

**The Depository Trust Company**

**Consolidated Financial Statements**

**For the years ended December 31, 2010 and 2009**

**The Depository Trust Company**  
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**For the years ended December 31, 2010 and 2009**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of  
The Depository Trust Company

We have audited the accompanying consolidated balance sheets of The Depository Trust Company and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years 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 audits.

We conducted our audits 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Depository Trust Company and subsidiaries as of December 31, 2010 and 2009, 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.

*Deloitte + Touche LLP*  
February 28, 2011

# Consolidated Balance Sheets

(IN THOUSANDS, EXCEPT SHARE DATA)		
December 31,	2010	2009
Assets		
Cash and cash equivalents	<b>\$3,211,850</b>	\$3,261,709
Accounts receivable	<b>66,766</b>	67,256
Fixed assets, less accumulated depreciation and amortization of \$386,745 and \$342,778 at December 31, 2010 and 2009, respectively	<b>112,274</b>	135,924
Deferred income taxes, net	<b>107,550</b>	120,802
Other assets	<b>248,817</b>	246,920
Total assets	<b>3,747,257</b>	3,832,611
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and other liabilities	<b>217,699</b>	236,646
Payable to participants	<b>1,179,143</b>	1,245,954
Long-term debt and other borrowings	<b>353,592</b>	372,897
Participants' fund cash deposits	<b>1,728,161</b>	1,718,747
Total liabilities	<b>3,478,595</b>	3,574,244
Commitments and contingent liabilities (Note 10)		
Shareholders' equity:		
Preferred stock, Series A, \$100 par value - 3,250,000 shares authorized, 1,500,000 issued and outstanding as of December 31, 2010 and 2009	<b>150,000</b>	150,000
Common stock, \$100 par value - 18,500 shares authorized, issued and outstanding	<b>1,850</b>	1,850
Paid in capital	<b>11,182</b>	11,182
Retained earnings	<b>105,630</b>	95,335
Total shareholders' equity	<b>268,662</b>	258,367
Total liabilities and shareholders' equity	<b>\$3,747,257</b>	\$3,832,611

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

# Consolidated Statements of Income

	(IN THOUSANDS)	
For the Year Ended December 31,	2010	2009
Revenues:		
Trading services	<b>\$123,363</b>	\$122,605
Custody services	<b>196,942</b>	196,197
Network services	<b>10,166</b>	10,367
Other services	<b>22,949</b>	21,174
Interest income	<b>21,554</b>	20,628
Total revenues	<b>374,974</b>	370,971
Refunds to participants	<b>(4,766)</b>	(4,513)
Net revenues	<b>370,208</b>	366,458
Expenses:		
Employee compensation and related benefits	<b>196,434</b>	128,113
Information technology	<b>23,867</b>	22,375
Professional and other services	<b>69,605</b>	64,457
Occupancy	<b>21,119</b>	21,178
Interest expense	<b>25,140</b>	23,014
Other general and administrative	<b>9,638</b>	10,640
Total expenses	<b>345,803</b>	269,777
Income before provision for income taxes	<b>24,405</b>	96,681
Provision for income taxes	<b>13,870</b>	36,666
Net income	<b>\$10,535</b>	\$60,015

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

# Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2010 and 2009

(Dollars in thousands)	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2008	\$125,000	\$1,850	\$950	\$35,566	\$163,366
Issuance	25,000	-	-	-	25,000
Capital contribution from DTCC	-	-	10,232	-	10,232
Net income 2009	-	-	-	60,015	60,015
Dividends on preferred stock	-	-	-	(246)	(246)
Balance at December 31, 2009	150,000	1,850	11,182	95,335	258,367
Net income 2010	-	-	-	10,535	10,535
Dividends on preferred stock	-	-	-	(240)	(240)
Balance at December 31, 2010	<b>\$150,000</b>	<b>\$1,850</b>	<b>\$11,182</b>	<b>\$105,630</b>	<b>\$268,662</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,	2010	2009
Cash flows from operating activities:		
Net income	<b>\$10,535</b>	\$60,015
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization of fixed assets	<b>43,967</b>	43,126
Deferred income taxes	<b>13,252</b>	16,596
Changes in operating assets and liabilities:		
Decrease in accounts receivable	<b>490</b>	30,228
(Increase) in other assets	<b>(1,897)</b>	(4,305)
(Decrease) in accounts payable and other liabilities	<b>(18,947)</b>	(78,453)
(Decrease) in payable to participants	<b>(66,811)</b>	(620,310)
Increase in participants' fund cash deposits	<b>9,414</b>	786,385
Net cash (used in) provided by operating activities	<b>(9,997)</b>	233,282
Cash flows from investing activities - purchases of fixed assets	<b>(20,317)</b>	(39,724)
Cash flows from financing activities:		
Issuance of preferred stock	-	25,000
Capital contribution	-	10,232
Capitalized leases and other borrowings	-	161,326
Principal payments on debt and capitalized lease obligations	<b>(19,305)</b>	(37,004)
Dividends on preferred stock	<b>(240)</b>	(246)
Net cash (used in) provided by financing activities	<b>(19,545)</b>	159,308
Net (decrease) increase in cash and cash equivalents	<b>(49,859)</b>	352,866
Cash and cash equivalents, beginning of year	<b>3,261,709</b>	2,908,843
Cash and cash equivalents, end of year	<b>\$3,211,850</b>	\$3,261,709
Supplemental disclosures:		
Income taxes paid, net of refunds	<b>\$12,385</b>	\$32,987
Interest paid	<b>\$24,288</b>	\$23,958

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

## NOTE 1 BUSINESS AND OWNERSHIP

The Depository Trust Company (DTC) is a limited purpose trust company providing central securities depository, settlement and related services to members of the securities, banking and other financial industries (participants). The principal subsidiary of DTC is DTC Limited Funding Corporation.

DTC is a consolidated subsidiary of The Depository Trust & Clearing Corporation (DTCC). Other subsidiaries of DTCC include National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), DTCC Deriv/SERV LLC, DTCC Solutions LLC, European Central Counterparty Limited (EuroCCP), DTCC Solutions Worldwide Limited and Avox Limited.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation:** The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. The consolidated financial statements include the accounts of DTC and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents:** The Company reports overnight reverse repurchase agreements and money market accounts as cash equivalents. Cash and cash equivalents include deposits with financial institutions, overnight reverse repurchase agreements and money market accounts. Reverse repurchase agreements provide for DTC's delivery of cash in exchange for securities having a fair value which is at least 102% of the amount of the agreements. Custodians designated by DTC that are participants take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts which approximate fair value and totaled \$163,045,000 and \$170,482,000 at December 31, 2010 and 2009, respectively. At December 31, 2010, the counterparty to these agreements was one major financial institution that was also a participant. There were two counterparties as of December 31, 2009 and both were participants.

Money market accounts with participants are used to sweep any remaining funds available and are stated at amounts that approximate fair value. Overnight investments in money market accounts totaled \$890,045,000 and \$1,177,941,000 at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the money market balance was with one participant.

**Accounts Receivable:** Accounts receivable consist of the following at December 31, 2010 and 2009:

(Dollars in thousands)	2010	2009
Due from the participants for services	\$32,184	\$31,001
Cash dividends, interest and related receivables	11,554	27,104
Receivable from affiliates and other	23,028	9,151
Total	\$66,766	\$67,256

**Other Assets:** Other assets include the Company's investment in IDA bonds, totaling \$205,302,000 at December 31, 2010 and 2009. These securities are carried at cost and classified as held-to-maturity. The market value of the IDA bonds was approximately \$220,424,000 at December 31, 2010 and \$217,721,000 at December 31, 2009.

**Securities on Deposit:** Securities held in custody by DTC for participants and related stock dividends receivable are not reported in the consolidated financial statements. Cash dividends and interest received by DTC or due on such securities and in the process of distribution or awaiting claim are included in payable to participants. Short positions occasionally exist in participants' securities balances. Such short positions are valued and collateralized daily by participants' cash aggregating 130% of the short position. DTC's obligation to return such amounts to participants is also reflected in payable to participants.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

**Fixed Assets:** Fixed assets consist of the following at December 31, 2010 and 2009:

(Dollars in thousands)	2010	2009
Leasehold improvements	<b>\$140,889</b>	\$140,371
Furniture and equipment	<b>149,118</b>	145,159
Software	<b>161,589</b>	145,749
Leased property under capital leases	<b>31,931</b>	31,931
Building and improvements	<b>12,986</b>	12,986
Land	<b>2,506</b>	2,506
<b>Total Cost</b>	<b>499,019</b>	478,702
Less accumulated depreciation and amortization		
Leasehold improvements	<b>102,590</b>	92,338
Furniture and equipment	<b>124,336</b>	112,021
Software	<b>127,797</b>	109,790
Leased property under capital leases	<b>28,697</b>	25,742
Building and improvements	<b>3,325</b>	2,887
<b>Total accumulated depreciation and amortization</b>	<b>386,745</b>	342,778
<b>Net book value</b>	<b>\$112,274</b>	\$135,924

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, using accelerated double declining methods. Building and improvements are primarily amortized over 39 years using the straight-line method.

**Software Capitalization:** Internal and external costs incurred in developing or obtaining computer software for internal use are capitalized in accordance with generally accepted accounting principles and are amortized on a straight-line basis over the estimated useful life of the software, generally three years. General and administrative costs related to developing or obtaining such software are expensed as incurred.

Capitalized costs related to software that was either developed for internal use, or purchased, totaling \$15,840,000 and \$14,276,000 in 2010 and 2009, respectively, are included in software in the table above. The amortization of capitalized software was \$18,007,000 in 2010 and \$16,952,000 in 2009. The depreciation of other fixed assets was \$25,960,000 in 2010 and \$26,174,000 in 2009. There were no disposals in 2010 or 2009.

**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. 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.

**Refunds to Participants:** Participants received a monthly refund of interest earned from the overnight investment of unallocated cash dividends, interest and reorganization funds payable to participants. Such monthly refunds totaled \$478,000 in 2010 and \$976,000 in 2009.

DTC invests available participants' fund cash deposits in overnight reverse repurchase agreements. The earnings on these investments are included in interest income. The amounts that were passed through to participants are included in refunds to participants. Such amounts totaled \$4,288,000 and \$3,537,000 in 2010 and 2009, respectively. Further, DTC's Board of Directors determines the amount, if any, of discount to be paid to participants each year. No discounts were given for 2010 or 2009.

**Revenue Recognition:** Revenue is generally 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, including headcount, square footage and utilization of technology resources.

**Fair Value Measurements:** The framework for measuring fair value is established in Accounting Standards Codification (ASC) Topic 820. 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 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 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 fair 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 collectability of receivables, 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:** In July 2010, the Financial Accounting Standards Board amended the accounting guidance for receivables as it relates to disclosures about the credit quality of financing receivables and the allowance for credit losses. This amendment requires additional disclosures that provide a greater level of disaggregated information about the credit quality of financing receivables and the allowance for credit losses. It also requires disclosure of credit quality indicators, past due information, and modifications of financing receivables. For nonpublic entities, these disclosures are effective for annual reporting periods ending on or after December 15, 2011. The Company is evaluating the impact this amendment will have on its financial statements.

## NOTE 3 PARTICIPANTS' FUND

DTC's participants are required to maintain deposits related to their activities in the depository. The deposits are available to secure participants' obligations and certain liabilities of DTC, should they occur. The deposits, which are all in cash and cash equivalents, totaled \$1,728,161,000 at December 31, 2010 and included deposits in excess of the requirements totaling \$498,187,000. At December 31, 2009, the comparable amounts were \$1,718,747,000 and \$403,134,000, respectively.

## NOTE 4 TRANSACTIONS WITH RELATED PARTIES

DTC has an agreement with DTCC whereby DTCC disburses substantially all funds required to sustain the operations of DTC. The related expenses are allocated to DTC based upon DTC's use of such goods or services as determined by applicable allocation factors. Further, the agreement provides that DTCC performs credit and quantitative risk services, and certain other services for DTC including administrative, internal audit, finance and legal services. In 2010 and 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 fee, representing the amount over actual cost as included in professional and other services expense, was \$11,940,000 in 2010 and \$11,812,000 in 2009. At December 31, 2010 and 2009, the net payable to DTCC included in accounts payable and other liabilities totaled approximately \$138,599,000 and \$153,320,000, respectively.

DTC has an agreement with DTCC Solutions LLC whereby validation services performed by DTCC Solutions LLC on behalf of DTC in connection with DTC's corporate action data information are billed at cost. Charges under this agreement totaled \$24,416,000 in 2010 and \$23,793,000 in 2009 and are included in professional and other services expense. The amounts payable to DTCC Solutions LLC at December 31, 2010 and 2009 were \$1,367,000 and \$2,036,000, respectively.

## NOTE 5 PAYABLE TO PARTICIPANTS

DTC receives cash and stock dividends, interest and reorganization and redemption proceeds on securities registered in the name of its nominee and interest and redemption proceeds on bearer securities which it distributes to its participants. Amounts received on registered securities withdrawn before the record date but not transferred from the name of DTC's nominee cannot be distributed unless claimed by the owners of the securities through a participant or other financial institution. Cash dividends, interest, reorganization and redemption payables of \$1,138,521,000 at December 31, 2010 and \$1,212,634,000 at December 31, 2009 are included in payable to participants. Payable to participants also includes \$3,339,000 of rebates and \$37,283,000 of short position collateral (\$369,000 and \$32,951,000 in 2009, respectively). Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws. Stock dividends payable are not reported in the consolidated financial statements.

## NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

All eligible employees of DTC participate in DTCC's trustee, noncontributory defined benefit pension plan. In addition, DTC participates in DTCC's noncontributory supplemental executive retirement and benefit restoration plans which provide for certain benefits to eligible executives of DTC upon retirement. Further, DTC 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 \$50,158,000 in 2010 and \$53,710,000 in 2009.

In accordance with FASB guidance on employers' accounting for defined benefit pension and other postretirement plans, DTCC recorded a charge of \$28,679,000 on a pre-tax basis offset by a deferred tax benefit of \$10,792,000 resulting in a net charge of \$17,887,000 to the accumulated other comprehensive loss account to report the funded status of the defined benefit pension and other postretirement benefit plans, thereby decreasing shareholders' equity in 2010. The increase in the obligation was mainly due to a decrease in the discount rate used to discount the projected benefit obligation to its present settlement amount, partially offset by the impact of an increase in the plan assets. The net decrease in shareholders' equity represents an amount not yet recognized as pension expense.

The effect of this standard in 2009 was a credit of \$110,909,000 on a pre-tax basis offset by a deferred tax charge of \$47,922,000 resulting in a net credit of \$62,987,000 to the accumulated other comprehensive loss account, thereby increasing shareholders' equity. The decrease in the obligation was primarily the result of an increase 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.

DTC's share of the periodic charges and accumulated other comprehensive loss was a charge of \$35,743,000 in 2010. Such amount is included in employee compensation and related benefits. The equivalent amount for 2009 was a credit of \$45,818,000. Charges are based primarily upon the proportion of DTC'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 7 INCOME TAXES

DTC is included in DTCC's consolidated federal and unitary Massachusetts and Illinois tax returns. DTC also files other state tax returns on a separate company basis. The components of the Company's income tax provision (benefit) calculated on a separate company basis for the years ended December 31, 2010 and 2009 are as follows:

(Dollars in thousands)	2010	2009
Current income tax (benefit):		
Federal	<b>(\$1,146)</b>	\$13,602
State and local	<b>1,765</b>	6,468
Deferred income tax:		
Federal	<b>9,053</b>	9,199
State and local	<b>4,198</b>	7,397
Provision for income taxes	<b>\$13,870</b>	\$36,666

Pursuant to a tax sharing agreement between DTCC and DTC, the Company is liable for its allocable share of federal, state and local tax liabilities that are paid by DTCC. During 2010, the Company paid income taxes of \$12.4 million, net of refunds.

The 2010 effective tax rate differs from the 35% federal statutory rate primarily due to state and local taxes, permanent differences between financial statement income and taxable income, and adjustments to deferred tax balances. Deferred tax balances include adjustments made to reflect estimated recoverable amounts in future years.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

The components of deferred tax assets and (liabilities) at December 31, 2010 and 2009 are as follows:

(Dollars in thousands)	2010	2009
Employee benefit related	<b>\$102,614</b>	\$118,483
Rent	<b>4,725</b>	5,658
Depreciation and amortization	<b>10,007</b>	17,130
Capitalization of software developed for internal use	<b>(13,510)</b>	(9,441)
Sale and leaseback costs and other	<b>3,714</b>	(11,028)
Net deferred income tax asset	<b>\$107,550</b>	\$120,802

The net deferred tax asset is expected to be fully realized and, accordingly, no valuation allowance was established.

On January 1, 2009, DTCC implemented the provisions of FASB-issued Financial Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes," (codified primarily in FASB ASC Topic 740, Income Taxes). As of the date of implementation, the Company did not recognize any reduction to its retained earnings for unrecognized tax benefits ("UTBs"), and UTBs totaled \$5.5 million. During 2010, the Company increased UTBs in the amount of \$1.8 million. As of December 31, 2010, UTBs totaled \$7.3 million.

The Company classifies interest related to UTBs, and penalties, if incurred, in tax expense in its consolidated statement of operations. During 2010, the Company accrued interest related to UTBs of \$0.6 million. As of December 31, 2010 the amount of accrued interest recorded in the Company's balance sheet related to UTBs was \$0.9 million.

The Company is subject to U.S. federal income tax as well as income tax in various state and local jurisdictions. DTCC's federal income tax returns filed for the tax years 2007 through 2009 remain subject to examination by the IRS. New York State income tax returns for 2005 through 2007 are currently under examination and for 2008 through 2009 remain open to examination. New York City income tax returns for 2007 through 2009 remain subject to examination.

For the current ongoing audit related to open tax years, the Company estimates that it is possible that the balance of UTBs could decrease in the next twelve months as a result of the effective settlement of this audit, which might involve the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also possible that new issues might be raised by tax authorities which might necessitate increases to the balance of UTBs. As the Company is unable to predict the timing of conclusion of this audit, the Company is unable to estimate the amount of changes to the balance of UTBs at this time. However, the Company believes that it has adequately provided for its financial exposure for all open tax years by tax jurisdiction.

**NOTE 8 LONG-TERM DEBT AND OTHER BORROWINGS**

Long-term debt at December 31, 2010 and 2009 consists of the following:

(Dollars in thousands)	2010	2009
Industrial Development Agency payable	<b>\$205,302</b>	\$205,302
Notes payable	<b>144,111</b>	159,078
Capital lease obligations	<b>4,179</b>	8,517
Total	<b>\$353,592</b>	\$372,897

As of December 31, 2010 and 2009, DTC had a payable to the New York City Industrial Development Agency (“IDA”) and a matching investment in IDA bonds included in other assets on the consolidated balance sheets. Interest expense related to the IDA payable was \$15,398,000 in both 2010 and 2009. These bonds mature in 2012.

At December 31, 2010, notes payable consisted of unsecured and secured borrowings in the amount \$106,521,000 and \$37,590,000, respectively. Interest expense related to outstanding borrowings totaled \$8,347,000 in 2010 and \$5,038,000 in 2009. The unsecured borrowings were from two institutions. The first unsecured loan is 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 semiannually on June 15 and December 15 of each year, through the same period. A second unsecured loan, structured as a private placement, was completed in April 2009 with two investment institutions, at fixed rates of 5.59% and 5.63%. Interest payments are due semiannually on April 15 and October 15 each year, with principal due at maturity on April 15, 2016. The secured loan was taken from an international bank in June 2009 for operational and expansion purposes, at a fixed rate of 4.94%. Certain equipment was pledged to collateralize the loan. Interest and principal payments are due semiannually on June 30 and December 31 each year until maturity on June 28, 2013.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. At December 31, 2010, remaining future minimum payments including interest, all due in 2011, totaled \$4,247,000.

Long term debt is carried at the remaining principal balance of the obligations. If the Company was to seek similar financing for the remaining terms of the long term debt obligations as of December 31, 2010, the fair value of the Industrial Development Agency payable, notes payable and capital lease obligations would be \$190,180,000, \$141,050,000 and \$3,808,000, respectively.

**NOTE 9 SHAREHOLDERS' EQUITY**

In October 2000, DTC issued 750,000 shares of series A preferred stock at the par value of \$100 per share, increasing capital by \$75 million under a plan adopted by its Board of Directors. DTC issued additional 500,000 and 250,000 shares of series A preferred stock at the par value of \$100 per share in December 2006 and March 2009, respectively, thereby increasing the amount of preferred stock to \$150 million. Pursuant to this plan, which does not reduce the funds available in the event of a participant's failure to settle, each participant was required to purchase shares of this preferred stock. Dividends are accrued monthly based on the earnings of these funds. In December 2010, DTC's authorized series A preferred stock was increased by 1,750,000 shares bringing the total to 3,250,000 authorized shares, or \$325 million. None of the newly authorized shares have been issued.

DTC is a limited-purpose trust company regulated by the New York State Banking Department and the Federal Reserve Bank of New York. The Company is required to maintain a Tier 1 capital ratio of 4%. As of December 31, 2010, DTC's Tier 1 Capital ratio was approximately 6.9%. As of December 31, 2009 the ratio was 6.2%.

## NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES

DTC leases office space and data processing and other equipment. Rent expense under these leases was \$14,952,000 in 2010 and \$14,249,000 in 2009. The leases for office space provide for rent escalations subsequent to 2010.

At December 31, 2010, future minimum rental payments under all non-cancelable leases are as follows:

(Dollars in thousands)	
2011	\$20,330
2012	16,384
2013	2,208
2014	2,258
2015	2,309
Thereafter	2,360
Total minimum rental payments	\$45,849

At December 31, 2010, DTC maintained a committed line of credit of \$1,900,000,000 with 24 major banks that are primarily participants to support settlement. The borrowing rate under this facility will be the greater of the federal funds offered rate or the adjusted LIBO rate, or the lender's cost of funds, for that day, plus 1.375%. In addition, to support processing of principal and income payments, DTC maintains a committed \$50,000,000 credit line with a participant. DTC also maintains uncommitted credit lines totaling CAD 150,000,000 with a participant to support Canadian settlement. Further, a \$50,000,000 shared uncommitted credit line with NSCC and DTCC is maintained with a participant to support potential short-term operating cash requirements. There were no borrowings under any of these credit facilities in 2010 or 2009.

DTC 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 DTC's consolidated financial position, operations or cash flows.

## NOTE 11 OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

All trading activities handled by DTC are settled through its end-of-day net settlement process. If a participant fails to fulfill its settlement obligation, DTC is exposed to credit risk.

DTC mitigates its exposure to credit risk by requiring participants to meet established DTC financial standards for membership, monitoring their compliance with other financial standards established by DTC and requiring participants to provide Participants Fund deposits in the form of cash (see Note 3).

Collateralization controls and net debit caps are employed by DTC to protect participants against the inability of one or more participants to pay for their settlement obligations.

DTC's collateralization controls prevent the completion of transactions that would cause a participant's net debit to exceed the total available collateral in its account. This assures that a participant that fails to pay for its settlement obligation will have sufficient collateral in its account to liquidate in the event it were insolvent. DTC's net debit cap controls limit the net settlement debit that each participant can incur to an amount, based upon activity levels, which is less than DTC's total liquidity. This helps ensure that DTC will have sufficient liquidity to complete settlement should any single participant fail to settle.

DTC has entered into a netting contract and limited cross-guaranty agreement with NSCC which includes certain arrangements and financial guarantees to ensure that securities delivered by DTC to NSCC to cover CNS allocations are fully collateralized. DTC has also entered into a multilateral netting contract and limited cross-guaranty agreement with NSCC, FICC and The Options Clearing Corporation 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.

As discussed in Note 1, DTC provides central securities depository and related services to members of the financial community. As such, DTC has a significant group concentration of credit risk, since its participants may be impacted by economic conditions affecting the securities, banking and other financial industries. As described above, such risk is mitigated in a number of ways.

## NOTE 12 OTHER MATTERS

At December 31, 2010, DTC incurred severance expenses totaling \$1,713,000 that are included in employee compensation and related benefits. In 2009, there was a similar expense of \$5,478,000.

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 close out 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 \$630,972,000 and securities of \$158,615,000 including the Cash Deposit, Clearing and Participant Fund balances, and proceeds from winding down and closing out the respective accounts. Payments of \$4,551,761,000 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 13 SUBSEQUENT EVENTS**

The Company evaluated events and transactions occurring after December 31, 2010 through February 28, 2011 for potential recognition or disclosure in these financial statements. No further recognition or disclosures were required.