

5. Net Capital Requirements

As a registered broker-dealer, NFS is subject to the Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934 (the “Rule”) in addition to the rules of The New York Stock Exchange Inc. and other principal exchanges of which it is a member. NFS has elected the alternative method permitted by the Rule which requires that minimum net capital, as defined, be the greater of \$1,000 or 2% of aggregate debit items arising from customer transactions. At June 30, 2008, NFS had net capital of \$2,391,929, which was 15.47% of aggregate debit items and exceeded its minimum requirement by \$2,082,690.

6. Transactions with Affiliated Companies

The Company earned clearing fees for executing and clearing securities transactions on a fully disclosed basis for Fidelity Brokerage Services LLC (“FBS”) and mutual funds managed by an affiliate, respectively.

NFS collects and distributes FBS’ customer related interest pursuant to their clearing agreement. The Company earned fees from affiliated companies related to mutual fund transactions and balances.

Various charges, such as occupancy, administration, computer processing, systems development and certain employee benefits are allocated to the Company by affiliated companies.

Transactions with affiliated companies are settled with FMR, with the exception of transactions with FBS which are settled directly. Payable to affiliate represents the amounts due to FBS based on their clearing agreement. The payable to FBS was \$30,008 at June 30, 2008. Receivable from FMR of \$18,251 is included in other assets on the Consolidated Statement of Financial Condition.

The Company entered into a stock loan transaction with FBS of \$142,825 at June 30, 2008. The Company also entered into non-cash loan versus pledge securities transactions with FBS. The fair value of the collateral was \$655,351 at June 30, 2008.

7. Employee Benefit Plans

The Company participates in FMR’s defined contribution profit sharing plans covering substantially all employees. Annual contributions to the profit sharing plan are based on either stated percentages of eligible employee compensation or employee contributions.

The Company also participates in FMR’s Retiree Health Retirement Plan, a health reimbursement arrangement covering all eligible employees. The charge is based on the number of full-time and part-time employees participating in the plan.

The Company participates in various FMR share based compensatory plans and is allocated a compensation charge that is amortized over the period in which it is earned. This charge is based on the change in the Net Asset Value of FMR shares, as defined.

8. Commitments and Contingencies

Assets Pledged and Other Secured Transactions

In the normal course of business, the Company executes, settles and finances customer, correspondent and proprietary securities transactions. Customer and correspondent transactions include the sale of securities sold, but not yet purchased (short sales) and the writing of options. These activities may expose the Company to off-balance-sheet risk arising from the potential that the customer or counterparty may fail to satisfy its obligations and the collateral will be insufficient. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers and counterparties.

The Company seeks to control the risks associated with its customer and correspondent activities by requiring customers and correspondents to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors trade date customer and correspondent exposure and col-

lateral values daily and requires customers and correspondents to deposit additional collateral or reduce positions when necessary.

Securities sold, but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price, and thereby create a liability to purchase the security in the market at prevailing prices. Accordingly, these transactions result in exposure to market risk as the Company’s ultimate obligation to purchase securities sold, but not yet purchased may exceed the amount recognized in the Consolidated Statement of Financial Condition.

In the normal course of business, the Company borrows and lends securities to finance securities transactions and to facilitate the settlement process. In loaning securities, the Company utilizes securities owned by customers collateralizing margin debt and securities borrowed.

Liabilities to other brokers and dealers related to unsettled transactions (e.g., securities failed to receive) are recorded at the amounts for which the securities were acquired and are paid upon the receipt of securities from the other brokers and dealers.

The Company seeks to control the risks associated with these transactions by establishing and monitoring credit limits for significant counterparties for each type of transaction and monitoring collateral and transaction levels daily.

Guarantees

FASB Interpretation No. 45 (“FIN 45”), *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires the Company to disclose information about its obligations under certain guarantee arrangements. FIN 45 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. FIN 45 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity’s failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

The Company is a member of numerous exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral as well as meet certain minimum financial standards. The Company’s maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is recorded in the Consolidated Statement of Financial Condition for these arrangements.

Collateral

At June 30, 2008, the fair value of securities received as collateral by the Company that can be repledged, delivered or otherwise used was approximately \$26,643,557. This collateral was generally obtained under reverse repurchase, securities borrowed or margin lending agreements. Of these securities received as collateral, those with a fair value of approximately \$13,616,323 were delivered or repledged, generally as collateral under repurchase or securities lending agreements or to cover short sales.

In relation to non-cash loan versus pledge securities transactions, the Company recorded collateral received from FBS and a related obligation to return this collateral. The collateral had a fair value of \$655,351 at June 30, 2008.

Leases

The Company occupies office space under noncancelable operating leases expiring at various dates through 2016. Future minimum rentals under these leases are \$7,245, \$12,735, \$12,740, \$12,754 and \$8,181 for each of the years ending December 2008 through December 2012, respectively, and \$12,880 thereafter. Certain leases contain escalation clauses and renewal options.

Risks and Uncertainties

The Company generates a significant portion of its revenues by providing securities trading, brokerage and clearing activities to domestic customers. Revenues for these services are transaction based. As a result, the Company’s revenues could vary based on the performance of financial markets around the world. The Company’s financing is sensitive to interest rate fluctuations that may have an impact on the Company’s profitability.

Litigation

In the normal course of business as a clearing broker-dealer, the Company has been named as a defendant in several legal actions and lawsuits. The Company reviews such actions and lawsuits on a case by case basis and establishes its reserves in accordance with SFAS No. 5, *Accounting for Contingencies*. Although the ultimate outcome of these actions cannot be ascertained at this time, it is the opinion of management, after consultation with counsel, that the resolution of such actions will not have a material adverse effect on the financial condition of the Company.

Letters of Credit

At June 30, 2008, the Company had unsecured letters of credit outstanding of approximately \$1,000,694. Letters of credit approximating \$134,492 were used as collateral for securities borrowed with a market value of approximately \$128,996 and the remaining letters of credit were used primarily to satisfy margin requirements with the Options Clearing Corporation and Euroclear.

Other

The Company has entered into multiple overnight, uncommitted, unsecured bank loans with large financial institutions. These loans are drawn down periodically to satisfy the daily operating needs of the Company and there was \$15,000 outstanding at June 30, 2008. On September 29, 2005, FMR approved a subordinated loan facility for \$1,000,000 to be used by NFS. There were no borrowings under this facility during the year.

SIPC Disclosure

The securities in your account are protected in accordance with the Securities Investor Protection Corporation (“SIPC”). For more details on SIPC, or to request a SIPC brochure, visit www.sipc.org or call 1-202-371-8300.

For additional information, the Company’s Consolidated Statement of Financial Condition at December 31, 2007, filed pursuant to Rule 17a-5 (e) (3) under the Securities Exchange Act of 1934, is available for examination and photocopying at the principal office of the Company and at the Boston Regional Office of the Securities and Exchange Commission.

National Financial Services LLC, Member NYSE, SIPC
441817.3.0 1.855092.101
SOFC-NF-0908

NATIONAL FINANCIAL SERVICES LLC AND SUBSIDIARIES

Consolidated Statement of Financial Condition

June 30, 2008
(Unaudited)

Executing, Clearing and Carrying Broker
for Major Financial Institutions

Consolidated Statement of Financial Condition as of June 30, 2008

(Dollars in Thousands)

(Unaudited)

ASSETS

Cash.....	\$	101,491
Federal funds sold.....		75,000
Cash and securities segregated under federal regulations (includes securities of \$3,305,158).....		9,730,203
Securities borrowed.....		4,989,809
Securities received as collateral.....		655,351
Receivable from brokers, dealers and clearing organizations		882,886
Receivable from customers, net of allowance of \$48,306		11,864,180
Securities owned—at fair value (\$34,438 pledged as collateral).....		2,536,317
Resale agreements		312,546
Furniture, office equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$68,175		54,819
Other assets		217,846
TOTAL ASSETS.....		<u>\$31,420,448</u>

LIABILITIES AND MEMBER'S EQUITY

LIABILITIES:		
Short-term borrowings.....	\$	15,000
Securities loaned		3,177,186
Obligation to return securities received as collateral from affiliate		655,351
Payable to brokers, dealers and clearing organizations...		2,820,254
Payable to customers.....		21,107,477
Securities sold, but not yet purchased—at fair value		210,137
Repurchase agreements.....		175,492
Payable to affiliate		30,008
Accrued expenses and other liabilities		423,798
TOTAL LIABILITIES.....		<u>28,614,703</u>
MEMBER'S EQUITY.....		<u>2,805,745</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY.....		<u>\$31,420,448</u>

See notes to consolidated statement of financial condition.

Notes to Consolidated Statement of Financial Condition as of June 30, 2008

(Dollars in Thousands)

(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Statement of Financial Condition includes the accounts of National Financial Services LLC (“NFS”) and its wholly owned subsidiaries, Correspondent Services Corporation (“CSC”) and Combined Collateral LLC (collectively referred to as the “Company”). All material intercompany transactions and balances have been eliminated.

Description of Business

The Company is wholly owned by Fidelity Global Brokerage Group, Inc. (the “Parent”), a wholly owned subsidiary of FMR LLC (“FMR”). NFS is a registered broker-dealer, a member of various national and regional stock exchanges, and is licensed to trade on the New York Stock Exchange, Inc. NFS provides a wide range of securities related services to a diverse customer base primarily in the United States. The Company's customer base includes institutional and individual investors, other broker-dealers and corporations, all of which effect transactions in a wide array of financial instruments. NFS engages in brokerage, clearance, custody and financing activities for which it receives fees from a diverse group of correspondent brokers and dealers. NFS also trades on a proprietary basis for itself and the correspondent firms for which it clears.

Securities Transactions

Proprietary inventory transactions and the related principal transactions revenues are recorded on a trade date basis.

Customer Transactions

Receivable from and payable to customers include amounts related to both cash and margin transactions. The Company records customer transactions on a settlement date basis, which is generally three business days after trade date, while the related commission revenues and clearing fees and related expenses are recorded on a trade date basis. The Company's customer base is monitored through a review of account balance aging and assessment of customer financial condition. An allowance against doubtful receivables is established through a combination of specific identification of accounts and percentages based on aging. NFS collects and distributes introducing brokers' customer related interest pursuant to their clearing agreements.

Securities owned by customers, including those that collateralize margin transactions, are not reflected in the accompanying Consolidated Statement of Financial Condition.

Use of Estimates

Preparation of the Consolidated Statement of Financial Condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions regarding the outcome of litigation and other matters that affect the reported amounts and the disclosure of contingencies in the Consolidated Statement of Financial Condition. Actual results could differ from these estimates.

Furniture, Office Equipment and Leasehold Improvements

Depreciation of furniture and office equipment is computed on a straight-line basis using estimated useful lives which range from three to five years. Amortization of leasehold improvements is provided on a straight-line basis over the lesser of their useful lives or the life of the lease.

Income Taxes

As single-member limited liability companies, NFS and Combined Collateral LLC are disregarded as entities separate from their owner and the operations are included in the federal and state income tax returns of the Parent. Therefore, the Company has no income tax expense/benefit or tax assets/liabilities except with

Notes Continued (Unaudited)

(Dollars in Thousands)

regards to CSC. CSC accounts for income taxes in accordance with Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 109, *Accounting for Income Taxes*, which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and tax basis of assets and liabilities.

Cash and Securities Segregated under Federal Regulations

Pursuant to Rule 15c3-3 under the Securities Act of 1934, the balance represents amounts deposited in a special reserve account for the exclusive benefit of customers. In addition to cash, included in the special reserve account are certificates of deposit (CDs) at authorized financial institutions and securities obtained as collateral under resale agreements.

Collateralized Securities Transactions

Resale and repurchase agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest and are presented on a net-by-counterparty basis, where permitted by accounting principles generally accepted in the United States of America. These agreements are generally collateralized by U.S. government and government agency securities. It is the Company's policy to take possession of securities purchased under resale agreements with a market value in excess of the principal amount loaned plus accrued interest to collateralize these transactions. Similarly, the Company is generally required to provide securities to counterparties in order to collateralize repurchase agreements. This collateral is valued daily and the Company may require counterparties to deposit additional securities or return securities pledged when appropriate. As described above, a portion of securities obtained as collateral under resale agreements are segregated for the exclusive benefit of customers and are included in cash and securities segregated under Federal Regulations.

Securities borrowed and securities loaned are recorded based on the amount of cash collateral advanced or received. Securities borrowed transactions facilitate the settlement process and require the Company to deposit cash, letters of credit or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash or other collateral. The amount of collateral required to be deposited for securities borrowed, or received for securities loaned, is an amount generally in excess of the market value of the applicable securities borrowed or loaned. In non-cash loan versus pledge securities transactions, the Company, as lender, records the collateral received as both an asset and as a liability, recognizing the obligation to return the collateral to the borrower. The Company monitors the market value of securities borrowed and loaned, with excess collateral retrieved, or additional collateral obtained, when deemed appropriate.

Interest related to collateralized securities transactions is recorded on an accrual basis.

Recent Accounting Pronouncement

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken or expected to be taken in a tax return. In February 2008, the FASB issued FASB Staff Position (“FSP”) No. FIN 48-2, which deferred the effective date of FIN 48 for certain nonpublic enterprises to the annual financial statements for fiscal years beginning after December 31, 2007. The Company does not expect the adoption of FIN 48 to have a material impact on its Consolidated Statement of Financial Condition.

Fair Value

SFAS No. 157, “*Fair Value Measurements*” (“SFAS No. 157”), as adopted by the Company on January 1, 2008, defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The Company accounts for a significant portion

Notes Continued (Unaudited)

(Dollars in Thousands)

of its financial instruments at fair value or considers fair value in their measurements. Assets, including cash, federal funds sold, resale agreements, securities borrowed, receivables, and other assets, are carried at amounts which approximate fair value. Securities owned and securities sold, but not yet purchased are recorded at fair value using quoted market prices for exchange traded securities or dealer price quotations for actual or similar instruments. Short-term borrowings, securities loaned, repurchase agreements, accrued expenses, payables and other liabilities are carried at amounts which approximate fair value.

In February 2007, the FASB issued SFAS No. 159 “*The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*” (“SFAS 159”). SFAS 159 permits an entity to elect to measure various types of financial instruments and certain other items at fair value. It provides entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 requires that a business entity report unrealized gains and losses, on items for which the fair value option has been elected, in earnings at each subsequent reporting date. SFAS 159 was adopted by the Company on January 1, 2008, however the Company has not made any elections for fair value reporting of eligible items under such standard as of June 30, 2008.

2. Fair Value Measurements

In accordance with SFAS No. 157, the Company categorizes its financial instruments recorded at fair value into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Consolidated Statement of Financial Condition are categorized based on the inputs to the valuation techniques as follows:

Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Because valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2—Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through 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 overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2008:

Notes Continued (Unaudited)

(Dollars in Thousands)

Fair Value Measurements on a Recurring Basis

	Level 1	Level 2	Level 3	Total
Assets:				
Securities segregated under federal regulations	\$ –	\$3,305,158	\$ –	\$3,305,158
Securities received as collateral	655,351	–	–	655,351
Securities owned	2,356,053	180,264	–	2,536,317
Liabilities:				
Obligation to return securities received as collateral from affiliate	\$ 655,351	\$ –	\$ –	\$ 655,351
Securities sold, but not yet purchased	153,835	56,302	–	210,137

3. Receivable from and Payable to Brokers, Dealers and Clearing Organizations

Receivable from brokers, dealers and clearing organizations include amounts receivable for securities not delivered by the Company to a purchaser by the settlement date, margin deposits, commissions, net receivables arising from unsettled trades and the Company's introducing brokers' margin loans.

Payable to brokers, dealers and clearing organizations include amounts payable for securities not received by the Company from a seller by the settlement date, clearing deposits from introducing brokers, commissions, net payables arising from unsettled trades and amounts payable to the Company's introducing brokers.

4. Concentrations of Credit Risk

The Company provides brokerage, clearance, financing and related services to a diverse customer base primarily in the United States, including institutional and individual investors and brokers and dealers, including affiliates. The Company's exposure to credit risk associated with these transactions is measured on an individual customer or counterparty basis. To reduce the potential for risk concentration, credit limits are established and continually monitored in light of changing customer and market conditions. In the normal course of providing such services, the Company requires collateral on a basis consistent with industry practice or regulatory requirements. The type and amount of collateral is continually monitored and counterparties are required to provide additional collateral as necessary.