

National Securities Clearing Corporation

Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

National Securities Clearing Corporation
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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 Shareholder of
National Securities Clearing Corporation

We have audited the accompanying consolidated balance sheets of National Securities Clearing Corporation and subsidiary (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholder's 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 National Securities Clearing Corporation and subsidiary 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 | \$2,891,157 | \$2,775,021 |
| U.S. Treasury securities | 50,190 | 75,411 |
| Accounts receivable | 26,310 | 17,713 |
| Clearing fund, at fair value | 227,129 | 196,823 |
| Fixed assets, less accumulated depreciation and amortization of \$107,174 and \$96,870 at December 31, 2010 and 2009, respectively | 47,386 | 41,058 |
| Deferred income taxes, net | 23,918 | 35,951 |
| Other assets | 1,796 | 1,976 |
| Total assets | 3,267,886 | 3,143,953 |
| Liabilities and Shareholder's Equity | | |
| Liabilities: | | |
| Accounts payable and other liabilities | 106,550 | 72,680 |
| Payable to participants | 35,352 | 40,273 |
| Long-term debt | 33,437 | 10,756 |
| Clearing fund: | | |
| Cash deposits | 2,759,746 | 2,744,127 |
| Other deposits | 227,129 | 196,823 |
| Total liabilities | 3,162,214 | 3,064,659 |
| 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 | 6,649 |
| Retained earnings | 99,013 | 72,635 |
| Total shareholder's equity | 105,672 | 79,294 |
| Total liabilities and shareholder's equity | \$3,267,886 | \$3,143,953 |

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: | | |
| Clearing services | \$132,051 | \$110,136 |
| Distribution and other services | 84,350 | 69,731 |
| Interest income | 8,029 | 10,592 |
| Total revenues | 224,430 | 190,459 |
| Refunds to participants | (7,658) | (10,294) |
| Net revenues | 216,772 | 180,165 |
| Expenses: | | |
| Employee compensation and related benefits | 95,544 | 76,792 |
| Information technology | 20,232 | 19,163 |
| Professional and other services | 41,483 | 34,959 |
| Occupancy | 10,486 | 10,455 |
| Other general and administrative | 4,357 | 3,923 |
| Total expenses | 172,102 | 145,292 |
| Income before provision for income taxes | 44,670 | 34,873 |
| Provision for income taxes | 18,040 | 4,334 |
| Net income | \$26,630 | \$30,539 |

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

Consolidated Statements of Changes in Shareholder's Equity

For the Years Ended December 31, 2010 and 2009

| (Dollars in thousands) | Common Stock | Paid in Capital | Retained Earnings | Total Shareholder's Equity |
|--|-----------------|--------------------|----------------------|----------------------------------|
| Balance at December 31, 2008 | \$10 | \$590 | \$43,341 | \$43,941 |
| Adjustment for uncertain tax positions | - | - | (1,245) | (1,245) |
| Capital contribution from DTCC | - | 6,059 | - | 6,059 |
| Net income 2009 | - | - | 30,539 | 30,539 |
| Balance at December 31, 2009 | 10 | 6,649 | 72,635 | 79,294 |
| Net income 2010 | - | - | 26,630 | 26,630 |
| Other comprehensive loss on derivative | - | - | (252) | (252) |
| Balance at December 31, 2010 | \$10 | \$6,649 | \$99,013 | \$105,672 |

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 | \$26,630 | \$30,539 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization of fixed assets | 10,304 | 10,354 |
| Net premium amortized on U.S. Treasury securities owned | 866 | 2,322 |
| Deferred income taxes | 12,033 | 503 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (8,597) | 356 |
| Decrease in other assets | 180 | 199 |
| Increase (decrease) in accounts payable and other liabilities | 33,618 | (35,834) |
| (Decrease) in payable to participants | (4,921) | (11,772) |
| Increase (decrease) in clearing fund cash deposits | 15,619 | (3,472,535) |
| Net cash provided by (used in) operating activities | 85,732 | (3,475,868) |
| Cash flows from investing activities: | | |
| Maturities of investments in U.S. Treasury securities | 75,000 | 195,000 |
| Purchases of investments in U.S. Treasury securities | (50,645) | (76,033) |
| Purchases of fixed assets | (16,632) | (12,986) |
| Net cash provided by investing activities | 7,723 | 105,981 |
| Cash flows from financing activities: | | |
| Capital contribution | - | 6,059 |
| Increase in long term debt | 24,905 | - |
| Principal payments on debt and capital lease obligations | (2,224) | (2,812) |
| Net cash provided by financing activities | 22,681 | 3,247 |
| Net increase (decrease) in cash and cash equivalents | 116,136 | (3,366,640) |
| Cash and cash equivalents, beginning of year | 2,775,021 | 6,141,661 |
| Cash and cash equivalents, end of year | \$2,891,157 | \$2,775,021 |
| Supplemental disclosures: | | |
| Income taxes paid, net of refunds | \$13,174 | \$13,009 |
| Interest paid | \$497 | \$620 |

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). Other subsidiaries of DTCC include The Depository Trust Company (DTC), 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 NSCC and its wholly-owned subsidiary. Intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents: The Company reports overnight reverse repurchase agreements, commercial paper and money market accounts as 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 \$1,299,710,000 and \$2,033,451,000 at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the counterparties to these agreements were three major financial institutions that are also participants.

Overnight investments in commercial paper totaling \$20,446,000 and \$338,827,000 are stated at amounts that approximate fair value at December 31, 2010 and 2009, respectively. At December 31, 2010 and 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, 2010 and 2009, money market accounts totaling \$1,504,345,000 and \$400,232,000, respectively, represented deposits received from participants to facilitate their compliance with customer protection rules of the SEC. At December 31, 2010, the money market balance was with three participants. The balance was with one participant as of December 31, 2009.

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, 2010 and 2009 are \$50,190,000 and \$75,411,000, respectively. The fair values of these securities, which are all due in less than one year at December 31, 2010 and 2009, are \$50,197,000 and \$75,423,000, respectively.

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 | \$10,336 | \$10,336 |
| Furniture and equipment | 36,537 | 34,898 |
| Software | 82,992 | 68,003 |
| Leased property under capital leases | 5,556 | 5,556 |
| Buildings and improvements | 17,599 | 17,595 |
| Land | 1,540 | 1,540 |
| Total Cost | 154,560 | 137,928 |
| Less accumulated depreciation and amortization | | |
| Leasehold improvements | 9,248 | 8,536 |
| Furniture and equipment | 32,258 | 29,945 |
| Software | 57,777 | 51,078 |
| Leased property under capital leases | 5,470 | 5,253 |
| Buildings and improvements | 2,421 | 2,058 |
| Total accumulated depreciation and amortization | 107,174 | 96,870 |
| Net book value | \$47,386 | \$41,058 |

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. Buildings 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 \$14,989,000 and \$11,423,000 in 2010 and 2009, respectively, are included in software in the table above. The amortization of capitalized and purchased software costs was \$6,699,000 in 2010 and \$6,121,000 in 2009. The depreciation of other fixed assets was \$3,605,000 in 2010 and \$4,233,000 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: NSCC invests available participants clearing fund cash deposits principally 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 earnings totaled \$7,658,000 and \$10,294,000 in 2010 and 2009, respectively. Further, NSCC'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.

Payable to Participants: Payable to participants principally includes settlement accounts payable of \$35,345,000 at December 31, 2010 and \$40,232,000 at December 31, 2009, which primarily represents deposits received from participants to facilitate their compliance with customer protection rules of the SEC.

Derivatives and Hedging: The Company uses cash flow hedges for risk management purposes to hedge the exposure to variability in cash flows from floating-rate debt. All free-standing derivatives, including swaps, are recorded on the consolidated balance sheet at fair value.

Hedge accounting is applied when a derivative is highly effective at reducing the risk associated with the hedged exposure and the risk management objective and strategy are documented. Hedge documentation identifies the derivative hedging instrument, the asset or liability and type of risk hedged, and how the effectiveness of the derivative is assessed prospectively and retrospectively. Derivatives that are not designated as hedges are marked to market through the income statement.

To assess effectiveness, the Company uses the hypothetical derivative method as noted within FASB ASC Topic 815, Derivatives and Hedging. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income or loss ("OCI") and recognized in the income statement when the hedged cash flows affect earnings. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item. The ineffective portions of cash flow hedges, if any, are immediately recognized in the income statement. If a hedge relationship is terminated, the value of the derivative recorded in accumulated other comprehensive income or loss ("AOCI") is recognized in the income statement when the cash flows that were hedged affect earnings. For hedge relationships that are discontinued because a forecasted transaction is not expected to occur according to the original hedge forecast, any related derivative values recorded in AOCI are immediately recognized in the income statement.

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 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 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 CLEARING FUND

NSCC's rules require its participants to maintain clearing fund deposits based on calculated requirements, which were \$1,631,309,000 and \$1,777,710,000, at December 31, 2010 and 2009, respectively. The clearing fund is available to secure participants' obligations and certain liabilities of NSCC, should they occur. All clearing fund cash is reflected in cash and cash equivalents and securities are reflected in other deposits on the balance sheet. A summary of the total deposits held at December 31, 2010 and 2009, including \$1,355,566,000 and \$1,163,240,000, respectively, in excess of calculated requirements follows:

| (Dollars in thousands) | 2010 | 2009 |
|--|-------------|-------------|
| Cash | \$2,759,746 | \$2,744,127 |
| Other Deposits - Securities issued or guaranteed by the U.S. Government, at fair value | 227,129 | 196,823 |
| Total | \$2,986,875 | \$2,940,950 |

The securities included within other deposits are all categorized as Level 1 assets.

NOTE 4 TRANSACTIONS WITH RELATED PARTIES

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 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 \$6,417,000 in 2010 and \$6,178,000 in 2009. At December 31, 2010 and 2009, the net payable to DTCC included in accounts payable and other liabilities totaled approximately \$37,005,000 and \$64,650,000, 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 \$1,285,000 in 2010 and \$2,644,000 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 \$72,000 and \$226,000, 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 \$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.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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.

NSCC's share of the periodic charges and accumulated other comprehensive loss was a charge of \$16,417,000 in 2010. Such amount is included in employee compensation and related benefits. The equivalent amount for 2009 was a credit of \$9,124,000. 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 and New York City, and unitary Massachusetts and Illinois tax returns. A separate company Florida return is also filed. 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 | \$3,848 | \$4,408 |
| State and local | 1,987 | (576) |
| Deferred income tax (benefit): | | |
| Federal | 9,034 | 8,864 |
| State and local | 3,171 | (8,362) |
| Provision for income taxes | \$18,040 | \$4,334 |

Pursuant to a tax sharing agreement between DTCC and NSCC, 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 \$13.2 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.

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 | \$32,972 | \$40,462 |
| Depreciation and amortization | 890 | 1,093 |
| Capitalization of software developed for internal use | (10,435) | (6,782) |
| Other | 491 | 1,178 |
| Net deferred income tax asset | \$23,918 | \$35,951 |

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

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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), resulting in a reduction to retained earnings of \$1.2 million. This reduction is comprised of \$1.0 million increase in the liability for unrecognized tax benefits ("UTBs") and accrued interest of \$0.4 million (\$0.2 million net of tax). As of the date of implementation and after the impact of recognizing the increase in liability noted above, the Company's UTBs totaled \$1.6 million. During 2010, the Company increased UTBs in the amount of \$0.5 million. As of December 31, 2010, UTBs totaled \$2.1 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 \$0.1 million. As of December 31, 2010 the amount of accrued interest recorded in the Company's balance sheet related to UTBs was \$0.4 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 2000 through 2006 are currently under examination and for 2007 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 7 LONG-TERM DEBT

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

| (Dollars in thousands) | 2010 | 2009 |
|---------------------------|----------|----------|
| Notes payable | \$8,532 | \$10,626 |
| Capital lease obligations | - | 130 |
| Bond payable | 24,905 | - |
| Total | \$33,437 | \$10,756 |

The fair value of long term debt as of December 31, 2010 was approximately \$34,228,000.

Notes payable at December 31, 2010 include secured borrowings totaling \$3,400,000 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 \$195,000 in 2010 and \$286,000 in 2009. Notes payable also include unsecured borrowings totaling \$5,132,000 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 \$278,000 in 2010 and \$298,000 in 2009.

On December 17, 2010, the Company entered into a Recovery Zone Facility Bond arrangement with the Hudson County Improvement Authority, with a principal balance of \$24,905,000. The debt has a variable interest rate that is equal to the sum of the LIBOR index rate plus 1.65%, multiplied by a factor of 68%, and matures on December 1, 2020. The debt's interest rate as of the date of the financial statements is 1.30%. Repayment of the debt will commence on February 1, 2011, therefore, as of the date of the financial statements, the entire balance was outstanding. The Hudson County Improvement Authority has the ability to call the debt immediately due and payable if the Company fails to pay in accordance with the terms of the debt agreement or fails to comply with the other provisions stipulated in the agreement.

The Company entered into a swap arrangement to fix the interest rate on the cash flow at 3.12% (see Note 8).

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, there were no capital lease obligations.

NOTE 8 SWAP ARRANGEMENT

On December 17, 2010, the Company entered into a \$24,905,000 interest rate swap arrangement to hedge the Hudson County Improvement Authority floating rate debt payments. The rate on the swap is fixed at 3.12% until December 1, 2020 when the swap terminates. The Company designated the swap as a cash flow hedge against variability in the future cash flows on the floating rate payments under the bond arrangement with the Hudson County Improvement Authority, and management has concluded that the hedge is effective. At December 31, 2010, the fair value of the swap resulted in a loss of \$427,000. The loss is offset by a deferred tax benefit of \$175,000, and the net impact of \$252,000 is reported as other comprehensive loss in the statement of changes in shareholder's equity. There were no undesignated derivatives at December 31, 2010 or 2009.

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, 2010, open positions due to NSCC aggregated \$1,487,377,000 (\$998,044,000 at December 31, 2009). When a participant does not deliver securities due on the settlement date, the SEC approved Stock Borrow Program (SBP) is used to complete its delivery obligations to the extent that participants have made shares of that issue available for loan. As of December 31, 2010, NSCC completed delivery of \$285,254,000 in securities through the SBP (\$241,906,000 at December 31, 2009), leaving \$1,202,123,000 in open delivery obligations due to participants (\$756,138,000 at December 31, 2009). 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, 2010, trades totaling \$41,919,219,000 were scheduled to settle over the next three settlement days.

Net rental expense amounted to \$8,246,000 and \$8,059,000, in 2010 and 2009, respectively. At December 31, 2010, future minimum rental payments under all non-cancelable leases are as follows:

| (Dollars in thousands) | |
|-------------------------------|---------|
| 2011 | \$2,854 |
| 2012 | 2,854 |
| Total minimum rental payments | \$5,708 |

At December 31, 2010, NSCC maintained a committed line of credit of \$4,757,000 with 24 major banks that are primarily participants to provide for potential liquidity needs. 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, a \$50,000,000 shared uncommitted credit line with DTC and DTCC is maintained with a participant to support potential short-term operating cash requirements. There were no borrowings under these credit facilities in 2010 or 2009.

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, operations or cash flows.

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 8). 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 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, at the Company's discretion, 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 remains 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 12 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.