

**National Securities Clearing Corporation**

**Consolidated Financial Statements**

**For the years ended December 31, 2009 and 2008**

**National Securities Clearing Corporation**  
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**For the years ended December 31, 2009 and 2008**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of National Securities Clearing Corporation and subsidiary (the "Company") as of December 31, 2009, and the related consolidated statement of income and retained earnings, and consolidated statement of cash flows for the year then ended. 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 audit. The financial statements of the Company for the year ended December 31, 2008 were audited by other auditors whose report, dated February 27, 2009, expressed an unqualified opinion on those statements.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such 2009 consolidated financial statements present fairly, in all material respects, the financial position of the National Securities Clearing Corporation and subsidiary as of December 31, 2009, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte + Touche LLP*

February 26, 2010

# Consolidated Balance Sheets

(IN THOUSANDS, EXCEPT SHARE DATA)

December 31,	2009	2008
<b>Assets</b>		
Cash and cash equivalents	\$2,775,021	\$6,141,661
U.S. Treasury securities	75,411	196,700
Accounts receivable	17,713	18,069
Clearing fund	196,823	403,699
Fixed assets, less accumulated depreciation and amortization of \$96,870 and \$86,516 at December 31, 2009 and 2008, respectively	41,058	38,426
Deferred income taxes, net	35,951	36,454
Other assets	1,976	2,175
<b>Total assets</b>	<b>3,143,953</b>	<b>6,837,184</b>
<b>Liabilities and Shareholder's Equity</b>		
Liabilities:		
Accounts payable and other liabilities	72,680	107,269
Payable to participants	40,273	52,045
Long-term debt	10,756	13,568
Clearing fund:		
Cash deposits	2,744,127	6,216,662
Other deposits	196,823	403,699
<b>Total liabilities</b>	<b>3,064,659</b>	<b>6,793,243</b>
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	6,649	590
Retained earnings	72,635	43,341
<b>Total shareholder's equity</b>	<b>79,294</b>	<b>43,941</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$3,143,953</b>	<b>\$6,837,184</b>

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,	2009	2008
<b>Revenues:</b>		
Clearing services	\$110,136	\$167,884
Distribution and other services	69,731	80,405
Interest income	10,592	132,533
<b>Total revenues</b>	<b>190,459</b>	<b>380,822</b>
Discounts and other refunds to participants	(10,294)	(179,858)
<b>Net revenues</b>	<b>180,165</b>	<b>200,964</b>
<b>Expenses:</b>		
Employee compensation and related benefits	76,792	142,521
Information technology	19,163	20,259
Professional and other services	34,959	27,391
Occupancy	10,455	10,130
Other general and administrative	3,923	5,065
<b>Total expenses</b>	<b>145,292</b>	<b>205,366</b>
Income (loss) before income taxes	34,873	(4,402)
Provision for income taxes	4,334	1,657
<b>Net income (loss)</b>	<b>30,539</b>	<b>(6,059)</b>
Retained earnings, beginning of year	43,341	49,400
Adjustment for initial adoption of accounting for uncertainty in income taxes	(1,245)	-
<b>Retained earnings, end of year</b>	<b>\$72,635</b>	<b>\$43,341</b>

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,	2009	2008
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$30,539	(\$6,059)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization of fixed assets	10,354	11,660
Net premium amortized on U.S. Treasury securities owned	2,322	4,077
Deferred income taxes	503	(17,887)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	356	(4,998)
Decrease in other assets	199	90
(Decrease) increase in accounts payable and other liabilities	(35,834)	47,210
(Decrease) in payable to participants	(11,772)	(396,267)
(Decrease) increase in clearing fund cash deposits	(3,472,535)	1,657,037
Net cash (used in) provided by investing activities	(3,475,868)	1,294,863
<b>Cash flows from investing activities:</b>		
Maturities of investments in U.S. Treasury securities	195,000	200,000
Purchases of investments in U.S. Treasury securities	(76,033)	(220,438)
Purchases of fixed assets	(12,986)	(10,392)
Net cash provided by (used in) investing activities	105,981	(30,830)
<b>Cash flows from financing activities:</b>		
Capital contribution	6,059	-
Principal payments on debt and capital lease obligations	(2,812)	(4,459)
Net cash provided by (used in) financing activities	3,247	(4,459)
Net (decrease) increase in cash and cash equivalents	(3,366,640)	1,259,574
Cash and cash equivalents, beginning of year	6,141,661	4,882,087
Cash and cash equivalents, end of year	\$2,775,021	\$6,141,661
<b>Supplemental disclosures:</b>		
Income taxes paid, net of refunds	\$13,009	\$273
Interest paid	\$620	\$806

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, DTCC Solutions LLC, and European Central Counterparty Limited (EuroCCP).

## 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 and Cash Equivalents:** Cash and cash equivalents include deposits with financial institutions, overnight reverse repurchase agreements, commercial paper and money market accounts.

Reverse repurchase agreements provide for NSCC's delivery of cash in exchange for securities having a fair 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 which approximate fair value and totaled \$2,033,451,000 and \$5,383,537,000 at December 31, 2009 and 2008, respectively. At December 31, 2009, the counterparties to these agreements were three major financial institutions that are also participants.

Overnight investments in commercial paper totaling \$338,827,000 and \$721,663,000 are stated at amounts that approximate fair value at December 31, 2009 and 2008, respectively. At December 31, 2009, 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 and are stated at amounts that approximate fair value. At December 31, 2009 and 2008, money market accounts totaling \$400,232,000 and \$34,196,000, respectively, represented deposits received from participants to facilitate their compliance with customer protection rules of the SEC. At December 31, 2009, the money market balance was with one participant.

**U.S. Treasury Securities:** U.S. Treasury securities are recorded at amortized cost and are considered to be held-to-maturity securities. The carrying values of these securities at December 31, 2009 and 2008 are \$75,411,000 and \$196,700,000, respectively. The fair values of these securities, which are all due in less than one year at December 31, 2009 and 2008, are \$75,423,000 and \$198,048,000, respectively. At December 31, 2009 and 2008, 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, 2009 and 2008

**Fixed Assets:** Fixed assets consist of the following at December 31, 2009 and 2008:

(Dollars in thousands)	2009	2008
Leasehold improvements	\$10,336	\$10,336
Furniture and equipment	34,898	33,379
Software	68,003	56,580
Leased property under capital leases	5,556	5,556
Buildings and improvements	17,595	17,551
Land	1,540	1,540
<b>Total cost</b>	<b>137,928</b>	<b>124,942</b>
Less accumulated depreciation and amortization		
Leasehold improvements	8,536	7,823
Furniture and equipment	29,945	27,201
Software	51,078	44,957
Leased property under capital leases	5,253	4,840
Buildings and improvements	2,058	1,695
<b>Total accumulated depreciation and amortizaion</b>	<b>96,870</b>	<b>86,516</b>
<b>Net book value</b>	<b>\$41,058</b>	<b>\$38,426</b>

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 five to seven years, principally using accelerated double declining 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 \$11,423,000 and \$6,568,000 in 2009 and 2008, respectively. The amortization of capitalized and purchased software costs was \$6,121,000 in 2009 and \$6,615,000 in 2008. The depreciation of other fixed assets was \$4,233,000 in 2009 and \$5,045,000 in 2008. During 2009, there were no fixed asset disposals.

**Income Taxes:** Deferred tax assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Valuation allowances are recognized if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. The net deferred tax asset is expected to be fully realized and, accordingly, no valuation allowance was established. It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by the tax authorities.

**Discounts and other refunds to participants:** 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. There were no discounts in 2009 and \$60,158,000 in 2008.

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 \$10,294,000 and \$119,700,000 in 2009 and 2008, respectively.

**Payable to Participants:** Payable to participants principally includes settlement accounts payable of \$40,232,000 at December 31, 2009 and \$34,196,000 at December 31, 2008, which primarily represents 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. Interest income is recorded on an accrual 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.

**Fair Value Measurements:** FASB Statement No. 157, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three-tier hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value under FASB Statement No. 157 are described as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted, quoted prices for identical assets or liabilities in an active market.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in inactive markets, or whose values are based on models - but the inputs to those models 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.
- d) Pricing models whose inputs are derived principally from or corroborated by observable market data by 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 fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value of financial assets and liabilities are presented in accordance with established guidelines.

Management believes that the carrying value of all financial instruments which are short-term in nature approximates market value.

**Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Management makes estimates regarding the valuations of assets and liabilities, allowances for credit losses, the outcome of litigation, the realization of deferred taxes, the recognition of uncertain tax positions, and other matters that affect the reported amounts. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the financial statements.

## RECENT ACCOUNTING PRONOUNCEMENTS

**FASB Accounting Standards Codification:** In July 2009, the FASB issued accounting guidance to establish the FASB Accounting Standards Codification (ASC or Codification) to become the source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. All other accounting literature not included in the Codification will be considered non-authoritative. The Codification does not change current U.S. GAAP. References to authoritative U.S. GAAP literature in the Company's consolidated financial statements and the notes thereto in this report have been updated to include the new Codification.

**Uncertain Tax Positions:** In September 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-06 Income Taxes (Topic 740) – Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities which amended ASC Subtopic 740-10, Income Taxes – Overall (formerly FIN 48). The revised guidance is effective for periods ending after September 15, 2009. As discussed in Note 6 to the consolidated financial statements, the Company's adoption of ASU 2009-06 resulted in a reduction of \$1.2 million to its retained earnings effective January 1, 2009.

**Subsequent Events:** In May 2009, the FASB issued guidance to establish general standards of accounting for and the disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date – that is, whether that date represents the date the financial statements were issued or were available to be issued. This guidance was adopted by the Company in 2009 and did not have a material impact on the Company’s financial statements. Appropriate disclosures are presented in Note 12.

## NOTE 3 CLEARING FUND

NSCC’s rules require certain participants to maintain clearing fund deposits based on calculated requirements, which were \$1,777,710,000 and \$3,782,558,000, at December 31, 2009 and 2008, 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, 2009 and 2008, including \$1,163,240,000 and \$2,837,803,000, respectively, in excess of calculated requirements follows:

(Dollars in thousands)	2009	2008
Cash	\$2,744,127	\$6,216,662
Securities issued or guaranteed by the U.S. Government, at fair value	196,823	403,699
<b>Total</b>	<b>\$2,940,950</b>	<b>\$6,620,361</b>

U.S. Treasury and Agency securities are all categorized as Level 1 assets.

## NOTE 4 TRANSACTIONS WITH RELATED PARTIES

**DTCC:** NSCC has an agreement with DTCC whereby DTCC disburses substantially all funds required to sustain the operations of NSCC. 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, finance and legal services. In 2009, the billing for these services was determined as 104% of total allocated expenses excluding pass through charges and the impact of capitalized software. The billing in 2008 was at 102%. The fee representing the amount over actual cost included in professional and other services expense was \$6,178,000 in 2009 and \$2,993,000 in 2008. At December 31, 2009 and 2008, the net payable to DTCC included in accounts payable and other liabilities totaled approximately \$64,650,000 and \$94,906,000, respectively.

NSCC has an agreement with DTCC Solutions LLC whereby validation services performed by DTCC Solutions LLC on behalf of NSCC in connection with corporate action data information are billed at cost. Charges under this agreement totaled \$2,644,000 in 2009 and \$2,558,000 in 2008 and are included in professional and other services expense. The amounts payable to DTCC Solutions LLC at December 31, 2009 and 2008 were \$226,000 and \$232,000, respectively.

## 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 \$53,710,000 in 2009 and \$50,325,000 in 2008.

In accordance with FASB guidance on employers' accounting for defined benefit pension and other postretirement plans, DTCC recorded a credit of \$110,909,000 on a pre-tax basis offset by a deferred tax benefit of \$47,922,000 resulting in a net credit of \$62,987,000 to the accumulated other comprehensive loss account to report the funded status of the defined benefit pension and other postretirement benefit plans, thereby increasing shareholders' equity in 2009. The decrease in the obligation was mainly due to an increase in the value of the plan's assets, partially offset by the impact of a decrease in the interest rate used to discount the projected benefit obligation to its present settlement amount. The decrease also reflects a plan change to limit the impact of inflation on postretirement medical costs. The net decrease in shareholders' equity represents an amount not yet recognized as pension expense.

The effect of this standard in 2008 was a charge of \$233,484,000 on a pre-tax basis offset by a deferred tax benefit of \$92,664,000 resulting in a net charge of \$140,820,000 to the accumulated other comprehensive loss account, thereby decreasing shareholders equity. The increase in the obligation was primarily the result of a decrease in the value of the plan's assets and a decrease in the interest rate used to discount the projected benefit obligation to its present settlement amount.

NSCC's share of the periodic charges and accumulated other comprehensive income was a credit of \$9,124,000 in 2009. Such amount is included in employee compensation and related benefits. The equivalent amount for 2008 was a charge of \$55,842,000. Charges are based primarily upon the proportion of NSCC's salary costs to aggregate salary costs for DTCC and its subsidiaries and credits are determined on a first-in-first-out basis.

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 is included in DTCC's consolidated federal, combined New York State, New York City and unitary California, Massachusetts and Illinois income tax returns. A separate company Florida return is filed. The provision for income taxes calculated on a separate company basis for the years ended December 31, 2009 and 2008 consists of the following:

(Dollars in thousands)	2009	2008
Current income tax (benefit):		
Federal	\$4,408	\$15,002
State and local	(576)	4,542
Deferred income tax (benefit):		
Federal	8,864	(17,678)
State and local	(8,362)	(209)
Provision for income taxes	\$4,334	\$1,657

Pursuant to a tax sharing agreement between DTCC and NSCC, NSCC is liable for its allocable share of federal and state tax liabilities that are paid by DTCC.

Approximately \$2.3 million of current income taxes receivable and \$2.6 million of current income taxes payable are reflected in the consolidated balance sheets as of December 31, 2009. In 2008, there was a net payable of \$9.8 million.

The 2009 effective tax rate is lower than the 35% federal statutory rate primarily due to state and local taxes and other permanent differences. Deferred tax assets have been adjusted during 2009 to reflect changes in effective rates of tax in various jurisdictions. The 2009 state and local provision for income taxes includes the effect of such changes as well as the effect of certain other changes in filing positions.

The major temporary differences that gave rise to the deferred tax assets (liabilities) at December 31, 2009 and 2008 are as follows:

(Dollars in thousands)	2009	2008
Employee benefit related	\$40,462	\$38,246
Depreciation and amortization	1,093	898
Capitalization of software developed for internal use	(6,782)	(3,810)
Other	1,178	1,120
<b>Net deferred income tax asset</b>	<b>\$35,951</b>	<b>\$36,454</b>

On January 1, 2009, DTCC adopted FASB-issued Financial Interpretation 48 (FIN 48) "Accounting for Uncertainty in Income Taxes," (codified primarily in FASB ASC Topic 740, Income Taxes). FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Upon the initial adoption of FIN 48 effective January 1, 2009, the Company recognized a reduction of \$1.2 million to its retained earnings. The Company recorded a \$1.0 million increase in the liability for unrecognized tax benefits ("UTBs") and accrued interest of \$.4 million (\$.2 million net of tax).

The Company classifies interest related to UTBs, and penalties, if incurred, in tax expense in its consolidated statement of operations. The Company accrued interest related to its UTBs of \$0.1 million during 2009.

The Company is currently under examination by the tax authorities in New York State for certain income tax returns for the years ended December 31, 2000 through 2005. The Company estimates that it is reasonably possible that the balance of UTBs will increase or decrease in the next twelve months. As the Company is unable to predict the timing of the conclusion of this audit, or any other audit that may arise in the near future, the Company is unable to estimate the amount of reasonably possible changes at this time. Furthermore, the statute of limitations will expire in various jurisdictions, the impact of which cannot be estimated at this time. However, the Company believes that it has adequately provided for all open tax years by taxing jurisdiction under FIN 48.

The Company is subject taxation in the U.S. and various state and local jurisdictions. As of December 31, 2009, tax years still open to examination in material jurisdictions are federal (2006-2008), New York State (2000-2008) and New York City (2006-2008).

## NOTE 7 LONG-TERM DEBT AND LINES OF CREDIT

Long-term debt at December 31, 2009 and 2008 consists of the following:

(Dollars in thousands)	2009	2008
Notes payable	\$10,626	\$12,721
Capital lease obligations	130	847
<b>Total</b>	<b>\$10,756</b>	<b>\$13,568</b>

The fair value of long term debt as of December 31, 2009 was approximately \$10,952,000.

Notes payable at December 31, 2009 include secured borrowings totaling \$5,100,000 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 \$286,000 in 2009 and \$350,000 in 2008. Notes payable also include unsecured borrowings totaling \$5,526,000 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 \$298,000 in 2009 and \$318,000 in 2008.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. At December 31, 2009, future minimum payments including interest, which are due through 2010, totaled \$174,000.

At December 31, 2009, NSCC maintained a committed line of credit of \$3,100,000,000 with 19 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 2009, 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, 2007	\$10	\$590	\$49,400
Net loss 2008	-	-	(6,059)
<b>Balance at December 31, 2008</b>	<b>10</b>	<b>590</b>	<b>43,341</b>
Adjustment for Uncertain Tax Positions	-	-	(1,245)
Restated – January 1, 2009	10	590	42,096
Capital contribution from DTCC	-	6,059	-
Net income 2009	-	-	30,539
<b>Balance at December 31, 2009</b>	<b>\$10</b>	<b>\$6,649</b>	<b>\$72,635</b>

## 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, 2009, open positions due to NSCC aggregated \$998,044,000 (\$1,057,099,000 at December 31, 2008). 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, 2009, NSCC completed delivery of \$241,906,000 in securities through the SBP (\$171,050,000 at December 31, 2008), leaving \$756,138,000 in open delivery obligations due to participants (\$866,049,000 at December 31, 2008). 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, 2009, trades totaling \$39.8 billion were scheduled to settle over the next three settlement days.

Net rental expense amounted to \$8,059,000 and \$7,921,000, in 2009 and 2008, respectively. At December 31, 2009, future minimum rental payments under all noncancelable leases are as follows:

(Dollars in thousands)	
2009	\$3,401
2010	3,028
2011	2,854
2012	2,854
<b>Total minimum rental payments</b>	<b>\$12,137</b>

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 letters of credit (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 would satisfy such deficiency by utilizing 25% of its retained earnings, or such greater amount of retained earnings 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

On September 19, 2008, a Trustee was appointed, under the Securities Investor Protection Act ("SIPA"), to administer and liquidate the business of Lehman Brothers Inc. ("LBI"). As part of the liquidation of LBI, certain of its assets were sold to Barclays Capital Inc. ("Barclays"), which assets did not, however, include the accounts that LBI maintained at National Securities Clearing Corporation ("NSCC"), Fixed Income Clearing Corporation ("FICC") and The Depository Trust Company ("DTC").

As a result, the Trustee, Barclays and DTCC, on behalf and for the benefit of NSCC, FICC and DTC (collectively, the "Clearing Agency Subsidiaries") entered into an agreement that provided for the Clearing Agency Subsidiaries to wind down their respective LBI accounts, including the close out of pending transactions and the use of the proceeds in accordance with their respective rules and procedures, in the same manner in which they close out positions of participants for whom they cease to act. On September 24, 2008, the Clearing Agency Subsidiaries formally ceased to act for LBI.

In addition, Barclays agreed to guaranty, indemnify and hold harmless DTCC, each of NSCC, FICC and DTC, and their officers, directors, employees, owners, agents and representatives against any and all losses, claims, damages, expenses (including legal fees) or liabilities that any of them may incur as a result of winding down and closing out the respective accounts, which guaranty is limited to a \$250,000,000 cash deposit (the "Cash Deposit") it provided for that purpose.

Any losses will first be satisfied from the Cash Deposit. If there are losses in excess of the Cash Deposit, they will be satisfied in accordance with the rules and procedures of NSCC, FICC and DTC, respectively (including through application of LBI's Clearing or Participant Fund deposits and any Clearing Agency cross guaranty agreements). If any portion of such funds remain after the closeout of the LBI Accounts and satisfaction of all obligations of NSCC, FICC, and DTC, they will be remitted to the Trustee.

The Cash Deposit is held at DTCC to facilitate its investment pending application against losses or its turnover to the Trustee.

At year-end, DTCC and its subsidiaries held aggregate funds of \$638,620,000 and securities of \$157,576,000 including the Cash Deposit, Clearing and Participant Fund balances, and proceeds from winding down and closing out the respective accounts. Payments of \$3,641,761,000 have already been remitted to the Trustee.

Management is not currently expecting to need to assess losses against retained earnings or to the participants of the Clearing Agency Subsidiaries as a result of the liquidation of the LBI accounts.

## **NOTE 12 SUBSEQUENT EVENTS**

The Company evaluated events and transactions occurring after December 31, 2009 through February 26, 2010 for potential recognition or disclosure in these financial statements. No further recognition or disclosures were required.