GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

CONSOLIDATED STATEMENT of FINANCIAL CONDITION PURSUANT to RULE 17a-5 of the SECURITIES and EXCHANGE COMMISSION

As of June 30, 2011

(UNAUDITED)

200 WEST STREET
NEW YORK, NY 10282

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
(UNAUDITED)

As of June 30, 2011
(in thousands)

Assets		
Cash and cash equivalents	$	44,849
Cash and securities segregated for regulatory and other purposes (includes $2,489,787 at fair value)		3,331,199
Collateralized agreements:		
Securities borrowed, at fair value		9,638,672
Securities purchased under agreements to resell, at fair value		2,592,510
Receivables from brokers, dealers and clearing organizations		1,169,754
Receivables from customers and counterparties		6,823,299
Financial instruments owned, at fair value		16,548
Financial instruments owned and pledged as collateral, at fair value		67,888
Total financial instruments owned, at fair value		84,436
Other assets		167,811
Total assets	$	23,852,530
Liabilities and Partners' Capital		
Unsecured short-term borrowings	$	2,138
Collateralized financings:		
Securities loaned, at fair value		8,885,139
Securities sold under agreements to repurchase, at fair value		1,496,687
Payables to brokers, dealers and clearing organizations		361,646
Payables to customers and counterparties		9,915,748
Financial instruments sold, but not yet purchased, at fair value		70,143
Other liabilities and accrued expenses		326,404
Total liabilities		21,057,905
Commitments, contingencies and guarantees		
Subordinated borrowings		1,680,000
Partners' capital		1,114,625
Total liabilities and partners' capital	$	23,852,530

The accompanying notes are an integral part of this consolidated statement of financial condition.

Note 1. Description of Business

Goldman Sachs Execution & Clearing, L.P. (GSEC), a limited partnership, is a registered U.S. broker-dealer with the Securities and Exchange Commission (SEC), a member of the Financial Industry Regulatory Authority (FINRA), a registered futures commission merchant with the Commodity Futures Trading Commission (CFTC) and the National Futures Association (NFA). GSEC, together with its consolidated subsidiaries (collectively, the Company), is a wholly owned subsidiary of SLK LLC, a limited liability company. SLK LLC is owned by Goldman Sachs Trade Management LLC, which is a wholly owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation. The Federal Reserve Board is the primary U.S. regulator of Group Inc., a bank holding company and a financial holding company.

The Company provides a wide range of brokerage and investment services to a substantial and diversified client base. The Company's activities primarily consist of:

- **Market Making and Principal Investments.** The Company engages in floor-based and electronic market making as a Designated Market Maker (DMM) on U.S. equities exchanges in equity securities and options.

- **Execution and Clearance.** The Company facilitates and finances transactions with a diverse group of corporations, financial institutions, governments, hedge funds and individuals. It executes and clears customer transactions on major stock, options and futures exchanges worldwide.

Note 2. Basis of Presentation

This consolidated statement of financial condition is prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and includes the accounts of GSEC and all other entities in which the Company has a controlling financial interest. Intercompany transactions and balances have been eliminated.

This consolidated statement of financial condition is unaudited and should be read in conjunction with the audited consolidated statement of financial condition as of December 31, 2010.

All references to June 2011 unless specifically stated otherwise, refer to the date, June 30, 2011.

Note 3. Significant Accounting Policies

The Company's significant accounting policies include when and how to measure the fair value of assets and liabilities, accounting for identifiable intangible assets, and when to consolidate an entity. See Notes 5 through 7 for policies on fair value measurements, and Note 10 for policies on identifiable intangible assets. All other significant accounting policies are either discussed below or included in the following footnotes:

Consolidation

The Company consolidates entities in which the Company has a controlling financial interest. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (VIE).

Voting Interest Entities. Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity, and the right to receive residual returns of the entity. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. If the Company has a majority voting interest in a voting interest entity, the entity is consolidated.

Variable Interest Entities (VIE). A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. The Company has a controlling financial interest in a VIE when the Company has a variable interest or interests that provide it with (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Use of Estimates

Preparation of this consolidated statement of financial condition requires management to make certain estimates and assumptions, the most important of which relate to fair value measurements, accounting for identifiable intangible assets, discretionary compensation accruals and the provision for losses that may arise from litigation, regulatory proceedings and tax audits. These estimates and assumptions are based on the best available information but actual results could be materially different.

Financial Assets and Liabilities at Fair Value. Total financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are recorded at fair value either under the fair value option or in accordance with other U.S. GAAP. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. See Notes 5 through 7 for further information about fair value measurements.

Transfers of Assets

Transfers of assets are accounted for as sales when the Company has relinquished control over the assets transferred. Assets or liabilities that arise from the Company's continuing involvement with transferred assets are measured at fair value. For transfers of assets that are not accounted for as sales, the assets remain in "Total financial instruments owned, at fair value" and the transfer is accounted for as a collateralized financing. See Note 8 for further information about transfers of assets accounted for as collateralized financings.

Receivables from Customers and Counterparties

Receivables from customers and counterparties generally consist of collateralized receivables, primarily customer margin loans, related to client transactions. Certain of the Company's receivables from customers and counterparties are accounted for at fair value under the fair value option. See Note 7 for further information about the fair values of these receivables. Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts, which generally approximates fair value.

Foreign Currency Translation

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the consolidated statement of financial condition.

Cash and Cash Equivalents

The Company defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business.

Recent Accounting Developments

Improving Disclosures about Fair Value Measurements. In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements." ASU No. 2010-06 provides amended disclosure requirements related to fair value measurements. Certain of these disclosure requirements became effective for the Company beginning in 2010, while others became effective for the Company beginning in 2011. Since these amended principles require only additional disclosures concerning fair value measurements, adoption did not affect the Company's financial condition.

Reconsideration of Effective Control for Repurchase Agreements. In April 2011, the FASB issued ASU No. 2011-03, "Transfers and Servicing (Topic 860) — Reconsideration of Effective Control for Repurchase Agreements." ASU No. 2011-03 changes the assessment of effective control by removing (i) the criterion that requires the transferor to have the ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance implementation guidance related to that criterion. ASU No. 2011-03 is effective for periods beginning after December 15, 2011. The adoption of ASU No. 2011-03 will not affect the Company's financial condition.

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (FASB Accounting Standards Codification (ASC) 820). In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurements and Disclosures (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU No. 2011-04 clarifies the application of existing fair value measurement and disclosure requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. ASU No. 2011-04 is effective for periods beginning after December 15, 2011. The Company is currently evaluating the impact of adoption.

Note 4. Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value

The total financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP. See Note 7 for further information about the fair value option. The table below presents the Company's financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased (in thousands):

	As of June 2011	
	Total Financial Instruments Owned	**Financial Instruments Sold, But Not Yet Purchased**
Money market instruments	$ 2,550	$ -
Corporate debt securities	20	6
Equities	78,259	69,089
Derivatives with third parties	3,607	1,048
Total	**$ 84,436**	**$ 70,143**

Note 5. Fair Value Measurements

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

The best evidence of fair value is a quoted price in an active market. If listed prices or quotations are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use, as inputs, market-based or independently sourced parameters, including but not limited to interest rates, volatilities, equity or debt prices, foreign exchange rates, commodities prices and credit curves.

U.S. GAAP has a three-level fair value hierarchy for disclosure of fair value measurements. The fair value hierarchy prioritizes inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial instrument's level in the fair value hierarchy is based on the lowest level of any input that is significant to its fair value measurement.

The fair value hierarchy is as follows:

Level 1. Inputs are unadjusted quoted prices in active markets to which the Company had access at the measurement date for identical, unrestricted assets or liabilities.

Level 2. Inputs to valuation techniques are observable, either directly or indirectly.

Level 3. One or more inputs to valuation techniques are significant and unobservable.

The fair value of certain level 2 and level 3 financial assets and financial liabilities may include valuation adjustments for counterparty and the Company's credit quality, transfer restrictions, large and/or concentrated positions, illiquidity and bid/offer inputs.

Financial Assets and Financial Liabilities by Level
The table below presents, by level within the fair value hierarchy, total financial instruments owned and financial instruments sold but not yet purchased, at fair value, and other financial assets and financial liabilities accounted for at fair value under the fair value option.

See Note 7 for the valuation methodologies and inputs for other financial assets and financial liabilities accounted for at fair value under the fair value option.

	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes	$ 877,300 [1]	1,612,487 [2]	-	$ 2,489,787
Securities borrowed	-	9,638,672	-	9,638,672
Securities purchased under agreements to resell	-	2,592,510	-	2,592,510
Total financial instruments owned	84,156	-	280 [3]	84,436
Total	**$ 961,456**	**$ 13,843,669**	**$ 280**	**$ 14,805,405**

	Financial Liabilities at Fair Value as of June 2011 (in thousands)			
	Level 1	Level 2	Level 3	Total
Securities loaned	$ -	$ 8,885,139	$ -	$ 8,885,139
Securities sold under agreements to repurchase	-	1,496,687	-	1,496,687
Financial instruments sold, but not yet purchased, at fair value	70,143	-	-	70,143
Total	**$ 70,143**	**$ 10,381,826**	**$ -**	**$ 10,451,969**

1. Consists of money market instruments measured at fair value.

2. Consists of resale agreements. The underlying securities have been segregated to satisfy certain regulatory requirements.

3. Consists of non-publicly traded equity securities.

Note 6. Derivatives Activities

Derivatives are instruments that derive their value from underlying asset prices, indices, reference rates and other inputs, or a combination of these factors. Derivatives may be privately negotiated contracts, which are usually referred to as over-the-counter (OTC) derivatives, or they may be listed and traded on an exchange (exchange-traded). The Company does not trade or carry any OTC derivatives but enters into derivative transactions to facilitate client transactions.

Market-Making. As a market maker, the Company enters into listed derivative transactions with clients and other market participants to provide liquidity and to facilitate the transfer and hedging of risk. In this capacity, the Company typically acts as principal and is consequently required to commit capital to provide execution. As a market maker, it is essential to maintain an inventory of financial instruments sufficient to meet expected client and market demands.

Note 7. Fair Value Option

Other Financial Assets and Financial Liabilities at Fair Value

The Company has elected to account for certain of its other financial assets and financial liabilities at fair value under the fair value option.

The primary reasons for electing the fair value option are to:

- reflect economic events in earnings on a timely basis;
- mitigate volatility in earnings from using different measurement attributes; and

Other financial assets and financial liabilities accounted for at fair value under the fair value option include:

- resale and repurchase agreements;
- securities borrowed and loaned consisting of the Company's financing activities;
- certain receivables from customers and counterparties, including certain margin loans

These financial assets and financial liabilities at fair value are generally valued based on discounted cash flow techniques, which incorporate inputs with reasonable levels of price transparency, and are generally classified as level 2 because the inputs are observable. Valuation adjustments may be made for counterparty and the Company's credit quality.

Significant inputs for each category of other financial assets and financial liabilities at fair value are as follows:

Resale and Repurchase Agreements and Securities Borrowed and Loaned. The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are the amount and timing of expected future cash flows, interest rates and collateral funding spreads. See Note 8 for further information.

Receivables from Customers and Counterparties. The significant inputs to the valuation of certain receivables from customers and counterparties are commodity prices, interest rates and the amount and timing of expected future cash flows.

Note 8. Collateralized Agreements and Financings

Collateralized agreements are securities purchased under agreements to resell (resale agreements or reverse repurchase agreements) and securities borrowed. Collateralized financings are securities sold under agreements to repurchase (repurchase agreements) and securities loaned. The Company enters into these transactions in order to, among other things, facilitate client activities, invest excess cash, acquire securities to cover short positions, and finance certain Company activities.

Collateralized agreements and financings are presented on a net-by-counterparty basis when a legal right of setoff exists.

The table below presents the carrying value of resale and repurchase agreements and securities borrowed and loaned transactions (in thousands):

	As of June 2011
Securities purchased under agreements to resell	$ 2,592,510
Securities borrowed	9,638,672
Securities sold under agreements to repurchase	1,496,687
Securities loaned	8,885,139

Resale and Repurchase Agreements.
A resale agreement is a transaction in which the Company purchases financial instruments from a seller, typically in exchange for cash, and simultaneously enters into an agreement to resell the same or substantially the same financial instruments to the seller at a stated price plus accrued interest at a future date.

A repurchase agreement is a transaction in which the Company sells financial instruments to a buyer, typically in exchange for cash, and simultaneously enters into an agreement to repurchase the same or substantially the same financial instruments from the buyer at a stated price plus accrued interest at a future date.

The financial instruments purchased or sold in resale and repurchase agreements typically include U.S. government and federal agency obligations.

The Company receives financial instruments purchased under resale agreements, makes delivery of financial instruments sold under repurchase agreements, monitors the market value of these financial instruments on a daily basis, and delivers or obtains additional collateral due to changes in the market value of the financial instruments, as appropriate. For resale agreements, the Company typically requires delivery of collateral with a fair value approximately equal to or greater than the carrying value of the relevant assets in the consolidated statement of financial condition.

Even though repurchase and resale agreements involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold at the maturity of the agreement. However, “repos to maturity” are accounted for as sales. A repo to maturity is a transaction in which the Company transfers a security that has very little, if any, default risk under an agreement to repurchase the security where the maturity date of the repurchase agreement matches the maturity date of the underlying security. Therefore, the Company effectively no longer has a repurchase obligation and has relinquished control over the underlying security, and accordingly, accounts for the transaction as a sale. The Company had no such transactions outstanding as of June 2011.

The Company enters substantially all its financial instruments purchased under agreements to resell and financial instruments sold under agreements to repurchase transactions with Goldman, Sachs & Co. (“GSCO”).

Securities Borrowed and Loaned Transactions

In a securities borrowed transaction, the Company borrows securities from counterparty in exchange for cash. When the Company returns the securities, the counterparty returns the cash. Interest is generally paid periodically over the life of the transaction.

In a securities loaned transaction, the Company lends securities to counterparty typically in exchange for cash or securities. When the counterparty returns the securities, the Company returns the cash or securities posted as collateral. Interest is generally paid periodically over the life of the transaction.

The Company receives securities borrowed, makes delivery of securities loaned, monitors the market value of these securities on a daily basis, and delivers or obtains additional collateral due to changes in the market value of the securities, as appropriate. For securities borrowed transactions, the Company typically requires delivery of collateral with a fair value approximately equal to or greater than the carrying value of the securities borrowed transaction.

Securities borrowed and loaned which is related to certain Company financing activities, are recorded at fair value under the fair value option.

Securities borrowed and loaned are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. The Company conducts substantially all its securities borrowed and loaned transactions with GSCO and Goldman Sachs International (“GSI”).

As of June 2011, the Company had $1.61 billion of securities received under resale agreements that were segregated to satisfy certain regulatory requirements. These securities are included in “Cash and securities segregated for regulatory and other purposes.”

Collateral Received and Pledged

The Company receives financial instruments (e.g. U.S. government, federal agencies and corporate obligations, as well as equities) as collateral, primarily in connection with resale agreements, securities borrowed, derivative transactions and customer margin loans. The resale agreements and securities borrowed related transactions are primarily conducted with GSCO.

In many cases, the Company is permitted to deliver or repledge these financial instruments when entering into repurchase agreements, securities lending agreements, collateralizing derivative transactions and meeting Company or customer settlement requirements.

The table below presents financial instruments at fair value received as collateral that were available to be delivered or repledged and were delivered or repledged by the Company (in thousands):

	As of June 2011
Collateral available to be delivered or repledged	$ 29,531,081
Collateral that was delivered or repledged	29,198,908

The Company also pledges certain financial instruments owned, at fair value in connection with repurchase agreements and securities lending agreements to counterparties who may or may not have the right to deliver or repledge them. The table below presents information about assets pledged by the Company (in thousands):

	As of June 2011
Financial instruments owned, at fair value, pledged to counterparties that:	
Had the right to deliver or repledge	$ 67,888
Did not have the right to deliver or repledge	7,768

Note 9. Other Assets

Other assets are generally less liquid, nonfinancial assets. The table below presents other assets by type (in thousands):

	As of June 2011
Property, leasehold improvements and equipment	$ 9,940
Identifiable intangible assets [1]	72,615
Deferred tax assets [2]	47,800
Exchange memberships	19,093
Other	18,363
Total	**$ 167,811**

1. See Note 10 for further information about identifiable intangible assets.
2. See Note 17 for further information about income taxes.

Property, Leasehold Improvements and Equipment

All Property, leasehold improvements and equipment that the Company uses are in connection with its operations.

All property and equipment are depreciated on a straight-line basis over the useful life of the asset.

Leasehold improvements are amortized on a straight-line basis over the useful life of the improvement or the term of the lease, whichever is shorter.

Certain costs of software developed or obtained for internal use are capitalized and amortized on a straight-line basis over the useful life of the software.

Property, leasehold improvements and equipment are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. The Company's policy for impairment testing of property, leasehold improvements and equipment is the same as is used for identifiable intangible assets with finite lives. See Note 10 for further information.

Note 10. Identifiable Intangible Assets

The table below presents the gross carrying amount, accumulated amortization and net carrying amount of identifiable intangible assets, which are included in "Other Assets" (in thousands):

		As of June 2011
NYSE DMM rights	Gross carrying amount	$ 319,564
	Accumulated amortization	(246,949)
	Net carrying amount	$ 72,615

Identifiable intangible assets, which consist of New York Stock Exchange (NYSE) DMM rights are considered to have finite lives and are amortized over their estimated lives. The weighted average remaining life of the Company's identifiable intangibles is approximately 11 years.

Identifiable intangible assets are tested for recoverability whenever events or changes in circumstances indicate that an asset's or asset group's carrying value may not be recoverable.

If a recoverability test is necessary, the carrying value of an asset or asset group is compared to the total of the undiscounted cash flows expected to be received over the remaining useful life and from the disposition of the asset or asset group.

- If the total of the undiscounted cash flows exceeds the carrying value, the asset or asset group is not impaired.
- If the total of the undiscounted cash flows is less than the carrying value, the asset or asset group is not fully recoverable and an impairment loss is recognized as the difference between the carrying amount of the asset or asset group and its estimated fair value.

Note 11. Short-Term Borrowings

The Company obtains unsecured short-term borrowings primarily from Group Inc. at floating rates of interest, which are based on prevailing market rates. As of June 2011, these borrowings were $2.14 million. The Company has a third party line of credit for $1.5 billion. This is a secured facility with the Company pledging collateral to the third party. At June 30, 2011, the Company had no outstanding third party loan balance. The carrying value of these short-term obligations approximates fair value due to their short-term nature.

Note 12. Subordinated Borrowings

As of June 2011, the Company had outstanding subordinated borrowings of $1.68 billion from Group Inc., which mature in 2012.

Amounts borrowed under this subordinated loan agreement bear interest at a rate of LIBOR plus .75% per annum. The carrying value of these borrowings approximates fair value.

The subordinated borrowings are with related parties and are available in computing net capital under the SEC's uniform net capital rule 15c3-1. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

Note 13. Other Liabilities and Accrued Expenses

The table below presents other liabilities and accrued expenses by type (in thousands):

	As of June 2011
Compensation and benefits	$ 36,880
Income tax related liabilities [1]	85,449
Accrued expenses and other payables	204,075
Total	**$ 326,404**

1. See Note 17 for further information about income taxes.

Note 14. Commitments, Contingencies and Guarantees

Leases

The Company has contractual obligations under long-term noncancelable lease agreements, principally for office space, expiring on various dates through 2023. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. The table below presents future minimum rental payments, net of minimum sublease rentals (in thousands).

	As of June 2011
Remainder of 2011	$ 1,892
2012	3,806
2013	2,923
2014	2,780
2015	1,754
2016	1,812
2017 - thereafter	6,498
Total	**$ 21,465**

Contingencies
The Company is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its businesses. Management believes, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on the Company's financial condition.

Guarantees
The Company, in its capacity as an agency lender, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities and the collateral held is insufficient to cover the market value of the securities borrowed.

In the ordinary course of business, the Company provides other financial guarantees of the obligations of third parties (e.g., standby letters of credit and other guarantees to enable clients to complete transactions and fund-related guarantees). These guarantees represent obligations to make payments to beneficiaries if the guaranteed party fails to fulfill its obligation under a contractual arrangement with that beneficiary.

Indemnities and Guarantees of Service Providers. In the ordinary course of business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates.

The Company also indemnifies some clients against potential losses incurred in the event specified third party service providers, including sub-custodians and third party brokers, improperly execute transactions. In addition, the Company is a member of payment, clearing and settlement networks as well as securities exchanges around the world that may require the Company to meet the obligations of such networks and exchanges in the event of member defaults.

In connection with its prime brokerage and clearing businesses, the Company agrees to clear and settle on behalf of its clients the transactions entered into by them with other brokerage firms. The Company’s obligations in respect of such transactions are secured by the assets in the client’s account as well as any proceeds received from the transactions cleared and settled by the Company on behalf of the client.

The Company is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the Company will have to make any material payments under these arrangements and no material liability related to these guarantees and indemnifications has been recognized in the consolidated statement of financial condition as of June 2011.

Note 15. Net Capital Requirements

GSEC is a registered U.S. broker-dealer and futures commission merchant subject to Rule 15c3-1 of the SEC and Rule 1.17 of the Commodity Futures Trading Commission, which specify uniform minimum net capital requirements, as defined, for their registrants. GSEC has elected to compute net capital in accordance with the "Alternate Net Capital Requirement" as permitted by Rule 15c3-1. As of June 2011, GSEC had regulatory net capital, as defined by Rule 15c3-1, of $1.68 billion, which exceeded the minimum net capital requirement by $1.55 billion.

Spear Leeds & Kellogg Specialists, LLC (SLKS), a subsidiary of GSEC, is subject to Rule 15c3-1, which was in compliance as of June 2011. This subsidiary of GSEC is also subject to additional regulatory requirements of exchanges of which it is a member. As of June 2011, these requirements were greater than the minimum requirements under Rule 15c3-1. As of June 2011, this entity was in compliance with the applicable exchange requirements. GSEC's net capital includes a reduction for the capital invested in each subsidiary to satisfy any applicable requirements.

As of June 2011, GSEC made a computation related to the reserve requirement for Proprietary Accounts of Introducing Brokers ("PAIB"). The reserve amount and value of securities held on deposit in the Reserve Bank account was $265 million.

Note 16. Transactions with Related Parties

The Company enters into transactions with Group Inc. and affiliates in the normal course of business as part of its market making, financing and general operations. Amounts outstanding to/from Group Inc. and affiliates are presented in the table below (in thousands):

		As of June 2011
Assets		
Cash and securities segregated for regulatory and other purposes	$	1,612,487
Collateralized agreements:		
Securities borrowed, at fair value		9,638,672
Securities purchased under agreements to resell, at fair value		2,592,510
Receivables from brokers, dealers and clearing organizations		702,867
Other assets		61
Liabilities		
Unsecured short-term borrowings	$	2,138
Collateralized financings:		
Securities loaned, at fair value		8,885,139
Securities sold under agreements to repurchase, at fair value		1,496,687
Payables to brokers, dealers and clearing organizations		154,785
Other liabilities and accrued expenses		21,133
Subordinated borrowings		1,680,000

Note 17: Income Taxes

The Company is taxed as a corporation for U.S. federal income tax purposes. As a corporation for tax purposes, the Company is subject to U.S. federal and various state and local income taxes on its earnings. The Company also continues to be subject to taxes in foreign jurisdictions on certain of its operations. The Company is included with Group Inc. and subsidiaries in the consolidated corporate tax return as well as the consolidated/combined state and local tax returns. The Company computes its tax liability as if it was filing a tax return on a modified separate company basis and will settle such liability with Group Inc. pursuant to the tax sharing agreement. To the extent the Company generates tax benefits from losses, it will be reimbursed by Group Inc. pursuant to the tax sharing agreement.

Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. Tax assets and liabilities are presented as a component of “Other assets” and “Other liabilities and accrued expenses,” respectively.

The table below presents the significant components of deferred tax assets and liabilities (in thousands):

		As of June 2011
Deferred tax assets		
Compensation and benefits	$	14,785
Depreciation and amortization		25,494
Legal Reserves		9,167
Total deferred tax assets	$	49,446
Deferred tax liabilities		
Unrealized gains	$	1,209
Other, net		437
Total deferred tax liabilities	$	1,646

As of June 2011, no valuation allowance was required.

Unrecognized Tax Benefits

The Company recognizes tax positions in the statement of financial condition only when it is more likely than not that the position will be sustained on examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the statement of financial condition. As of June 2011, the Company did not record a liability related to accounting for uncertainty in income taxes.

Regulatory Tax Examinations

The Company is subject to examination by the U.S. Internal Revenue Service (IRS) and other taxing authorities in jurisdictions where the Company has significant business operations such as New York State and City. All years subsequent and including 2004 for U.S. Federal, New York State and City remain open to examination by the taxing authorities. The Company believes that the liability for unrecognized tax benefits it has established is adequate in relation to the potential for additional assessments.

Note 18. Credit Concentrations

Credit concentrations may arise from market making, client facilitation, lending and collateralized transactions and may be impacted by changes in economic, industry or political factors. The Company seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral from counterparties as deemed appropriate.

While the Company's activities expose it to many different industries and counterparties, the Company routinely executes a high volume of transactions with asset mangers, investment funds, commercial banks, brokers and dealers, clearing houses and exchanges which results in significant credit concentrations.

In the ordinary course of business, the Company may also be subject to a concentration of credit risk to a particular counterparty, borrower or issuer, or to a particular clearing house or exchange.

As of June 2011, the Company did not have credit exposure to any counterparty, except for related parties, that exceeded 2% of the Company’s total assets.