC are matched, the failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to redeliver the securities, results in open positions. Open positions are marked-to-market daily. Such marks are debited or credited to the involved participants through the settlement process. At the close of business on December 31, 2006, open positions due to NSCC aggregated \$3,749,160,000 (\$3,423,028,000 at December 31, 2005). When a participant does not deliver securities due to NSCC on the settlement date NSCC, in accordance with its SEC-approved rules, utilizes the Stock Borrow Program (SBP) to complete its delivery obligations to the extent that participants have made available for loan to the system shares of that issue. As of December 31, 2006, NSCC completed delivery of \$1,105,727,000 in securities through the SBP (\$977,702,000 at December 31, 2005), leaving \$2,643,433,000 in open delivery obligations due to participants (\$2,445,326,000 at December 31, 2005). NSCC's borrowing from the SBP does not relieve a participant's obligation to deliver the securities to NSCC. In addition, the settlement of trades is generally scheduled to occur 3 days after the trade date. As of December 31, 2006, trades totaling \$59.9 billion were scheduled to settle over the next three settlement days.

During 1995, the Securities Industry Protection Corporation (SIPC) appointed a trustee to liquidate the business of Adler Coleman Clearing Corporation (ACCC), a former NSCC participant. After liquidating all of the ACCC positions, NSCC held the proceeds pursuant to an agreement with SIPC. In October 2002, NSCC transferred \$15,000,000 to the SIPC trustee to satisfy a written demand by the trustee. In December 2005, a final stipulation was executed and NSCC transferred its remaining balance of \$3,507,000, including accrued interest, to the trustee to settle the estate. No further loss provision was required as the aggregate amount of \$18,507,000 accrued by NSCC in prior years was sufficient. NSCC is not expected to have any future liabilities with respect to ACCC.

Net rental expense amounted to \$9,759,000 and \$9,813,000, in 2006 and 2005, respectively. At December 31, 2006, future minimum rental payments under all noncancelable leases are as follows:

(Dollars in thousands)	
2007	\$4,063
2008	3,884
2009	3,441
2010	3,028
2011	2,854
2012	2,854
Total minimum rental payments	\$20,124

NSCC is involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation is not expected to have a material effect on NSCC's consolidated financial position.

NOTE 10 OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

In the normal course of business, NSCC guarantees certain obligations of its participants under specified circumstances (see Note 9). If a participant fails to fulfill its obligations, NSCC could be exposed to risk in amounts in excess of those recorded in NSCC's settlement accounts receivable and payable.

NSCC mitigates its exposure to risk by requiring participants to meet established NSCC financial standards for membership, monitoring their compliance with other financial standards established by NSCC and by requiring participants to provide clearing fund deposits in the form of cash, marketable securities or acceptable letters of credit (see Note 3).

If a participant fails to fulfill its settlement obligations to NSCC and NSCC ceases to act on behalf of the participant, NSCC will liquidate that participant's guaranteed security receive and deliver obligations and apply that defaulting participant's clearing fund deposit to satisfy any net outstanding obligation and/or loss.

NSCC has entered into a netting contract and limited cross-guaranty agreement with DTC which includes certain arrangements and financial guarantees to ensure that securities delivered by DTC to NSCC to cover CNS allocations are fully collateralized. NSCC has also entered into a multilateral netting contract and limited cross-guaranty agreement with DTC, FICC and The Options Clearing Corporation (OCC) under which these clearing agencies have agreed to make payment to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that they have excess resources of the defaulting participant. NSCC and OCC have also entered into an agreement providing for payments to each other relating to the settlement of certain option exercises and assignments in the event of a mutual participant's failure.

In the event that a deficiency still exists after the application of the guaranty payments from the other clearing agencies, before NSCC may assess its membership, NSCC is required to apply against the deficiency at least 25% of its retained earnings or such greater amount to be determined by the Board of Directors. NSCC may then assess the balance of the deficiency in accordance with NSCC's Rules.

As discussed in Note 1, NSCC provides various services to members of the financial community who participate in securities trade comparison, clearance and settlement. As such, NSCC has a significant group concentration of credit risk since its participants may be impacted by economic conditions affecting the securities industry. As described above, such risk is mitigated in a number of ways.

NOTE 11 OTHER MATTERS

In a continuing effort to relocate 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. A provision of \$439,000 was recorded to reflect the net cost of surrendering the space, including the impairment in the carrying value of leasehold improvements. In 2005, there was a similar provision totaling \$1,980,000. Further, NSCC incurred related relocation and severance expenses totaling \$1,678,000 that are included in employee compensation and related benefits. In 2005, there was a similar provision of \$2,082,000.

