

Form ADV Part 2A – Disclosure Brochure

March 31, 2011

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This brochure provides information about the qualifications and business practices of Credit Suisse Securities (USA) LLC (“CSSU”). If you have any questions about the contents of this brochure, please contact your CSSU registered adviser representative (“Relationship Manager”).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about CSSU also is available on the SEC’s website at www.adviserinfo.sec.gov.

Registration with the SEC does not imply a certain level of skill or training.

This brochure contains information about CSSU and there have been no material changes since its adoption.

I. Advisory Business

CSSU’s Advisory Business

CSSU is a broker dealer and investment adviser registered with the SEC. It is 100% owned by Credit Suisse (USA), Inc. which is 100% owned by Credit Suisse Holdings (USA), Inc. Credit Suisse Group AG (“Credit Suisse”) is the ultimate parent of Credit Suisse Holdings (USA) Inc.

Credit Suisse is a global financial services company providing its clients with Investment Banking, Private Banking, and Asset Management services. In Investment Banking, Credit Suisse offers financial products and advisory services, including debt and equity underwriting, sales and trading, mergers and acquisitions, investment research, correspondent and prime brokerage services to corporations, governments and institutional investors. In Private Banking, Credit Suisse provides comprehensive advice and a range of investment products and services tailored to the needs of high-net-worth individuals. In Asset Management, Credit Suisse manages portfolios, mutual funds, and alternative investment vehicles for governments, institutions, corporations and private individuals.

Credit Suisse First Boston Corporation, the predecessor to CSSU, was formed on June 27, 1932 under the name The First of Boston Corporation.

CSSU, through its Private Banking USA (“PBUSA”) business, offers products and services in its capacity as investment adviser, portfolio manager, or sponsor of wrap fee programs. As of December 31, 2010, CSSU managed \$9,844,993,365 assets on a discretionary basis and \$1,943,291,859 assets on a non-discretionary basis.

Types of Advisory Services Offered by PBUSA

Investment Advisory Programs

PBUSA offers investment advisory programs to clients (i) on a discretionary or non-discretionary basis, (ii) from CSSU, its Relationship Managers or a third party registered investment adviser, and (iii) pursuant to a wrap fee arrangement or unbundled fee arrangement. The various programs are described below. In each program, clients receive individualized investment advisory services tailored to their particular investment objectives and guidelines. Clients may impose reasonable restrictions on permissible types of investments or specific securities.

PBUSA has entered into an agreement with Pershing LLC ("Pershing"), a registered broker dealer, to provide execution, clearing, settlement and custody for all of its investment advisory programs. Pershing also provides account reporting services to certain of its investment advisory programs. Pershing executes all purchase and sale orders directed to it by CSSU and your portfolio manager and also performs clearance and settlement services. Pershing maintains custody of your account assets, credits interest and dividends on account assets and principal on called or matured securities in the account, and provides such other custodial functions customarily performed with respect to securities brokerage accounts. Similarly, PBUSA has entered into an agreement with Lockwood Advisors Inc. ("Lockwood"), a registered investment adviser, to provide administrative and account reporting services for the Preferred Advisors, Global Portfolio Strategies, Managed Portfolio Alternatives, Tactical Global Allocations, and Tactical Portfolio Solutions Programs.

■ Wrap Fee Programs

A "wrap fee" is an annual inclusive fee paid by the client to PBUSA. It covers investment advice, execution, custody, administrative and account reporting services. PBUSA pays third parties for their services in the programs and retains the balance of the wrap fee for its services.

PBUSA sponsors the Preferred Advisors, Global Portfolio Strategies, and Managed Portfolio Alternatives Programs whereby an unaffiliated investment advisers acts as your discretionary portfolio manager.

PBUSA also offers discretionary investment advisory services through the Tactical Global Allocations, Discretionary Managed Portfolios, Tactical Portfolio Solutions Programs and non-discretionary investment advisory services through the Portfolio Management Services Program. Each of these wrap fee programs is further described in the CSSU Wrap Fee Brochure, which is available upon request.

■ Non-Wrap Fee Programs

In PBUSA's non-wrap fee programs, clients pay PBUSA a fee for the investment advisory services that PBUSA provides. In addition, clients pay commissions or other execution fees for each transaction plus custody fees, depending on the nature of the program.

Family Wealth Management Services: PBUSA provides non-discretionary investment consulting and investment supervisory services to qualified family offices and ultra high net worth individuals.

PBUSA offers the Investment Management Consulting Services ("IMCS") program, whereby PBUSA may recommend investments in unaffiliated mutual funds, alternative investment products including but not limited to, hedge funds, private equity funds and structured products ("Alternative Investment Products"), and/or third-party discretionary managers.

After the initial investment in mutual funds on a non-discretionary basis, PBUSA may vary the portion of your assets invested in mutual funds or terminate such investments on a discretionary or non-discretionary basis, as PBUSA may elect.

You must provide prior written consent for investments in affiliated or unaffiliated Alternative Investment Products and personally complete the subscription or other documentation required for such investments.

PBUSA may also provide investment advice through ongoing consultations not involving investment supervisory services, such as asset allocation advice and monitoring the performance of unaffiliated investment managers. In addition, on more than an occasional basis, PBUSA may provide business consulting or tax return preparation services as well as advice on matters not involving securities, such as real estate investments, mortgage refinancing, or estate tax planning.

Financial Planning Services: Financial Planning Services are available to clients who seek a comprehensive, personalized written financial plan (the “Plan”) that assesses your current and projected financial situation and investment goals and establishes an investment strategy to seek to meet those goals within your stated risk tolerances.

You must enter into a Financial Planning Agreement with CSSU to receive these services. You may terminate the agreement at any time by written notice to CSSU.

You will be required to enter into a new Financial Planning Agreement and pay a separate, negotiated fee for any updates to the Plan.

The Plan may include an analysis of any of the following: investment planning, education planning, insurance planning, risk management, cashflow, disability planning, tax and estate planning, stock option strategies, asset allocation strategies, foundation/philanthropy planning, and net worth. The analysis depends upon your specific investment objectives, financial goals and needs, risk tolerance, age, current asset allocation, value of assets, and complexity of your current financial situation. PBUSA will rely upon the information you provide to create the Plan and it is up to you to inform us if there is a change in your financial or personal circumstances that may affect the Plan.

The Plan does not analyze, recommend, or include on-going advice on specific securities or investments but rather is intended to serve as a basis for further analysis and discussion between you and your financial, legal and tax advisers toward developing a suitable investment strategy for pursuing your financial goals.

PBUSA provides analytical and advisory services only in creating the Plan. PBUSA does not provide legal, tax, accounting or other professional services.

You are not required to engage CSSU or its affiliates to implement the Plan. If you choose to engage CSSU to implement the Plan, a separate agreement and fee will apply depending upon the nature of the relationship and the type of services to be provided.

Sub-Advisory Solutions Program: CSSU provides discretionary investment advisory services based on the investment advice of certain affiliated and unaffiliated registered investment advisers retained by CSSU to serve as sub-advisers for your account. Each sub-adviser is responsible for managing your account on a discretionary basis and has the authority to take all actions CSSU could, subject to CSSU’s supervision and direction.

You must enter into a Client Service Agreement (“CSA”) with CSSU. You may terminate the CSA at any time upon written notice to CSSU.

Hedge Fund Feeder Platform

CSSU serves as investment manager to the PBUSA hedge fund feeder platform, Credit Suisse HedgeFocus (the “HedgeFocus Platform”), which offers PBUSA clients access to a selection of single manager hedge funds through feeder funds (“Feeder Funds”) in which clients may invest as limited partners. CSSU may select both affiliated and unaffiliated single manager hedge funds to offer clients on the hedge fund feeder platform. CSSU will offer onshore Feeder Funds for U.S. clients as well as offshore Feeder Funds for U.S. tax-exempt clients and non-U.S. clients who can invest pursuant to Regulation S of the Securities Act of 1933 (“1933 Act”). Investment thresholds in the Feeder Funds are generally lower than the minimum investment thresholds of the underlying single manager hedge funds. The Feeder Funds operate pursuant to an exemption from registration as an investment company under Section 3(c)(7) of the Investment Company Act of 1940 (“1940 Act”) and are offered to U.S. clients in private placements pursuant to Regulation D under the 1933 Act.

II. Fees and Compensation

Depending on the program that you select, you can pay either a wrap fee or unbundled fees.

Investment Advisory Programs

Wrap Fee Programs

You will pay a wrap fee based upon the total assets you invest in a program. Further information about wrap fee programs is provided in CSSU's Wrap Fee Brochure, which is available upon request. The fee schedule applicable for each program is as follows:

Non-Wrap Fee Programs

Depending on the program you select, you may pay an unbundled fee for investment advisory services, separate commissions or fees for execution and custody, a transaction-based fee, a fixed fee, or a flat fee for services to be provided. For further information about CSSU's brokerage practices, please refer to Section IX below.

- **Discretionary Portfolio Management and Portfolio Managed Services Programs:** If you choose to pay transaction-based compensation for these programs you will pay brokerage commissions at CSSU's standard rates unless otherwise agreed to between us and you. Your Relationship Manager will receive a portion of the brokerage commissions charged for such transactions. Currently, small transactions with a principal value of less than \$2,000 will be charged a \$35 transaction charge. Small transactions with a principal value of \$2,000 may be charged up to \$100.
- **Sub-Advisory Solutions Program:** You will pay an annual fee of up to a maximum of 2.00% per annum of the assets under management which includes advisory, custodial and administrative services but excludes brokerage commissions, mark-ups, mark-downs and spreads on transactions that are effected for your account. The excluded transaction charges are in addition to the annual fee you pay. Fees are generally charged quarterly in advance based on the value of the assets under management on the last day of the preceding quarter, are adjusted for capital flows in your account, and automatically deducted from your account. Fees are negotiable depending on such factors as nature and extent of the client relationship, amount of assets to be managed and other factors. The initial fee is charged at the end of the first quarter of management of the account based on the assets under management on the last day of the quarter and will be assessed pro rata based on the number of days during the quarter the assets were held in the account. Thereafter, fees are charged in advance. At your request, transactions may be executed on margin and, in such instances, fees are based on the value of your account including the amount of your margin loan. Upon termination of the CSA, you will be entitled to a pro-rata refund of any pre-paid quarterly fee based upon the number of days remaining in the quarter.
- **Family Wealth Management:** CSSU includes the assets invested in unaffiliated mutual funds as well as the assets invested in affiliated and unaffiliated Alternative Investment Products in calculating the fee you will be charged for investment advisory services through Family Wealth Management Services. In addition, you will also separately pay the applicable fees, charges and expenses associated with investments in such mutual funds and Alternative Investment Products.

Under the IMCS program, you may also elect an unaffiliated portfolio manager to manage, on a discretionary basis, all or a portion of the assets in your investment advisory account. In such instances, you will enter into a separate investment advisory agreement with the unaffiliated portfolio manager and will pay a separate investment advisory fee, plus and any other fees, directly to such unaffiliated portfolio manager. CSSU will include the assets managed by any unaffiliated portfolio manager when it calculates the investment advisory fee you will be charged for investment supervisory services that CSSU provides to you through Family Wealth Management Services.

For participating in the IMCS program, you will be assessed a fee quarterly, in advance, based upon the market value of account assets as of the last business day of the preceding quarter. If your account is opened on a day other than the first business day of the quarter, the fee is charged at inception on a pro rata basis that reflects the number of days remaining in the calendar quarter. Upon termination of the applicable Client Services Agreement, you will be entitled to a pro-rata refund of any pre-paid quarterly

fee based upon the number of days remaining in the quarter. Certain legacy clients shall be assessed a fee quarterly, in arrears, as of the last business day of that quarter. The fee is not adjusted for capital flows in the account.

The fee is negotiable depending on such factors as the type and level of service provided, whether multiple accounts are involved (such as in a family relationship), the number of family members, the types of assets managed, and whether there is a large equity concentration in your portfolio (such as a core holding). Most client accounts are subject to a minimum annual fee. Some accounts are charged a flat fixed fee and others have varying fees applicable to different asset classes or services provided. Generally, you will be sent a duplicate of the invoice at the time it is sent to your custodian for payment. The amount payable in respect of a given quarter will be an amount equal to the product of (i) the amount determined by applying the fee agreed to between you and us to the value of your account as of the last business day of such quarter, times (ii) a fraction, the numerator of which is three (or if less, the number of months in such quarter for which services were rendered, in the event the investment management or advisory agreement is entered into after the beginning and/or terminated prior to the end of a quarter) and the denominator of which is 12. Each quarterly invoice will contain a detailed description of how the fee was calculated. All custodian-related fees are paid directly by you and are in addition to any investment advisory fee described above.

For purposes of calculating fees, your account will be valued by your custodian as of the last business day of the quarter. The fee is then applied to the custodian's valuation. If an asset in your account is not valued by your custodian, CSSU will value that asset at cost or the fair reasonable value of the asset.

Fees for consulting services provided by Family Wealth Management Services are negotiated on a case by case basis and charged separately from and in addition to the investment advisory fee. Fees for estate tax planning and preparation of tax returns are also separate from and in addition to the investment advisory fee.

Financial Planning: The fee for Financial Planning Services is negotiable depending on the number of Plans requested, the services provided, the complexity of your financial situation, and the amount and type of assets to be taken into consideration. Fifty percent of the fee is due and payable upon execution of the Financial Planning Agreement. The balance is due when we deliver the Plan to you. The fees payable under the Financial Planning Agreement cover only the preparation of the Plan, not the costs you may incur in implementing the Plan. Your Relationship Manager will receive a portion of the fee. CSSU employees or affiliates may pay discounted fees for Financial Planning Services. You have the right to terminate the agreement without penalty within five (5) business days after its effective date, provided the Plan has not been delivered. If you terminate the agreement five (5) or more business days after its effective date, but before the Plan has been delivered, we reserve the right to charge, and you agree to pay, reasonable fees to cover CSSU's costs in preparing the Plan.

HedgeFocus Platform

You will be charged a Program Fee which is the sum of: (i) the sponsor fee paid to CSSU, as the investment manager of the Feeder Fund (the "Sponsor Fee") and (ii) your *pro rata* portion of the management fee paid by the Feeder Fund to the manager of the underlying single manager hedge fund (the "Management Fee"). You may generally invest in Class A through D of a Feeder Fund, depending upon the amount of your investment in the Feeder Fund ("Capital Account"). The Sponsor Fee schedule will vary depending upon the Feeder Fund and Class in which you invest. The Sponsor Fee is calculated upon the value of your Capital Account at the end of each month and is payable monthly in arrears. The highest possible Sponsor Fee charged for an Feeder Fund may be 1.5%. The Management Fee is paid by the Feeder Fund at the same time and in the same manner as the management fee paid to the underlying single manager hedge fund generally at an annualized rate of up to 3.00%. The Program Fee will be payable out of the value of your Capital Account and will reduce its net asset value. You may also pay a one time placement fee, of up to 2%, to CSSU before your subscription is placed with the Feeder Fund. In addition, you will pay your *pro rata* portion of an incentive fee, generally up to 20%, that is charged by the underlying single manager hedge fund to its investors.

Additional Compensation Received by CSSU or your Relationship Manager

CSSU may receive compensation from third-party broker-dealers for directing order flow to them in option securities. All such compensation will be retained by CSSU and may be shared with your Relationship Manager.

CSSU, in its capacity as a broker dealer, will receive a placement fee, which is calculated as a percentage of the management fee from each underlying single manager hedge fund on the HedgeFocus Platform, for its efforts in soliciting your investment in the Feeder Fund. Such fee is based in part on the total amount of our clients' assets that are invested in the underlying single manager hedge fund. This fee will be retained by CSSU and will not be credited back to you or applied to reduce your Program Fee. Your Relationship Manager will receive a portion of this compensation.

Exchange Traded Products and Mutual Funds

You will incur indirect fees and expenses for your investments in Exchange Traded Products ("ETPs") and mutual funds, including money market funds under the automatic cash sweep program described below. These fees and expenses are initially paid by the fund complex but are passed on to all fund investors owning the same class of shares (e.g. management fees, portfolio transaction execution costs, custody, administrative services and transfer agency fees and other expenses, including distribution fees and shareholder servicing fees). Such fees and expenses will be included in the price of the ETP or mutual fund and are not separately disclosed.

Cash balances in your account awaiting investment or reinvestment may be invested, as and when they become available ("automatic cash sweep"), in the money market fund you select at the time you open an account. Money market funds managed by affiliates of CSSU or by unaffiliated portfolio managers are available for automatic cash sweep. You are prohibited from selecting a CSSU affiliated money market fund for automatic cash sweep if you are a plan as defined in Title I of the Employee Retirement Income Security Act of 1974, as amended, an individual retirement account, or another plan subject to the provisions of Section 4975 of the Internal Revenue Code of 1986, as amended.

CSSU may receive additional compensation for investments you make in ETPs or mutual funds, including money market mutual funds, as follows:

- i. When CSSU or one of our affiliates provides investment advisory, distribution, administration, shareholder servicing, or other services to an ETP or a mutual fund. The fees we or an affiliate receive for those services are based on the total amount of our clients' assets invested in the ETP or mutual fund. CSSU or an affiliate may also receive a management fee from the ETP or mutual fund based on the total amount of our clients' assets invested in the fund. This management fee is additional to the wrap fee you pay to CSSU for the program for which the funds are purchased.
- ii. CSSU, in its capacity as a broker dealer, may receive distribution shareholder servicing fees from the fund or its distributor pursuant to Rule 12b-1 under the Investment Company Act of 1940. Rule 12b-1 fees are calculated as a percentage of the value of the total client assets invested in the mutual fund. Such fees may be as much as 1.25% of the average annual dollar amount invested in a fund's shares.
- iii. CSSU may also receive revenue sharing payments from a mutual fund, its service providers, or Pershing. These payments compensate a broker dealer for its efforts in selling the mutual fund and are based in part on the value of total client assets invested in the fund.

CSSU will retain the above described compensation and will not credit it back to you or apply it to reduce your wrap fee, transaction-based compensation, or other expenses. Your Relationship Manager may receive a portion of this compensation. Information about distribution and shareholder servicing fees is set forth in each fund's prospectus, which will be provided to you. The availability of these fees creates a conflict between your interests and ours and provides a financial incentive for us and your Relationship Manager to select or recommend investments for your account that maximize this compensation. Mutual funds that do not pay revenue sharing payments are available. You must advise your Relationship Manager if you wish to restrict mutual funds selected or recommended for your account to those funds that do not make revenue sharing payments to CSSU. In addition, you can purchase ETPs or mutual funds through broker dealers that are not affiliated with CSSU.

III. Performance-Based Fees and Side-by-Side Management

CSSU does not charge performance-based fees for its investment advisory services, but unaffiliated investment managers may do so. Performance-based fees are fees based on a share of capital gains on or capital appreciation of the assets of a client. An investment adviser charging performance fees to some accounts faces a variety of conflicts because the investment adviser can potentially

receive greater fees from its accounts having a performance-based compensation structure than from those accounts it charges a fee unrelated to performance (e.g., an asset-based fee). As a result, the investment adviser may have an incentive to direct the best investment ideas to, or to allocate or sequence trades in favor of, the account that pays a performance fee.

IV. Types of Clients

CSSU provides investment advisory services to high net worth and ultra high net worth individuals, family offices, trusts, estates, pension and profit sharing plans, banks, investment companies, charitable organizations, municipalities, corporations, and other business entities.

You must maintain the following minimum account size for the life of the account in order to participate in the investment advisory programs CSSU offers. Specific minimums depend upon the investment strategy you select.

- Discretionary Managed Portfolios and Portfolio Management Services Programs: \$250,000
- Family Wealth Management Services: \$10 million
- Sub-Advisory Solutions Program: Between \$250,000 and \$3,000,000

In all of the above instances, the minimum investment amount may be waived at our discretion and is generally waived or reduced for our employees. If you withdraw assets from an account with the result that the value of the account is less than the required minimum, we may elect to terminate the account. We will not knowingly enter into an investment advisory relationship with a current or prospective client whose investment objectives we deem incompatible with those of our programs or those of the discretionary portfolio manager or whose investment guidelines we deem unduly restrictive. All new clients are required to enter into an investment advisory agreement prior to establishing an investment advisory relationship with CSSU.

The minimum investment for a Feeder Fund offered on the HedgeFocus Platform is \$100,000. You must qualify as both a "Qualified Purchaser" under the 1940 Act and "Accredited Investor" under the 1933 Act. In addition, each potential investor must have had a pre-existing relationship with CSSU for a minimum of six months. Potential investors will receive an offering memorandum which provides information about the selected Feeder Fund, including the underlying single manager hedge fund's investment objectives as well as the associated fees, risks and conflicts of interest. Clients must complete the relevant subscription documentation in order to invest in a Feeder Fund.

V. Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

- Financial Planning: PBUSA uses various non-proprietary financial planning tools to create the Plan. It may also rely upon proprietary asset allocation reports or models and proprietary research. In addition, PBUSA obtains information about the economy, political and industry developments, market data, asset classes, specific securities and individual companies as well as credit, performance and risk analysis from various sources, including financial publications, company press releases, rating or pricing services, regulatory and self-regulatory reports and filings, Internal Revenue Code, regulations, and official guidance, or other public sources.
- **HedgeFocus Platform:** There is a four-step process to select the underlying single manager hedge funds to participate in the HedgeFocus Platform. (i) The HedgeFocus Advisory Board, consisting of investment experts from across Credit Suisse with backgrounds in prime brokerage, fundamental analysis, product development, asset allocation and other applicable fields, guides overall strategy and provides recommendations on potential candidate underlying hedge funds within specified target strategies which are based upon identified participation criteria, market conditions as well as PBUSA client demand. (ii) The Manager Selection Committee, consisting of senior professionals from PBUSA's Alternative Investments Group, will conduct investment diligence on the underlying hedge funds considered, which includes market opportunity, market differentiation, business model, leadership, experience, portfolio construction, performance as well as standard deviation and risk adjusted return. The Committee selects the underlying hedge funds from among those it sources directly as well as from those recommended by the Advisory Board and by Relationship Managers. (iii) Concurrently, investment experts within Asset Management will perform operational

due diligence on underlying hedge fund's investment managers, which includes a review of organizational structures, operating model, operational processes, technology infrastructure, transparency of manager's investment process and sell discipline, control processes, business continuity, outsourced services as well as adherence to regulation, compliance and audit requirements. (iv) Finally, the PBUSA Product Committee will provide final approval on the selected underlying hedge fund prior to launching it on the HedgeFocus Platform.

Once an underlying single manager hedge fund has been included on the HedgeFocus Platform, the Monitoring Team monitors the performance of the underlying funds on a periodic basis, taking into consideration the above-mentioned quantitative and qualitative factors, as well as other factors, as appropriate. In the event that the Monitoring Team determines that it is warranted, they may issue a recommendation to the Feeder Fund's investment manager to redeem, liquidate or terminate its investment in the underlying single manager hedge fund.

- Methods of analysis applied to your accounts in the *Discretionary Managed Portfolios* and *Portfolio Management Services Programs* as well as the due diligence conducted on third party portfolio managers in the *Preferred Advisors* and *Global Portfolio Strategies Programs* are described in CSSU's Wrap Fee Brochure, which is available upon request.

Investment Strategies

- Under the Sub-Advisory Solutions Program, you may select from the following investment strategies managed by sub-advisers:
 - Quality Municipal Bond Portfolio: The investment objective is capital preservation while also seeking to maximize tax-exempt income.
 - Quality Short Term Municipal Bond Portfolio: The investment objective is capital preservation while also seeking to maximize short term tax-exempt income. The target portfolio durations will be a maximum of 1 and a half years or shorter.
 - Quality Taxable Municipals Portfolio: The investment objective is capital preservation while also seeking to maximize income.
 - Tax-Advantaged Fixed Income Portfolio: The investment objective is capital preservation while also seeking to maximize tax-exempt income.
 - Municipal Quality Intermediate Portfolio: The investment objective is to provide capital preservation, high levels of tax-free income, and strong total return by investing in investment-grade municipal securities of short and intermediate-term maturity.
 - Municipal Quality Short-Term Portfolio: The investment objective is to provide capital preservation and high levels of tax-free income by investing in investment-grade municipal securities with a maximum 7 year maturity.
 - Convertibles Portfolio: The investment objective is primarily preservation of capital, and secondarily to generate income with some growth of capital.
- The investment strategies for the *Discretionary Managed Portfolios*, *Preferred Advisors*, *Global Portfolio Strategies*, *Tactical Global Allocations*, and *Tactical Portfolio Solutions Programs* are described in CSSU's Wrap Fee Brochure, which is available upon request.

Material Risks

For the strategies listed above, equities, ETPs, options, and fixed income securities are the primary investments. Always read the prospectus or other offering documents for a full description of risks associated with the particular investment. Some of the material risks are as follows.

- **Equities:** The price may rise or fall, sometimes rapidly or unpredictably, because of changes in a company's financial condition. These price movements may result from economic changes or macro factors such as the economic performance of a particular country, interest rate movements, and international developments. Sector or industry developments as well as changes in government regulations may affect equity prices.
- **ETPs:** Depending upon which program and investment strategy you have selected, your account may be invested in different types of exchange traded products ("ETPs"), including exchange traded funds ("ETFs") and exchange traded notes ("ETNs"). Depending on the investment objective and investment strategy of a particular ETP: (i) the investment adviser may not achieve the ETP's investment objective or be able to cause the ETP's performance to match that of the ETP's underlying index or other benchmark on either a daily or aggregate basis; (ii) ETPs may be offered at a discount of the value of the underlying holdings; (iii)

although an ETP's shares are listed on a national securities exchange, there can be no assurance that an active trading market for the ETP's shares will develop or be maintained; (iv) ETPs that are non-diversified may invest in the securities of a limited number of issuers or concentrated in a particular market, country, industry, sector or asset class and may be more susceptible to adverse economic, market, political or regulatory occurrences; and (v) the risk that changes in an issuer's management performance, financial condition and the supply and demand for the issuer's products or services may adversely affect the value of the securities held by an ETP.

In addition, the value of commodity-linked ETPs may be affected by changes in overall market movements, commodity index volatility as well as changes in interest rates or sectors affecting a particular industry or commodity, such as weather, embargoes, tariffs and international economic, political and regulatory developments. A commodity-linked ETP may compete with other financial investments, including traditional debt and equity securities issued by companies in the commodity's particular industry and other securities backed by or linked to the particular commodity, direct investments in the commodity and investment vehicles similar to an ETP. Market and financial conditions, and other conditions beyond the ETP portfolio manager's control may make it more attractive to invest in other financial vehicles or to invest in such commodity directly, which could limit the market for the ETP shares and reduce the liquidity of the ETP shares. If the commodity ETP is physically backed, such as with gold or silver, there is a risk that some or all of the ETP's supply of the stored commodity could be lost, damaged or stolen. Access to the stored commodity could also be restricted by natural events (such as an earthquake) or human actions (such as a terrorist attack). Any of these events may adversely affect the operations of the ETP and, consequently, an investment in its shares. The ETP may not have adequate sources of recovery if its physical commodity is lost, damaged, stolen or destroyed and recovery may be limited, even in the event of fraud, to the market value of the commodity at the time the fraud is discovered.

ETNs are senior, unsecured, unsubordinated debt securities issued by an underwriting bank. Similar to other debt securities, ETNs have a maturity date and are backed only by the credit of the issuer. When an investor buys an ETN, the underwriting bank promises to pay the amount reflected in the index, minus fees upon maturity. Thus an ETN has an additional risk compared to an ETF: upon any reduction of credit ratings, or if the underwriting bank goes bankrupt, the value of the ETN is adversely eroded and an investor can lose all or most of its investment.

- **Options:** You can lose the entire principal you invested as well as the premium you paid. Options can expire out of the money and be worthless. You can be forced to deliver shares at expiration. Options leverage can work against you as much as it can work for you. Terms, conditions and policies of the specific option contract, options exchanges or options brokers can change at anytime.
- **Fixed Income:** The issuer of the fixed income security may be, or become, unable to make coupon and/or principal payments. Fixed income investments typically decline as interest rates rise. Inflation erodes the real value of interest payments. Some fixed income investments are callable forcing early redemption.
- **Hedge Funds:** Typically, single manager hedge funds are exempt from registration as investment companies with the SEC and do not offer the same investor protections as traditional investments. Single manager hedge funds often use speculative investment and trading strategies. Their structure may raise complex tax issues and they frequently place restrictions on an investor's ability to withdraw funds or resell their investment. Hedge fund investors typically incur higher fees and expenses than other types of investments.
- **Liquidity:** Certain types of investment products held in your account may have restricted liquidity. For example, where a significant number of PBUSA clients are invested in an ETF, a small cap stock, or in international or emerging market fixed income securities, the liquidity of that investment product may be impacted where a large number of clients seek to sell at the same time. Additionally, an investment in a Feeder Fund through the Hedge Fund Feeder Platform provides limited liquidity since there are substantial restrictions on the ability of an investor to withdraw capital or transfer its interest.

Investing in securities involves risk of loss that you should be prepared to bear. Frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

VI. Disciplinary Information

On August 26, 2008, CSSU was censured by the Securities and Exchange Commission ("SEC") and ordered to pay a fine of \$1,000,000. The order stated that Donaldson, Lufkin & Jenrette Securities Corp., predecessor in interest to CSSU, failed reasonably to supervise one of its former registered representatives, R. Christopher Hanna, with a view to preventing and detecting his violations of the Federal Securities laws during a portion of the twelve-year period that it employed him from November 1989 to May 2001.

On April 28, 2003, the SEC filed a complaint against CSSU in the United States District Court for the Southern District of New York (the "District Court") alleging that (1) from July 1998 through December 2001, CSSU created and fostered an environment with conflicts of interest that, in some circumstances, undermined the independence of equity research analysts and affected the objectivity of the reports they issued, and (2) from 1999 until April 2001, CSSU, through its Technology Private Client Services Group, engaged in improper "spinning" activities relating to initial public offerings (the "Complaint"). The Complaint alleged violations of Sections 15(c) and 17(a) of the Securities Exchange Act of 1934 and Rules 15c1-2 and 17a-3 thereunder; Rules 2110, 2210, 3010 and 3110 of the Conduct Rules of the NASD Inc. ("NASD"); and Rules 342, 401, 440, 472, 476 of the New York Stock Exchange, Inc. ("NYSE"). Also on April 28, 2003, it was announced that CSSU, without admitting or denying the allegations in the Complaint, except as to jurisdiction, submitted to the District Court a Consent to the entry of a Final Judgment, and in related actions, submitted an Acceptance, Waiver and Consent to the NASD and a Stipulation and Consent to the NYSE (together, the "Consents"). On October 31, 2003, the District Court entered a Final Judgment under which CSSU was enjoined from prescribed violations of Sections 15(c) and 17(a) of the Exchange Act and Rules 15c1-2 and 17a-3 thereunder, Rules 2110, 2210, 3010 and 3110 of the Conduct Rules of the NASD and Rules 342, 401, 440, 472, 476 of the NYSE and ordered to pay \$150 million in disgorgement and monetary fines; to pay an additional \$50 million to be used for the procurement of independent research; and to implement structural reforms and provide enhanced disclosure to investors, including a broad range of changes relating to the operations of its equity research and investment banking operations. Concurrently with the Consents, CSSU also entered into a Settlement Agreement and Consent Order with the State of Massachusetts with respect to the same conduct specified in the Complaint.

On January 22, 2002, CSSU, without admitting or denying any alleged violation, entered into coordinated settlements with NASD Regulation, Inc., currently the Financial Industry Regulatory Authority ("NASDR"), and the Securities and Exchange Commission ("SEC") resolving all outstanding investigations of CSSU into the allocation of shares in initial public offerings ("IPOs"). CSSU's investment advisory business was not the subject of either settlement.

CSSU consented to these settlements without admitting or denying any of the allegations made in the SEC's Complaint or the letter of Acceptance, Waiver and Consent ("AWC") filed with the NASDR. The SEC and NASDR alleged that, between April 1999 and June 2000, certain CSSU employees allocated many shares in IPOs to over 100 customers with whom they had improper profit-sharing arrangements. The NASDR and SEC alleged that certain employees allocated "hot" IPO shares to certain customers who paid the Firm a portion of the profits (between 33 and 65 percent) that they made when they sold their IPO stock, by paying inflated brokerage commissions on transactions unrelated to the IPO shares. The allegations did not concern any advisory clients of CSSU.

Under the terms of the coordinated settlement:

- CSSU paid a total of \$100 million. This amount included \$30 million in fines and civil penalties divided evenly between the SEC and NASDR, and a total of \$70 million in disgorgement, \$35 million of which was paid to the U.S. Treasury and \$35 million of which was paid to the NASDR, representing the monies obtained as a result of the conduct described by the SEC and NASDR. The SEC determined in this case that it was appropriate and in the public interest to pay funds to the U.S. Treasury rather than to any third parties
- CSSU has adopted and implemented revised policies and procedures for allocating IPOs in its broker-dealer operations. The SEC and NASD have reviewed these policies and procedures. These include the establishment of an IPO Allocation Review Committee, a process for the pre-qualification of accounts before they are eligible to receive IPO allocations, and enhanced supervisory procedures, which may include the review of commissions paid by certain accounts receiving allocations around the time of the IPO. CSSU also retained an independent consultant to review the implementation of these policies and procedures one year from the date of the settlement

In the NASDR settlement, CSSU, without admitting or denying any findings, consented to a censure and findings that it violated NASD Rules 2110, 2330, 2710, 3010 and 3110. These Rules (a) require broker-dealers to adhere to just and equitable principles of

trade, (b) prohibit broker-dealers from sharing in the profits of client accounts except as specifically provided, (c) require a managing underwriter to file certain information that may have a bearing on the NASDR's review of underwriting arrangements, (d) require members to establish, maintain and enforce a reasonable supervisory system, and (e) require broker-dealers to maintain certain books and records. The NASDR AWC also found violations of Section 17(a) of the Securities Exchange Act of 1934 Act ("Exchange Act") and SEC Rule 17a-3, thereunder, which are incorporated by NASD Rule 3110 and similarly impose certain record keeping requirements on CSSU as a broker-dealer. In the SEC settlement, CSSU, without admitting or denying the allegations of the Complaint, consented to entry by the District Court for the District of Columbia of a final judgment that: (1) permanently enjoined CSSU, directly or indirectly, from violations of NASD Conduct Rules 2110 and 2330 and Section 17(a)(1) of the Exchange Act and SEC Rule 17a-3; and (2) ordered CSSU to comply with certain undertakings.

Neither the SEC nor NASDR made any allegations or findings of fraudulent conduct by CSSU. Further, neither the SEC nor NASDR alleged that any IPO prospectus was rendered false or misleading by CSSU's conduct or that this conduct affected either the offering price of an IPO or the price at which any IPO stock traded in the aftermarket.

VII. Other Financial Industry Activities and Affiliations

CSSU is a registered broker-dealer. Each of our management persons is a registered representative of the firm. CSSU is also registered as a futures commission merchant.

Relationships with our Affiliates that are Significant to our Investment Advisory Business:

Our affiliate, Credit Suisse Asset Management LLC, a registered investment adviser, acts as sub-adviser under the Sub-advisory Solutions Program and manages client assets on a discretionary basis.

If suitable, we may purchase on a discretionary basis or recommend, as applicable, mutual funds, ETPs, or alternative investments to a client where an affiliate acts as an issuer, investment adviser, sponsor, principal underwriter, distributor, administrator, transfer agent, general partner, managing member or provider of other services. Information about the related conflicts is provided in Sections II(C) above and, as applicable to your accounts in a wrap fee program, in CSSU's Wrap Fee Brochure, which is available upon request. Neither CSSU nor your Relationship Manager will receive any additional compensation in instances where we recommend or purchase for your account, as applicable, ETPs issued by one of our affiliates.

CSSU may solicit suitable clients to apply for non-purpose loans extended by the New York Branch of Credit Suisse AG, a bank organized under the laws of Switzerland ("CS NYB"). Non-purpose loans are secured by assets in the client's account at CSSU (the "Collateral"). Credit Suisse AG is an affiliate of CSSU. CSSU earns a fee for each client it refers to CS NYB to whom a non-purpose loan is extended, and may receive other compensation for services provided in connection with the loans. These fees are in addition to any investment management fee which CSSU may earn for providing investment advisory services with respect to the Collateral.

VIII. Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading

Code of Ethics

CSSU has implemented the Private Banking USA Investment Adviser Code of Ethics ("Code of Ethics"). The Code of Ethics sets forth the standards of ethical conduct to which CSSU and its employees must adhere. Access Persons, as defined by Rule 204A-1 of the Advisers Act, must adhere to certain holdings certification and employee personal trading policies. At the inception of their employment with CSSU, quarterly, and annually thereafter, Access Persons must certify that they have accurately disclosed all of their personal trading accounts. CSSU must receive duplicate copies of all trade confirmations and periodic statements of all transactions in such personal trading accounts. In order to prevent conflicts of interest as a result of securities transactions that an Access Person may place or recommend for your account, CSSU has implemented "black-out" periods for personal securities transactions. For one day prior to and one day after the Access Person places a trade or recommends that a trade be placed in your

account, the Access Person is generally prohibited from executing a trade in the same security in his or her personal trading account. A copy of the Code of Ethics is available upon request.

Participation or Interest in Client Transactions

CSSU introduces certain suitable clients to private investment opportunities offered by our affiliates as well as unaffiliated entities. CSSU generally receives compensation from the private investment partnerships for the introduction. Our affiliates may act as general partner of private investment partnerships in which you invest. Generally, these private investment partnerships operate private pooled investment funds that invest in public and private investment vehicles that may include leveraged buyout funds, exchange funds, venture funds, debt funds, fund of funds, and real estate funds as well as portfolios of marketable securities.

CSSU is engaged in many securities-related activities. It is possible that we will recommend to you the purchase or sale of investment products in which we or an affiliate has a financial interest. This financial interest may create an incentive for CSSU to recommend these products to you. CSSU receives underwriting commissions or discounts, retirement account and other account servicing fees and fees paid by investment companies, mutual funds, hedge funds, exchange traded funds, or other investment vehicles.

In relation to the HedgeFocus Platform, CSSU and its principals and affiliates, as well as other Credit Suisse entities, may serve as general partners, managers and/or directors of other investment funds and accounts and may engage in other business activities, including management of proprietary portfolios of hedge funds. CSSU, in its capacity as a broker dealer, solicits prospective investors in the Feeder Funds and will be paid an upfront placement fee and sales commissions to compensate it for its services as placement agent, in addition to the Sponsor Fee it receives as the investment manager of each Feeder Fund. The Sponsor Fee and placement fee are based upon the aggregate net asset value of the Feeder Fund, which creates an incentive for CSSU to recommend investors to the Feeder Funds. This arrangement represents a conflict of interest that investors should consider carefully.

One of the underlying single manager hedge funds that is currently available on the platform is the York Total Return Fund ("York Fund"). Credit Suisse owns an indirect, non-controlling, minority interest in York Capital Management Global Advisors, LLC and related holding companies ("York"), an affiliate of York Fund. Through such interest Credit Suisse (i) is indirectly entitled to a portion of the adjusted net incomes of certain York entities and (ii) may exercise minority voting rights with respect to such York entities. Credit Suisse and York also have certain other business relationships. Specifically, through its applicable subsidiaries, Credit Suisse (i) acts as a non-exclusive distribution agent for some of the current investment funds (and may in the future act for additional and future investment funds) indirectly managed by York, (ii) has controlled investments in certain investment funds managed by York; and (iii) provides prime brokerage, equities trading, fixed-income and investment banking services to York. As a result, CSSU, as placement agent, has an incentive to recommend investors to the Feeder Fund where with the underlying single manager hedge fund is the York Fund.

In addition, the underlying single manager hedge funds may invest in portfolio funds from which CSSU or its affiliates may receive fees as general partner, investment manager, sponsor, placement agent or other role.

Our employees may have long or short positions in investment products we recommend to you. Employees who refer clients to other divisions of Credit Suisse for products or services generally are eligible to receive incentive compensation for the referral, which does not increase the fees or expenses that you pay for the product or service.

CSSU maintains a Restricted List to monitor and restrict sales, trading and research activity with respect to the equity securities of any company placed on the list. The Restricted List is used when CSSU may have, or appear to have, inside information about the status of publicly announced but uncompleted transactions or to comply with SEC rules that limit the type of sales, trading and research activity that CSSU may conduct during the preparation for, and execution of, public offerings. When a company's securities are on the Restricted List, CSSU is generally prohibited from soliciting customer orders or effecting transactions for discretionary customer accounts.

CSSU renders investment advice and other investment management and broker-dealer services to many types of clients with respect to, and it may for its own account hold, purchase, sell or otherwise trade in and deal with, securities which are the same as or similar to those recommended to you. Therefore, CSSU may have potentially conflicting loyalties and responsibilities with regard to its

various clients. CSSU maintains procedures that are designed not to disfavor any client account over other accounts in the execution and allocation of transactions. CSSU monitors the personal trading activity of its employees. An Employee Trading Policy is designed to detect and prevent conflicts and violations arising in this area.

CSSU effects transactions as broker or agent for clients and may also act as principal in transactions with advisory clients, but only where CSSU has obtained the advisory client's prior written consent to each such principal transaction.

We issue trade confirmations, as required under Rule 10b-10 of the Securities Exchange Act of 1934, that disclose compensation that we may receive in the form of underwriting fees, distribution fees, and mark-ups or mark-downs. Except as permitted by a class exemption or an exemptive order, we will not engage in principal transactions for clients subject to Employee Retirement Income Security Act of 1974, as amended ("ERISA").

IX. Brokerage Practices

CSSU has entered into an exclusive agreement with Pershing to provide execution, custodial, administrative and account reporting services to client accounts. Generally, transactions are effected through Pershing as clearing broker consistent with our obligation to obtain best execution. CSSU, your portfolio manager or sub-adviser may effect transactions through brokers or dealers other than Pershing when it believes, in its sole discretion, that such brokers or dealers may provide better execution than would be the case if Pershing executed the transaction.

CSSU may receive compensation from certain third-party broker-dealers or market centers for directing order flow in option and NMS securities. For securities, payment is on a per share basis; for options, payment is on a per contract basis. The market centers that pay for order flow are selected based upon the opportunity they provide for execution of orders at prices better than the National Best Bid or National Best Offer. Absent specific order routing instructions from customers and regardless of whether payment for order flow is received, CSSU transmits customer orders for execution to various exchanges and other market centers based on a number of factors, including: the ability of a market center to execute the orders at or superior to the national best bid and national best offer, the ability of a market center to provide price improvement opportunities, the speed of execution, the availability of efficient, automated transaction processing, liquidity enhancement opportunities, the speed of displaying better-priced limit orders, trading characteristics of the particular securities and the extent to which different markets may be more suitable for different types of orders or different securities. All such compensation will be retained by CSSU and is not shared with you or our Relationship Manager

The assets in your account may not be fully invested upon account opening. Rather, assets may be invested over time in accordance with the investment strategy you have selected.

Research and Other Soft Dollar Benefits

CSSU does not have soft dollar arrangements.

Brokerage for Client Referrals

CSSU does not consider, in selecting or recommending broker-dealers, whether it or any of its affiliates receive client referrals from such broker-dealer or third party.

Directed Brokerage

You may direct us to utilize brokers and dealers other than those we select to effect transactions for or with your account. In such instances, you will be solely responsible for negotiating the terms and arrangements on which you engage those brokers and dealers and we shall have no responsibility for reviewing those terms and arrangements. We will not seek better execution services or prices from these other brokers and dealers in connection with transactions for your account. We will not be able to "batch" or "aggregate" transactions for your account with transactions for our other clients. We will not monitor the performance of or the services provided by those brokers and dealers you designate. Directing brokerage likely will cost you more money. For example, in a directed brokerage account, you may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net

prices, on transactions for the account than would otherwise be the case because we may not be able to aggregate orders to reduce transaction costs or you may receive less favorable prices.

Trade Aggregation

Transactions for your account are typically effected independently of transactions for other clients. However, if CSSU is purchasing or selling the same securities for several clients at approximately the same time, we may, to the extent permitted by law, combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among our clients differences in prices and commissions or other transaction costs that might have pertained had such orders been placed independently. In these circumstances, the price and associated costs of such transactions will be averaged and allocated among our clients (which may include persons associated with CSSU or clients in which persons associated with CSSU have invested) in proportion to the purchase and sale of orders placed for each client account on any given day. Such aggregation of orders may, on average, slightly reduce the overall costs of the transaction for you.

X. Review of Accounts

Before an investment advisory account is opened with PBUSA, a qualified Regional Office Manager, or his or her designee ("ROM"), reviews your investment objectives, financial circumstances and risk tolerance to determine if the account appears to be suitable for you. The ROM conducts monthly reviews of performance for select accounts (including investment advisory accounts). PBUSA Compliance periodically conducts tactical reviews to assess risks in certain areas of the business which may include managed accounts.

Under the Family Wealth Management Services ("FWM") program, your account is reviewed on an annual basis to confirm that it is being managed in accordance with your investment guidelines. In addition, FWM reviews your account's individual portfolio holdings, current weightings, and ratings as well as its estate planning strategies, the current income tax status, and any material changes which may have taken place with respect to the individual clients over the last year (e.g. change in employment, major life events).

Under the Sub-Advisory Solutions Program, CSSU monitors the performance of the sub-advisers on a quarterly and as-needed basis.

The reviews conducted of accounts in the Discretionary Managed Portfolios, Portfolio Management Services, Preferred Advisors, Tactical Global Allocations, and Managed Portfolio Alternatives Programs is described in CSSU's Wrap Fee Brochure, which is available upon request.

Client Reports:

Pershing provides you with a trade confirmation for each transaction effected for your account, as well as monthly statements reflecting positions and trading activity for each month in which such activity occurs in an account. For the Preferred Advisors, Global Portfolio Strategies, and Managed Portfolio Alternatives Programs, Pershing forwards confirmations to your selected portfolio manager(s) for each transaction effected in your account(s).

You receive quarterly and annual performance reports reflecting realized gains and losses, dividends, and interest in an account as well as a comparison of such information against an appropriate index. Your Relationship Manager periodically reviews account performance with you to determine whether such performance is in line with your goals, investment objectives, and risk tolerance.

XI. Client Referrals and Other Compensation

Solicitors introduce potential investment advisory clients to us in exchange for a fee. We enter into written agreements with these solicitors and, as required by Rule 206(4)-3 of the Advisers Act, they must provide to clients, at the time of solicitation: (i) a copy of CSSU's Part 2A Disclosure Brochure as well as the Wrap Fee Brochure, as applicable; and (ii) a written disclosure statement on the solicitor's letterhead which shall: (a) advise the client of the nature of the relationship between us and the solicitor, (b) include a statement that we will compensate the solicitor for its solicitation services, (c) indicate the terms of such compensation arrangement, and (d) indicate whether client will be charged amounts in addition to the investment advisory fee in connection with the solicitation agreement between us and the solicitor.

XII. Custody

Your custodian provides you with monthly statements reflecting positions and trading activity for each month in which such activity occurs in your account. You may also receive certain customized account statements or performance reports from us relating to your account. We urge you to review your monthly statements from your custodian carefully and compare them to any statements or reports you may receive from us. If there are any discrepancies, your monthly statements from your custodian are determinative. CSSU is deemed to have custody of your account assets solely because we deduct advisory fees directly from your account.

XIII. Investment discretion

When you grant CSSU, your Relationship Manager as agent for CSSU, or a portfolio manager discretionary trading authorization over your account, such authorization will be subject to any special instructions or restrictions you may reasonably impose and will take into account your investment objectives and risk tolerance. Generally, you grant such discretionary trading authorization pursuant to the applicable Client Services Agreement.

XIV. Voting Client Securities

For the Sub-Advisory Solutions Program, except as may be required by applicable law, CSSU will not take any action or render any advice with respect to the voting of proxies solicited by or with respect to the issuers of securities in which your account assets may be invested.

Information about the voting of client securities for accounts in the Preferred Advisors, Global Portfolio Strategies, Managed Portfolio Alternatives, Discretionary Managed Portfolios, Portfolio Management Services, Tactical Global Allocations, and Tactical Portfolio Solutions Programs is provided in CSSU's Wrap Fee Brochure, which is available upon request.

XV. Financial Information

CSSU has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.



Consolidated Statement of Financial Condition

As of December 31, 2010



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Report of Independent Registered Public Accounting Firm

Member of Credit Suisse Securities (USA) LLC and Subsidiaries:

We have audited the accompanying consolidated statement of financial condition of Credit Suisse Securities (USA) LLC and Subsidiaries (the Company), a wholly-owned subsidiary of Credit Suisse (USA), Inc. as of December 31, 2010 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statement referred to above presents fairly, in all material respects, the financial position of Credit Suisse Securities (USA) LLC and Subsidiaries as of December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a stylized, cursive-like font.

February 28, 2011

CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES
(A wholly owned subsidiary of Credit Suisse (USA), Inc.)

Consolidated Statement of Financial Condition

December 31, 2010

(in millions)

ASSETS

Cash and cash equivalents.....	\$	682
Collateralized short-term financings:		
Securities purchased under agreements to resell.....		64,447
Securities borrowed.....		82,987
Receivables:		
Customers.....		8,794
Brokers, dealers and others.....		8,922
Financial instruments owned (of which \$52,702 was encumbered):		
U.S. government and agencies.....		52,201
Corporate debt.....		19,278
Equities.....		60,359
Derivatives contracts.....		3,591
Commercial paper.....		277
Other.....		920
Net deferred tax asset.....		317
Office facilities at cost (net of accumulated depreciation and amortization of \$845).....		743
Goodwill.....		520
Loans receivable from parent and affiliates.....		940
Other assets and deferred amounts		<u>7,707</u>
Total assets.....	\$	<u><u>312,685</u></u>

LIABILITIES AND MEMBER'S EQUITY

Short-term borrowings.....	\$	25,483
Collateralized short-term financings:		
Securities sold under agreements to repurchase.....		111,735
Securities loaned.....		19,238
Payables:		
Customers.....		36,979
Brokers, dealers and others.....		11,436
Financial instruments sold not yet purchased:		
U.S. government and agencies.....		15,501
Corporate debt.....		4,030
Equities.....		2,727
Derivatives contracts.....		3,160
Other.....		63
Obligation to return securities received as collateral.....		48,268
Accounts payable and accrued expenses.....		3,419
Other liabilities.....		2,793
Subordinated and other long-term borrowings.....		<u>15,258</u>
Total liabilities.....		<u>300,090</u>
Member's Equity:		
Member's contributions.....		11,103
Accumulated earnings.....		1,730
Accumulated other comprehensive loss.....		<u>(238)</u>
Total member's equity.....		<u>12,595</u>
Total liabilities and member's equity.....	\$	<u><u>312,685</u></u>

*See accompanying notes to consolidated statement
of financial condition.*

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Credit Suisse Securities (USA) LLC and Subsidiaries (the "Company") is a wholly owned subsidiary of Credit Suisse (USA), Inc. (the "Parent Company" or "CS USA") and an indirect wholly owned subsidiary of Credit Suisse Holdings (USA), Inc. ("CS Holdings"), whose ultimate parent is Credit Suisse Group AG ("CSG").

The consolidated statement of financial condition includes the accounts of the Company and its wholly owned subsidiary, Special Situations Holdings, Inc. – Westbridge, as well as, all Variable Interest Entities ("VIEs") that were consolidated. See Note 5 for more information regarding the Company's consolidation of VIEs.

The Company, as a U.S. registered broker-dealer, provides a variety of capital raising, market making, advisory and brokerage services for its government, financial institution, high-net-worth individuals and corporate clients and affiliates. It is also a primary dealer in U.S. government securities and an underwriter, placement agent and dealer for money market instruments, commercial paper, mortgage and other asset-backed securities, as well as a range of debt, equity and other convertible securities of corporations and other issuers. The Company also executes trading strategies for its own account using debt, equity and related derivatives instruments.

Significant Accounting Policies

Basis of financial information. To prepare the consolidated statement of financial condition in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), management must make estimates and assumptions. The reported amounts of assets and liabilities are affected by these estimates and assumptions, the most significant of which are discussed in the notes to the consolidated statement of financial condition. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ materially from these estimates. All material intercompany balances and transactions have been eliminated.

Cash and cash equivalents. Cash and cash equivalents include all demand deposits held in banks and certain highly liquid investments with original maturities of 90 days or less, other than those held for sale in the ordinary course of business.

Collateralized short-term financings. The Company enters into transactions involving securities sold under agreements to repurchase ("repurchase agreements") and securities purchased under agreements to resell ("resale agreements") and securities borrowed and securities loaned transactions as part of the Company's matched-book activities to accommodate clients, finance the Company's trading inventory and obtain securities for settlement.

Certain repurchase agreements and resale agreements that primarily represent matched-book activities are carried at fair value. The remaining repurchase agreements and resale agreements are carried at contract

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (CONT'D)**

amounts that reflect the amounts at which the securities will be subsequently repurchased or resold. Interest on repurchase and resale agreements is accrued and is included in the consolidated statement of financial condition in receivables from and payables to brokers, dealers and others. The Company takes possession of the securities purchased under resale agreements and obtains additional collateral when the market value falls below the contract value. The Company nets certain repurchase agreements and resale agreements with the same counterparty in the consolidated statement of financial condition when all of the criteria under US GAAP have been met.

Certain securities borrowed and securities loaned transactions that represent matched-book activities are carried at fair value. The remaining securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received. For securities borrowed, the Company deposits cash, letters of credit, securities or other collateral with the lender and records an obligation to return securities received as collateral in the consolidated statement of financial condition. For securities loaned, the Company receives cash or other collateral from the borrower generally in excess of the market value of securities loaned. Interest on such transactions is accrued and is included in the consolidated statement of financial condition in receivables from and payables to brokers, dealers and others. The Company monitors the market value of securities borrowed and loaned daily and obtains or refunds collateral as necessary.

Receivables from customers/Payables to customers. Receivables from and payables to customers include amounts due on regular way securities transactions, margin transactions and commodities futures. Securities owned by customers, including those that collateralize margin or similar transactions are not reflected in the consolidated statement of financial condition.

Receivables from brokers, dealers and others/Payables to brokers, dealers and others. Receivables from brokers, dealers and others include amounts receivable for securities not delivered by the Company to a purchaser by the settlement date ("fails to deliver"), omnibus receivables, receivables from clearing organizations, other non-customer receivables, margin deposits, accrued dividends and interest and amounts related to futures contracts. Payables to brokers, dealers and others include amounts payable for securities not received by the Company from a seller by the settlement date ("fails to receive"), payables to clearing organizations, amounts related to futures contracts transacted on behalf of a customer, other non-customer payables, and accrued dividends and interest. In addition, the net receivable or payable arising from unsettled regular-way trades is included in receivables from brokers, dealers and others or payables to brokers, dealers and others.

Fair value of financial instruments. Substantially all of the Company's financial instruments are carried at fair value. See Note 2 for more information.

Securitization. The Company securitizes residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS"), agency mortgage-backed securities and asset-backed securities ("ABS"). Before recording a securitization as a sale the Company must assess

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (CONT'D)**

whether that transfer is accounted for as a sale of the assets. Transfers of assets may not meet sale requirements if the assets have not been legally isolated from the Company and/or if the Company's continuing involvement is deemed to give it effective control over the assets. If the transfer is not deemed a sale, it is instead accounted for as a secured borrowing, with the transferred assets as collateral. The Company may retain interests in these securitized assets in connection with its underwriting and market-making activities. Retained interests in securitized financial assets are included at fair value in financial instruments owned in the consolidated statement of financial condition. The fair values of retained interests are determined using either prices of comparable securities observed in the market or the present value of estimated future cash flow valuation techniques that incorporate assumptions that market participants customarily use in their estimates of values including prepayment speeds, credit losses and discount rates. See Note 5 for more information.

Derivatives contracts. All derivatives contracts are carried at fair value. The fair value amounts associated with derivative instruments are reported net by counterparty across products, provided a legally enforceable master netting agreement exists and such provisions are stated in the master netting agreement. The fair value amounts recognized for derivative instruments as well as the fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral, are reported net.

Office facilities. Office facilities are carried at cost and are depreciated on a straight-line basis over their estimated useful life of three to seven years. Leasehold improvements are amortized over the lesser of the useful life of the improvement or term of the lease. The Company capitalizes costs relating to the acquisition, installation and development of software with a measurable economic benefit, but only if such costs are identifiable and can be reliably measured. The Company depreciates capitalized software costs on a straight-line basis over the estimated useful life of the software, generally not exceeding three years, taking into consideration the effects of obsolescence, technology, competition and other economic factors.

Goodwill and identifiable intangible assets. Goodwill represents the amount by which the purchase price exceeds the fair value of the net tangible and intangible assets of an acquired company on the date of acquisition. Goodwill and indefinite-lived intangible assets are reviewed annually for impairment. Based on the results of the Company's year-end annual review it was determined that goodwill was not impaired. Intangible assets that do not have indefinite lives, principally customer lists, are amortized over their useful lives and reviewed for impairment. Intangible assets are included in other assets and deferred amounts in the consolidated statement of financial condition. See Note 7 for more information.

Consolidation of VIEs. The Company consolidates VIEs for which it has both the power to direct the activities that most significantly affect the economics of the VIE and has potentially significant benefits or losses in the VIE. See Note 5 for more information.

Deferred taxes. The Company is included in the consolidated federal income tax return and certain state and local income tax returns filed by CS Holdings and CS USA. CS Holdings allocates federal income taxes to its subsidiaries on a separate return basis and any state and local income taxes on a pro rata basis, pursuant to a tax sharing arrangement.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The Company uses the asset and liability method in providing for income taxes which requires that deferred income taxes be recorded and adjusted for the future tax consequences of events that have been recognized in the consolidated statement of financial condition or tax returns, based upon enacted tax laws and rates. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. The state and local deferred tax asset represents the net deferred tax asset in the consolidated statement of financial condition. The federal deferred tax asset calculated each year is settled through the intercompany accounts at the balance sheet date and was included in other liabilities in the consolidated statement of financial condition. See Note 16 for more information.

The Company uses a two step approach in recognizing and measuring its uncertain tax benefits whereby it is first determined if the tax position is more likely than not to be sustained under examination. If the tax position meets the more likely than not threshold, the position is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. For more information on the Company's accounting for uncertainty in income taxes, see Note 16.

*Recently Adopted Accounting Standards***ASC Topic 810 – Consolidation**

In December 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASUs") 2009-17. ASU 2009-17 was issued to update the Accounting Standards Codification ("Codification" or "ASC") for the June 2009 issuance of SFAS No. 167. ASU 2009-17 changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights), referred to as a VIE, should be consolidated. Under this standard, the determination of whether a reporting entity is required to consolidate a VIE is based on, among other things, the VIE's purpose and design and the reporting entity's ability to direct the activities of the VIE's economic performance.

ASU 2009-17 is effective for annual reporting periods that begin after November 15, 2009 (January 1, 2010 for the Company) and for interim and annual reporting periods thereafter.

The adoption of ASU 2009-17 on January 1, 2010 resulted in an increase of \$6.3 billion to the Company's consolidated statement of financial condition and had no impact to member's equity. See Note 5 for more information.

Upon consolidation, transactions between the Company and the formerly unconsolidated VIEs became intercompany transactions and were eliminated.

In February 2010, the FASB issued ASU 2010-10, "Amendments for Certain Investment Funds" ("ASU 2010-10"), an update to ASC 810, "Consolidation" ("ASC 810"). The amendments to the consolidation requirements of ASC 810 resulting from the issuance of Statement of

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (CONT'D)**

Financial Accounting Standards ("SFAS") No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS No. 167") are deferred for a reporting entity's interest in an entity that has all the attributes of an investment company or for which it is industry practice to apply investment company accounting. The deferral does not apply in situations in which a reporting entity has the explicit or implicit obligation to fund losses of an entity that could potentially be significant to the entity. The deferral also does not apply to interests in securitization entities, asset-backed financing entities, or entities formerly considered qualified special purpose entities ("QSPEs"). An entity that qualifies for deferral will continue to be assessed under the overall guidance on the consolidation of VIEs in ASC Subtopic 810-10, "Consolidation – Overall" ("ASC 810-10") (before the SFAS 167 amendments) or other applicable consolidation guidance, such as the guidance for consolidation of partnerships in ASC Subtopic 810-20, "Control of Partnerships and Similar Entities". The amendments in ASU 2010-10 do not defer the disclosure requirements in the SFAS 167 amendments to ASC 810.

ASU 2010-10 is effective for annual reporting periods that begin after November 15, 2009 (January 1, 2010 for the Company) and for interim and annual reporting periods thereafter. The impact of adopting ASU 2010-10 on January 1, 2010 is included in the impacts above regarding the adoption of ASU 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities", ("ASU 2009-17").

In January 2010, the FASB issued ASU 2010-02, "Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification" ("ASU 2010-02"). ASU 2010-02 provides amendments to ASC 810-10, to clarify the scope of the decrease in ownership provisions. The amendment also clarifies the transactions to which the decrease in ownership guidance in ASC 810-10 does not apply. ASU 2010-02 also expands the disclosure about the deconsolidation of a subsidiary or derecognition of a group of assets within ASC 810-10. The adoption of ASC 810-10 did not have an impact on the Company's consolidated statement of financial condition.

ASC Topic 815 – Derivatives and Hedging

In March 2010, the FASB issued ASU 2010-11, "Scope Exception Related to Embedded Credit Derivatives" ("ASU 2010-11"), an update to ASC 815, "Derivatives and Hedging" ("ASC 815"). ASU 2010-11 provides clarification on the scope exception in ASC 815 to clarify the type of embedded credit derivatives that are exempt from embedded derivative bifurcation requirements. Only one form of embedded credit derivative qualifies for the exemption and it relates only to the subordination of one financial instrument to another. ASU 2010-11 is effective for the first fiscal quarter beginning after June 15, 2010 with early adoption permitted. The adoption of ASU 2010-11 on July 12, 2010 did not have an impact on the Company's consolidated statement of financial condition.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

ASC Topic 820 – Fair Value Measurements and Disclosures

In January 2010, the FASB issued ASU 2010-06, "Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"), an update to ASC 820, "Fair Value Measurements and Disclosures". ASU 2010-06 requires new and clarifies existing fair value measurement disclosures. The new requirements include disclosure of significant transfers in and out of level 1 and 2 and gross presentation of purchases, sales, issuances, and settlements in the reconciliation of beginning and ending balances of level 3 instruments. The clarifications required by ASU 2010-06 include the level of disaggregation in the fair value hierarchy and the level 3 reconciliation of assets and liabilities by class of financial instrument. In addition, the ASU expanded its disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements included in levels 2 and 3 of the fair value hierarchy.

The new disclosures and clarifications are effective for interim and annual periods beginning after December 15, 2009, except the disclosures about purchases, sales, issuances, and settlements in the reconciliation of beginning and ending balances of level 3 instruments, which are effective for fiscal years beginning after December 15, 2010. ASU 2010-06 is an update only for disclosures and as such did not impact the Company's consolidated statement of financial condition. See Note 2 for more information.

ASC Topic 860 – Transfers and Servicing

In December 2009, the FASB issued ASU 2009-16, "Accounting for Transfers of Financial Assets" ("ASU 2009-16"). ASU 2009-16 was issued to update the Codification for the June 2009 issuance of SFAS No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140", which previously had not been incorporated into the Codification. ASU 2009-16 requires additional disclosures about the transfer of financial assets, including securitization transactions, and continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a QSPE. ASU 2009-16 also changes the requirements for derecognizing financial assets.

ASU 2009-16 is effective for annual periods that begin after November 15, 2009 (January 1, 2010 for the Company) and for interim and annual reporting periods thereafter. The Company's consolidated statement of financial condition was not impacted by the adoption of ASU 2009-16.

2. FAIR VALUE OF ASSETS AND LIABILITIES

The fair value of the majority of the Company's assets and liabilities is based on quoted prices in active markets or observable inputs. These instruments include U.S. government and agency securities, commercial paper, most investment-grade corporate debt, most high-yield debt securities, exchange traded and certain over-the-counter ("OTC") derivative instruments, certain mortgage-backed and asset-backed securities and listed equity securities.

2. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

In addition, the Company holds financial instruments for which no prices are available, and which have little or no observable inputs. For these instruments the determination of fair value requires subjective assessment and varying degrees of judgment depending on liquidity, concentration, pricing assumptions, the current economic and competitive environment and the risks affecting the specific instrument. In such circumstances, valuation is determined based on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These instruments include certain investment-grade corporate debt securities, certain high-yield debt securities, distressed debt securities, most collateralized debt obligations ("CDOs"), certain repurchase agreements and resale agreements that primarily represent matched-book activities, certain OTC derivatives and most mortgage-backed and asset-backed securities. Valuation techniques for certain of these instruments are described more fully below.

Deterioration of the financial markets could significantly impact the fair value of these financial instruments and the Company's consolidated statement of financial condition.

The fair value of financial assets and liabilities is impacted by factors such as benchmark interest rates, prices of financial instruments issued by third parties and index prices or rates. In addition, valuation adjustments are an integral part of the valuation process when market prices are not indicative of the credit quality of a counterparty, and are applied to debt instruments. The impact of changes in a counterparty's credit spreads (known as credit valuation adjustments) is considered when measuring the fair value of assets and the impact of changes in the Company's own credit spreads (known as debit valuation adjustments) is considered when measuring the fair value of its liabilities. The adjustments also take into account contractual factors designed to reduce the Company's credit exposure to a counterparty, such as collateral held and master netting agreements.

Fair Value Hierarchy

The levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. This level of the fair value hierarchy provides the most reliable evidence of fair value and is used to measure fair value whenever available.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly; (c) inputs other than quoted prices that are observable for the asset or liability or (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES

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Notes to Consolidated Statement of Financial Condition (Continued)**December 31, 2010****2. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)**

Level 3: Inputs that are unobservable for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available in the circumstances, which include the Company's own data. The Company's own data used to develop unobservable inputs are adjusted if information indicates that market participants would use different assumptions.

Quantitative Disclosures of Fair Values

The following is a tabular presentation of fair value of assets and liabilities for instruments measured at fair value on a recurring basis. In the table below RMBS is primarily comprised of agency RMBS, which are included in US government and agencies on the consolidated statement of financial condition. The remaining RMBS as well as corporates, commercial mortgage backed securities and other collateralized debt obligations are included in Corporate debt on the consolidated statement of financial condition. Foreign government instruments are included in Other financial instruments owned on the consolidated statement of financial condition.

Fair value of assets and liabilities

	Quoted prices in active markets for identical assets or liabilities (level 1)	Significant other observable inputs (level 2)	Significant unobserv- able inputs (level 3)	Total at fair value
December 31, 2010				

(In millions)

ASSETS

Resale agreements and securities borrowed transactions.....	\$ —	\$ 87,187	\$ 1,276	\$ 88,463
Cash instruments:				
Commercial mortgage-backed securities	—	2,383	261	2,644
Corporates.....	—	12,231	180	12,411
Foreign Government.....	568	225	—	793
Other collateralized debt obligations	—	847	693	1,540
Residential mortgage-backed securities	17,316	7,531	1,968	26,815
US government and agencies	28,059	380	—	28,439
Other debt instruments.....	—	—	34	34
Total debt.....	<u>45,943</u>	<u>23,597</u>	<u>3,136</u>	<u>72,676</u>
Arts, entertainment and recreation	253	34	9	296
Finance and insurance.....	16,095	154	26	16,275
Health care and social assistance.....	2,866	20	—	2,886
Information.....	4,373	104	10	4,487
Management of companies and enterprises.....	169	24	38	231
Manufacturing.....	16,853	523	29	17,405
Mining, quarrying, and oil and gas extraction.....	5,170	119	12	5,301
Other services (except public administration).....	1,405	72	2	1,479
Professional, scientific, and technical services	3,961	55	—	4,016
Real estate and rental and leasing	1,228	158	21	1,407
Retail trade	2,030	15	—	2,045
Transportation and Warehousing.....	1,436	54	—	1,490
Utilities	1,301	25	4	1,330

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Notes to Consolidated Statement of Financial Condition (Continued)
December 31, 2010

2. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

December 31, 2010	Quoted prices in active markets for identical assets or liabilities (level 1)	Significant other observable inputs (level 2)	Significant unobserv- able inputs (level 3)	Total at fair value
(In millions)				
ASSETS (CONT'D)				
Other equity instruments	1,631	80	—	1,711
Total equity	58,771	1,437	151	60,359
Total cash instruments.....	104,714	25,034	3,287	133,035
Derivatives contracts:				
Interest rate products	3,093	247	—	3,340
Foreign exchange products.....	—	20	—	20
Equity/index-related products.....	388	107	—	495
Netting ⁽¹⁾	—	—	—	(264)
Total derivatives contracts.....	3,481	374	—	3,591
Other assets	—	4,143	3,081	7,224
Total assets at fair value	\$ 108,195	\$ 116,738	\$ 7,644	\$ 232,313

	Quoted prices in active markets for identical assets or liabilities (level 1)	Significant other observable inputs (level 2)	Significant unobserv- able inputs (level 3)	Total at fair value
(In millions)				
LIABILITIES				
Repurchase agreements and securities loaned transactions.....	\$ —	\$ 98,198	\$ —	\$ 98,198
Obligation to return securities received as collateral	42,632	5,636	—	48,268
Cash instruments				
Commercial mortgage-backed securities	—	449	—	449
Corporates.....	6	3,445	—	3,451
Foreign government	9	20	—	29
US government and agencies	15,500	1	—	15,501
Residential mortgage-backed securities	—	164	—	164
Total debt.....	15,515	4,079	—	19,594
Other equity instruments	2,666	61	—	2,727
Total equity	2,666	61	—	2,727
Total cash instruments.....	18,181	4,140	—	22,321
Derivatives contracts:				
Interest rate products	3,026	76	—	3,102
Foreign exchange products.....	—	9	—	9
Equity/index-related products.....	253	71	—	324
Credit products	—	3	—	3
Netting ⁽¹⁾	—	—	—	(278)
Total derivatives contracts.....	3,279	159	—	3,160
Subordinated and other long-term borrowings	—	3,945	3,113	7,058
Other liabilities	—	22	594	616
Total liabilities at fair value	\$ 64,092	\$ 112,100	\$ 3,707	\$ 179,621

(1) Derivative contracts are reported on a gross basis by level. The impact of netting represents an adjustment related to counterparty and cash collateral netting.

Excluded from the table above are transactions that did not meet the criteria under US GAAP to qualify for sale accounting. As of December 31, 2010 the Company held \$152 million in transactions that did not meet sale accounting which were included in other assets and deferred amounts in the consolidated statement of financial condition and are carried at the lower of cost or fair value.

2. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

December 31, 2010	Transfers out of level 1 to level 2	Transfers to level 1 out of level 2
	(In millions)	
Assets		
Debt instruments.....	\$ —	\$ 3
Equity instruments.....	16	17
Derivatives contracts.....	7	45
Total assets at fair value	\$ 23	\$ 65
Liabilities		
Equity instruments.....	1	—
Total liabilities at fair value	\$ 1	\$ —

Qualitative Disclosures of Valuation Techniques

Assets and liabilities

Cash instruments

The Company's cash instruments consist of interest-bearing securities and equity securities. Interest-bearing securities include debt securities, residential and commercial mortgage-backed and other asset-backed securities and CDOs. Equity securities include common equity shares, preferred equity shares and convertible bonds.

For debt securities for which market prices are not available, valuations are based on yields reflecting the perceived risk of the issuer and the maturity of the security, recent disposals in the market or other modeling techniques, which may involve judgment.

If available, values of residential mortgage-backed securities and other asset-backed securities are determined through quoted prices. If no quoted prices are available the price is based on the prices at which similarly structured and collateralized securities trade between dealers and to and from customers. Values of residential mortgage-backed securities and other asset-backed securities for which there are no significant observable inputs are valued using valuation models incorporating prepayment scenarios and Monte Carlo simulations.

Collateralized debt, bond and loan obligations are split into various structured tranches, and each tranche is valued based upon its individual rating and the underlying collateral supporting the structure. Values are derived by using valuation models based on either prices of comparable securities observed in the market or discounted cash flows.

The majority of the Company's positions in equity securities are traded on public stock exchanges, for which quoted prices are readily and regularly available. Fair values of preferred shares are determined by their yield and the subordination relative to the issuer's other credit obligations. Convertible bonds are generally valued using observable pricing sources. For a small number of convertible bonds no observable prices are available and valuation is determined using models, for which the key inputs include stock price, dividend rates, credit spreads, prepayment rates and equity market volatility.

2. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

Derivatives contracts

Positions in derivatives include both OTC and exchange-traded derivatives. The fair values of exchange-traded derivatives are typically derived from the observable exchange prices and/or observable inputs. Fair values for OTC derivatives are determined on the basis of internally developed proprietary models using various inputs. The inputs include those characteristics of the derivative that have a bearing on the economics of the instrument.

The determination of the fair value of many derivatives involves only a limited degree of subjectivity because the required inputs are observable in the marketplace. Other, more complex derivatives, use unobservable inputs. Specific unobservable inputs include long-dated volatility assumptions on OTC option transactions and recovery rate assumptions for credit derivative transactions. Uncertainty of pricing inputs and liquidity are also considered as part of the valuation process.

For further information on the fair value of derivatives as of December 31, 2010 see Note 6.

Other Liabilities

Included in other liabilities are Partner Asset Facility Units ("PAFs") and other deferred compensation plans which are measured at fair value. The value of the PAFs liabilities are based on the contractual terms, as well as, the performance of a pool of financial instruments held by the Company and its affiliates, with substantially all assets held by affiliates.

Fair Value Option

The Company elected fair value for certain of its consolidated statement of financial condition captions as follows:

Repurchase agreement and resale agreement transactions and securities borrowed and securities loaned: The Company has elected to account for certain repurchase and resale agreements and securities borrowed and securities loaned transactions at fair value. These activities are managed on a fair value basis, thus fair value accounting for these instruments is deemed more appropriate for reporting purposes. Most repurchase agreement and resale agreement transactions and securities borrowed and securities loaned are priced based on observable inputs and quoted prices. However certain repurchase agreement and resale agreement transactions require subjective assessment and varying degrees of judgment based on management's own assumptions, primarily interest rates.

Subordinated and other long-term borrowings: Long-term borrowings include long-term borrowings of VIEs that were consolidated. The Company elected fair value option for these transactions. The fair value of long-term borrowings of consolidated VIEs is determined based on the quoted prices for securitized bonds, where available, or on cash flow analyses for securitized bonds, when quoted prices are not available.

Other assets and liabilities: Included in other assets are the assets of consolidated VIEs and the fair value is determined based on the quoted

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Notes to Consolidated Statement of Financial Condition (Continued)
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2. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

prices for securitized bonds, where available, or on cash flow analyses for securitized bonds, when quoted prices are not available. Also included in other assets and liabilities are forward agreements to enter into resale and repurchase agreements. These resale agreement and repurchase agreement transactions require subjective assessment and varying degrees of judgment based on management's own assumptions, primarily interest rates. These activities are managed on a fair value basis, thus fair value accounting for these instruments is deemed more appropriate for reporting purposes.

In the ordinary course of business, the Company receives collateral in connection with its resale agreements and securities borrowed transactions and generally repledges the collateral received in connection with its repurchase agreements and securities lending transactions. As a result of the collateralized nature of these transactions, credit risk does not have an impact on fair value. For subordinated and other long-term borrowings the credit risk does not impact fair value because the debt holders of the consolidated CDOs and other VIEs have recourse to the assets in these CDOs and other VIEs and not to the Company.

Difference between the fair value and the aggregate unpaid principal balances

December 31, 2010 Financial Instruments	Of which at fair value	Aggregate unpaid principal (In millions)	Difference between aggregate fair value and un- paid principal
Resale agreements and securities-borrowed transactions.....	\$ 88,463	\$ 87,877	\$ 586
Other assets.....	7,224	14,142	6,918
Repurchase agreements and securities-lending transactions.....	98,198	98,177	21
Subordinated and other long-term borrowings..	7,058	13,314	6,256

3. RELATED PARTY TRANSACTIONS

The Company relies on other CSG entities for financing. In the ordinary course of business, the Company enters into significant financing and operating transactions with affiliated companies and believes that these transactions are generally on market terms that could be obtained from unrelated third parties.

The following table sets forth the Company's related party assets and liabilities as of December 31, 2010:

ASSETS	(In millions)
Securities purchased under agreements to resell.....	\$ 11,866
Securities borrowed.....	18,431
Receivables from brokers, dealers and others.....	2,785
Corporate debt.....	292
Derivatives contracts.....	234
Net deferred tax asset.....	317
Loans receivable from parent and affiliates.....	940
Taxes receivable (included in Other assets).....	20
Total assets.....	\$ 34,885

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Notes to Consolidated Statement of Financial Condition (Continued)
December 31, 2010

3. RELATED PARTY TRANSACTIONS (CONT'D)

LIABILITIES

	(In millions)
Short-term borrowings.....	\$ 25,353
Securities sold under agreements to repurchase.....	7,816
Securities loaned.....	14,567
Payables to customers.....	1,134
Payables to brokers, dealers and others.....	10,320
Corporate debt.....	71
Derivatives contracts.....	65
Obligation to return securities received as collateral.....	48,268
Taxes payable (included in Other liabilities).....	883
Intercompany payables (included in Other liabilities).....	1,188
Subordinated borrowings.....	8,200
Total liabilities.....	<u>\$ 117,865</u>

Certain of the Company's directors, officers and employees and those of the Company's affiliates maintain margin accounts with the Company in the ordinary course of business. The Company from time to time and in the ordinary course of business, enters into, as principal, transactions involving the purchase or sale of securities from or to such directors, officers and employees and members of their immediate families.

The Share Plan provides for the grant of equity-based awards to Company employees based on CSG shares pursuant to which employees of the Company may be granted shares or other equity-based awards for services performed. CS Holdings purchases shares directly and indirectly from CSG to satisfy these awards, but CS Holdings does not require reimbursement from the Company; therefore, amounts associated with these awards are considered a capital contribution to the Company and credited to paid-in-capital. Amounts contributed by CS Holdings relating to equity-based awards for the year ended December 31, 2010 were \$1.0 billion, including taxes.

The Company is included in the consolidated federal income tax return and combined state and local income tax returns filed by CS Holdings and CS USA. See Note 15 for more information.

As part of the normal capital management process, the Company concluded that there was sufficient excess regulatory capital and paid a \$2.0 billion dividend to the Parent Company.

4. RECEIVABLES FROM/PAYABLES TO BROKERS, DEALERS AND OTHERS

Amounts receivable from and payable to brokers, dealers and others as of December 31, 2010 consist of the following:

	<u>Receivables</u>	<u>Payables</u>
	(In millions)	
Unsettled regular way securities trades.....	\$ 989	\$ —
Fails to deliver / fails to receive.....	2,566	2,464
Omnibus receivables / payables.....	2,096	—
Receivables from / payables to clearing organizations.....	2,245	262
Accrued dividends and interest.....	536	308
Other non-customer receivables / payables.....	74	7,997
Other.....	<u>416</u>	<u>405</u>
Total.....	<u>\$ 8,922</u>	<u>\$ 11,436</u>

4. RECEIVABLES FROM/PAYABLES TO BROKERS, DEALERS AND OTHERS (CONT'D)

The Company clears certain of its proprietary and customer transactions through other broker-dealers on a fully disclosed basis. The amounts receivable from/payable to clearing organizations primarily relate to unsettled trades and deposits from customers held at clearing organizations and are collateralized by securities owned by the Company. See Note 5 for more information.

5. TRANSFERS OF FINANCIAL ASSETS

As part of the Company's financing and securities settlement activities, the Company uses securities as collateral to support various secured financing sources. If the counterparty does not meet its contractual obligation to return securities used as collateral, the Company may be exposed to the risk of reacquiring the securities at prevailing market prices to satisfy its obligations. The Company controls this risk by monitoring the market value of financial instruments pledged each day and by requiring collateral levels to be adjusted in the event of excess market exposure.

The following table sets forth the assets pledged by the Company and the collateral received by the Company as of December 31, 2010:

	<u>December 31, 2010</u>
	(In billions)
Fair value of the financial instruments pledged and assigned	
as collateral by the Company.....	\$ 80.6
of which was encumbered.....	52.7
Fair value of the collateral received by the	
Company with the right to sell or repledge.....	273.4
of which was sold or repledged.....	183.6

Securitization Activities

In the normal course of business, the Company enters into transactions with, and makes use of, special purpose entities ("SPEs"). An SPE is an entity in the form of a trust or other legal structure designed to fulfill a specific limited need of the company that organized it and is generally structured to isolate the SPEs assets from creditors or other entities, including the Company. The principal uses of SPEs are to obtain liquidity by transferring certain of the Company's financial assets and to create investment products for clients. SPEs typically qualify as VIEs. At each balance sheet date VIEs are reviewed for events that may trigger reassessment of the entities' classification.

The majority of the Company's securitization activities involve mortgage-related securities and are predominantly transacted using SPEs. In a typical securitization, the SPE purchases assets financed by proceeds received from the SPE's issuance of debt instruments. These assets and liabilities are recorded on the balance sheet of the SPE and not reflected on Company's consolidated statement of financial condition, unless either the Company sold the assets to the entity and the criteria under US GAAP for sale accounting was not met or the Company consolidates the SPE.

The Company purchases RMBS and CMBS for the purpose of securitization and sells these securities to SPEs. These SPEs issue RMBS, CMBS

5. TRANSFERS OF FINANCIAL ASSETS (CONT'D)

and ABS, that are collateralized by the assets transferred to the SPE and that pay a return based on the returns on those assets. Investors in these mortgage-backed securities typically have recourse to the assets in the SPEs, unless a third-party guarantee has been received to further enhance the credit worthiness of the assets. The investors and the SPEs have no recourse to the Company's assets. The Company is an underwriter of, and makes a market in, these securities.

Re-securitizations comprised a significant portion of the Company's deal volume within its RMBS securitization business during the year ended December 31, 2010. In these transactions, certificates from existing RMBS securitizations are pooled and transferred into separate securitization trusts, which then issue new certificates. Re-securitizations are carried out to meet specific investor needs.

Securitization transactions are assessed for appropriate accounting treatment of the assets transferred by the Company. The Company's and its clients' investing or financing needs determine the structure of each transaction, which in turn determines whether sale accounting and subsequent derecognition of the transferred assets applies. Certain transactions may be structured to include derivatives or other provisions that prevent sale accounting.

When the Company transfers assets into an SPE, it must assess whether that transfer is accounted for as a sale of the assets. Transfers of assets may not meet sale requirements if the assets have not been legally isolated from the Company and/or if the Company's continuing involvement is deemed to give it effective control over the assets. If the transfer is not deemed a sale, it is instead accounted for as a secured borrowing, with the transferred assets as collateral.

As a result of the issuance of new guidance effective January 1, 2010, certain asset transfers and certain transfers of portions of assets that do not meet the definition of participating interests were no longer treated as sales of financial assets. The impact of this change in accounting guidance did not have a significant impact to the Company.

Continuing involvement in transferred financial assets

The Company may have continuing involvement in the financial assets that are transferred to an SPE, regardless of whether the transfer was accounted for as a sale or a secured borrowing, which may take several forms, including, but not limited to recourse and guarantee arrangements and beneficial interests (i.e., are the rights to receive all or portions of specified cash inflows received by an SPE, including, but not limited to, senior and subordinated shares of interest, principal, or other cash inflows to be "passed through" or "paid-through" and residual interests, whether in the form of debt or equity) as recorded on the Company's consolidated statement of financial condition at fair value. The carrying value and maximum exposure as of December 31, 2010 resulting from agreements to provide support to SPEs is included in the section titled 'Carrying amount of non-consolidated VIE assets and liabilities where the Company is not considered the primary beneficiary'.

5. TRANSFERS OF FINANCIAL ASSETS (CONT'D)

The Company's exposure resulting from continuing involvement in transferred financial assets is generally limited to its beneficial interests, typically held by the Company in the form of instruments issued by the respective SPEs that are senior, subordinated or residual tranches. These instruments are held by the Company in connection with underwriting or market-making activities and are included in financial instruments owned in the consolidated statement of financial condition at fair value.

Investors usually have recourse to the assets in the SPE and often benefit from other credit enhancements. The SPE may also enter into a derivative contract in order to convert the yield of the underlying assets to match the needs of the SPE investors, or to limit or change the credit risk of the SPE.

Principal amounts outstanding and total assets of SPEs resulting from continuing involvement

As of December 31, 2010, for RMBS, CMBS and CDO, the total principal amount outstanding of assets held by SPEs and VIEs to which the Company transferred assets and has continuing involvement with was \$64.5 billion, \$801 million and \$1.6 billion, respectively, of which \$57.6 billion, \$801 million and \$289 million, respectively, was transferred by the Company. For RMBS and CDO the difference between the principal amount outstanding and the total assets transferred by the Company represents collateral contributed to the VIEs by third parties. As of December 31, 2010, the Company's continuing involvement was primarily with SPEs.

The fair values of the assets or liabilities that result from any continuing involvement are determined using fair value estimation techniques, such as the present value of estimated future cash flows that incorporate assumptions that market participants customarily use in these valuation techniques. The fair value of the assets or liabilities that result from any continuing involvement does not include any benefits from financial instruments that the Company may utilize to economically hedge the inherent risks.

In January 2010, the FASB amended the disclosure requirements for the Company's reporting of the fair value of beneficial interests retained at the time of transfer. Further, the beneficial interests are categorized according to their fair value hierarchy levels. See Note 2 for more information.

Key economic assumptions used in measuring the fair value of beneficial interests at the time of transfer during the year ended December 31, 2010.

	RMBS	CMBS⁽¹⁾
	(Dollars in millions)	
Fair value of assets.....	\$ 3,431	\$ 91
of which level 1.....	\$ —	\$ —
of which level 2.....	\$ 3,058	\$ 84
of which level 3.....	\$ 373	\$ 7
Weighted-average life, in years.....	7.8	6.5
Prepayment speed assumption (rate per annum), in%....	0.3% - 43.7%	N/A
Cash flow discount (rate per annum), in %	0.1% - 71.5%	0.3%-13.0%
Expected credit losses (rate per annum), in%	0.6% - 70.1%	6.0% - 16.0%

(1) To deter payment, commercial mortgage loans typically have prepayment protection in the form of prepayment lockouts and maintenance.

5. TRANSFERS OF FINANCIAL ASSETS (CONT'D)

The table below provides sensitivity analysis of key economic assumptions used in measuring the fair value of beneficial interests held in SPEs as of December 31, 2010:

	As of December 31, 2010	
	RMBS	CMBS ⁽¹⁾
	(Dollars in millions)	
Fair value of assets and liabilities	\$ 3,083	\$ 270
of which non-investment grade.....	\$ 1,188	\$ 157
Weighted-average life, in years	8.1	6.3
Prepayment speed assumption (rate per annum), in% ..	0.1% - 35.8%	N/A
Impact on fair value from 10% adverse change.....	\$ (50)	\$ N/A
Impact on fair value from 20% adverse change.....	\$ (100)	\$ N/A
Cash flow discount (rate per annum), in %	2.2% - 52.5%	5.0% - 6.6%
Impact on fair value from 10% adverse change.....	\$ (100)	\$ (2)
Impact on fair value from 20% adverse change.....	\$ (192)	\$ (4)
Expected credit losses (rate per annum), in%	0.1% - 49.9%	2.5% - 4.0%
Impact on fair value from 10% adverse change.....	\$ (64)	\$ (1)
Impact on fair value from 20% adverse change.....	\$ (123)	\$ (2)

(1) To deter payment, commercial mortgage loans typically have prepayment protection in the form of prepayment lockouts and yield maintenance.

These sensitivities are hypothetical and do not reflect economic hedging activities. Changes in fair value based on a 10% or 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the beneficial interests is calculated without changing any other assumption. In practice, changes in one assumption may result in changes in other assumptions (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

Variable Interest Entities

As a normal part of its business, the Company engages in various transactions that include entities which are considered VIEs and are broadly grouped into two primary categories: CDOs and financial intermediation. VIEs are SPEs that typically either lack sufficient equity to finance their activities without additional subordinated financial support or are structured such that the holders of the voting rights do not substantively participate in the gains and losses of the entity. VIEs may be sponsored by the Company, unrelated third parties or clients. Such entities are required to be assessed for consolidation, requiring the primary beneficiary to consolidate the VIE. As a result of the issuance of new guidance, the FASB changed the method of analyzing whether to consolidate the VIE. The model now requires an entity to determine whether it has the power to direct the activities that most significantly affect the economics of the VIE and has potentially significant benefits or losses in the VIE. This is in contrast to the previous consolidation model for VIEs, which only considered whether an entity absorbed the majority of the risk and/or rewards of the VIE. In addition, the primary beneficiary must be re-evaluated on an on-going basis, whereas previously reconsideration of the primary beneficiary was only required when specified reconsideration events occurred.

Consequently, the Company consolidated certain VIEs and former QSPEs with which it had involvement. The Company elected the fair value option

5. TRANSFERS OF FINANCIAL ASSETS (CONT'D)

upon transition for all of the financial assets and liabilities of the VIEs and former QSPEs. See Note 2 for more information.

Application of the accounting requirements for consolidation of VIEs may require the exercise of significant management judgment. In the event consolidation of a VIE is required, the exposure to the Company is limited to that portion of the VIE's assets attributable to any beneficial interest held by the Company prior to any risk management activities to economically hedge the Company's net exposure.

Transactions with VIEs are generally executed to facilitate securitization activities or to meet specific client needs, such as providing liquidity or investing opportunities, and, as part of these activities, the Company may hold interests in the VIEs. Securitization-related transactions with VIEs involve selling or purchasing assets. Typically, the VIE's assets are restricted in nature in that they are held primarily to satisfy the obligations of the entity.

As a consequence of these activities, the Company holds variable interests in VIEs. Such variable interests consist of financial instruments issued by VIEs and which are held by the Company. In general, investors in consolidated VIEs do not have recourse to the Company in the event of a default, except where a guarantee was provided to the investors.

The total assets of consolidated and non-consolidated VIEs for which the Company has involvement represent the total assets of the VIEs even though the Company's involvement may be significantly less due to interests held by third-party investors. The asset balances for unconsolidated VIEs where the Company has involvement represent the most current information available to the Company regarding the remaining principal balance of cash assets owned. In most cases, the asset balances represent an amortized cost basis without regard to impairments in fair value, unless fair value information is readily available.

The Company's maximum exposure to loss is different from the carrying value of the assets of the VIE. This maximum exposure to loss consists of the carrying value of the Company's variable interests held as trading assets and the notional amount of guarantees to VIEs, rather than the amount of total assets of the VIEs. The maximum exposure to loss does not reflect the Company's risk management activities, including effects from financial instruments that the Company may utilize to economically hedge the risks inherent in these VIEs. The economic risks associated with VIE exposures held by the Company, together with all relevant risk mitigation initiatives, are included in the Company's risk management framework.

Except as described below, the Company has not provided financial or other support to consolidated or non-consolidated VIEs that it was not contractually required to provide.

Collateralized Debt Obligations

The Company engages in CDO transactions to meet client and investor needs, earn fees and sell financial assets. As part of its structured finance business, the Company has variable interests in several CDOs. VIEs issue

5. TRANSFERS OF FINANCIAL ASSETS (CONT'D)

CDOs to fund the purchase of assets such as investment-grade and high-yield corporate debt instruments.

Typically, the collateral manager in a managed CDO is deemed to be the entity that has the power to direct the activities that most affect the economics of the entity. In a static CDO this power role is more difficult to analyze and may be the sponsor of the entity or the credit default swap counterparty. CDOs provide credit risk exposure to a portfolio of ABS (cash CDOs). The CDO entities may have actively managed (open) portfolios or static or unmanaged (closed) portfolios.

The beneficial interests issued by these VIEs are payable solely from the cash flows of the related collateral and third-party creditors of these VIEs do not have recourse to the Company in the event of default.

The Company's exposure in these CDO transactions is typically limited to interests retained in connection with its underwriting or market-making activities. Unless the Company has been deemed to have power over the entity and its interests in the entity are potentially significant, the Company is not the primary beneficiary of the vehicle and does not consolidate the entity. The Company's maximum exposure to loss does not include any effects from financial instruments used to economically hedge the risks of the VIEs.

Financial Intermediation

The Company has involvement with VIEs in its role as a financial intermediary on behalf of clients. The Company considers the likelihood of incurring a loss equal to the maximum exposure to be remote because of the Company's risk mitigation efforts, including, but not limited to, economic hedging strategies and collateral arrangements. The Company's economic risks associated with consolidated and non-consolidated VIE exposures arising from financial intermediation, together with all relevant risk mitigation initiatives, are included in the Company's risk management framework.

Securizations

In its financial intermediation activities, the Company acts as underwriter and market maker to VIEs related to certain securitization transactions. The Company believes its maximum loss exposure is generally equal to the carrying value of the beneficial interest held. The Company's maximum exposure to loss does not include any effects from financial instruments used to economically hedge the risks of the VIEs.

Typically, the servicer of the assets in the VIE will be deemed to have the power that most significantly affects the economics of the entity. When a servicer or its related party also has an economic interest that has the potential to absorb a significant portion of the gains and/or losses, it will be deemed the primary beneficiary and consolidate the vehicle. The Company typically consolidates securitization vehicles when it is the servicer and has holdings stemming from its role as underwriter.

The Company may have relationships with such VIEs as a result of other business activities. The maximum exposure to loss consists of the fair value of instruments which are held by the Company. The Company's

5. TRANSFERS OF FINANCIAL ASSETS (CONT'D)

maximum exposure to loss does not include any effects from financial instruments used to economically hedge the risk of the VIEs.

Consolidated and non-consolidated VIEs

Where the Company is considered the primary beneficiary, the table below provides the carrying amount of the assets and liabilities of the consolidated VIEs.

Carrying amount of consolidated VIE assets and liabilities where the Company is considered the primary beneficiary.

December 31, 2010	Carrying Value
	(In millions)
Total assets of consolidated VIE by asset type	
Financial instruments owned.....	\$ 198
Other assets.....	7,376
Total assets.....	\$ 7,574
Liabilities	
Financial instruments sold not yet purchased.....	\$ 18
Other liabilities.....	152
Subordinated and other long-term borrowings.....	7,058
Total Liabilities.....	\$ 7,228

December 31, 2010	Carrying Value
	(In millions)
Total assets of consolidated VIE by type of VIE	
Financial Intermediation	
Securitization	\$ 7,491
CDO	83
Total Assets of consolidated VIEs	\$ 7,574

Carrying amount of non-consolidated VIE assets and liabilities where the Company is not considered the primary beneficiary.

For VIEs where the Company holds a variable interest or is the sponsor of a VIE, but is not consolidating the VIE, the table below provides carrying values of the VIE's assets and liabilities as recorded in the Company's consolidated statement of financial condition.

	Assets
	Financial instruments owned
	(In millions)
Carrying value of variable interest:	
CDOs.....	\$ 71
Total.....	\$ 71
Financial Intermediation	
Securitizations.....	\$ 2,441
Other.....	30
Total.....	\$ 2,471

5. TRANSFERS OF FINANCIAL ASSETS (CONT'D)

As of December 31, 2010, the total assets of non-consolidated CDO VIEs and non-consolidated financial intermediation VIEs were \$9.6 billion and \$137.5 billion, respectively. As of December 31, 2010, the Company's maximum exposure to loss from non-consolidated CDOs was \$71 million and the maximum exposure to loss from non-consolidated financial intermediation VIEs was \$2.5 billion.

6. DERIVATIVE CONTRACTS

Derivatives are generally either privately negotiated OTC contracts or standard contracts transacted through regulated exchanges. The Company uses derivatives contracts for trading and economic hedging purposes and to provide products for clients. Economic hedges arise when the Company enters into derivative contracts for its own risk management purposes, but the contracts entered into do not qualify for hedge accounting treatment. These derivatives include options, forwards, futures and swaps. Derivative contracts are carried at fair value.

Options

The Company writes option contracts specifically designed to meet customer needs, for trading purposes or for economic hedging purposes. The options do not expose the Company to credit risk because the Company, not its counterparty, is obligated to perform. At the beginning of the contract period, the Company receives a cash premium. During the contract period, the Company bears the risk of unfavorable changes in the value of the financial instruments underlying the options. To manage this market risk, the Company purchases or sells cash or derivative financial instruments on a proprietary basis. Such purchases and sales may include debt and equity securities, forward and futures contracts, swaps and options.

The Company also purchases options to meet customer needs, for trading purposes or for economic hedging purposes. With purchased options, the Company gets the right, for a fee, to buy or sell the underlying instrument at a fixed price on or before a specified date. The underlying instruments for these options include fixed income securities, equities and interest rate instruments or indices. The counterparties to OTC option contracts are reviewed to determine whether they are creditworthy.

Forwards and Futures

In the normal course of business, the Company's customer and trading activities include executing, settling and financing various securities and financial instrument transactions. To execute these transactions, the Company purchases and sells (including "short sales") securities, and purchases and sells forward contracts primarily related to U.S. Government and agencies, corporate debt and mortgage-backed securities. In addition, the Company enters into futures contracts on equity-based indices and other financial instruments, as well as options on futures contracts.

Because forward contracts are subject to the credit worthiness of the counterparty, the Company is exposed to credit risk. To mitigate this credit risk, the Company limits transactions with specific counterparties, reviews credit limits, requires certain customers and counterparties to maintain margin collateral and adheres to internally established credit extension policies.

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6. DERIVATIVE CONTRACTS (CONT'D)

For futures contracts and options on futures contracts, the change in the market value is settled with a clearing broker or exchange in cash each day. As a result, the credit risk with the clearing broker is limited to the net positive change in the market value for a single day, which is recorded in receivables from brokers, dealers and others in the consolidated statement of financial condition.

Swaps

The Company's swap agreements consist primarily of interest rate swaps and credit default swaps. Interest rate swaps are contractual agreements to exchange interest rate payments based on agreed notional amounts and maturity. Credit default swaps are contractual agreements in which one counterparty pays a periodic fee in return for a contingent payment by the other counterparty following a credit event of a reference entity. A credit event is commonly defined as bankruptcy, insolvency, receivership, material adverse restructuring of debt, or failure to meet payment obligations when due. Swaps are reported at fair value.

Fair Value of Derivative instruments

The table below represents gross derivative fair values, segregated by type of contract. Notionals have also been provided as an indication of the volume of derivative activity within the Company.

As of December 31, 2010	Notional Amount	Fair Value Assets	Fair Value Liabilities
		(In millions)	
Forwards	\$ 572,180	\$ 3,126	\$ 3,057
Swaps.....	3,455	198	18
Options bought and sold (OTC)	5,807	7	22
Futures	115,629	—	—
Options bought and sold (exchange traded)....	6,300	9	5
Interest rate products.....	703,371	3,340	3,102
Forwards	3,210	20	9
Futures	35	—	—
Foreign exchange products.....	3,245	20	9
Futures	48	—	—
Precious metals products.....	48	—	—
Forwards	3,082	70	55
Options bought and sold (OTC)	23	1	1
Futures	23,087	—	—
Options bought and sold (exchange traded)....	18,382	424	268
Equity/index-related products	44,574	495	324
Credit products	125	—	3
Futures	435	—	—
Other products	435	—	—
Total gross derivatives contracts	751,798	3,855	3,438
Impact of counterparty netting ⁽¹⁾	—	(264)	(264)
Impact of cash collateral netting ⁽¹⁾	—	—	(14)
Total derivatives contracts.....	\$ 751,798	\$ 3,591	\$ 3,160

(1) Derivative contracts are reported on a net basis in the consolidated statement of financial condition. The impact of netting represents an adjustment related to counterparty and cash collateral netting.

6. DERIVATIVE CONTRACTS (CONT'D)

These financial instruments are included as derivatives contracts in financial instruments owned/sold not yet purchased, respectively, in the consolidated statement of financial condition. Financial instruments related to futures contracts are included in receivables from brokers, dealers and others and payables to brokers, dealers and others, respectively, in the consolidated statement of financial condition.

Credit Derivatives

Included in the table Fair value of derivative instruments above are credit derivatives which are contractual agreements in which the buyer generally pays a periodic fee in exchange for a contingent payment following a credit event on the underlying referenced entity or asset. Credit derivatives are generally privately negotiated OTC contracts. Most credit derivatives are structured so that they specify the occurrence of an identifiable credit event, which can include bankruptcy, insolvency, receivership, material adverse restructuring of debt, or failure to meet payment obligations when due.

From time to time the Company enters into credit derivative contracts by buying and selling protection. This includes providing structured credit products for the Company's clients to enable them to economically hedge their credit risk. In addition, the Company purchases protection to economically hedge various forms of credit exposure. These referenced instruments can form a single item or be combined on a portfolio or multiname basis. As of December 31, 2010, the Company did not have any credit derivatives where the Company was selling protection. As of December 31, 2010, 100% of the notional amount of credit protection purchased by the Company was from affiliates.

7. GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

As of December 31, 2010, the Company had \$520 million of goodwill in the consolidated statement of financial condition. Goodwill is the cost of an acquired company in excess of the fair value of net assets at the acquisition date. During the year ended December 31, 2010, the Company recorded additional goodwill for its 2003 acquisition of Volaris Advisors related to earn-out payments of less than \$1 million. There was no impairment of goodwill during the year ended December 31, 2010.

As of December 31, 2010, the Company had intangible assets of \$6 million which are included in other assets and deferred amounts in the consolidated statement of financial condition. The following table sets forth the gross carrying amount, accumulated amortization, and net carrying amount of intangible assets as of December 31, 2010:

	Weighted average amor- tization period	Gross carrying amount	Accumulated amortization	Net carrying amount
	(In years)		(In millions)	
Client relationships.....	20	\$ 11	\$ (6)	\$ 5
Total definite-lived intangible assets.....		11	(6)	5
Total indefinite-lived intangible assets.....		\$ 1	\$ —	\$ 1
Total intangible assets.....				<u>6</u>

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8. SUBORDINATED AND OTHER LONG-TERM BORROWINGS

As of December 31, 2010, the Company's outstanding subordinated borrowings were as follows:

	(In millions)
Subordinated Debt Agreement	
Due March 31, 2016.....	\$ 6,000
Due May 31, 2016.....	700
Equity Subordinated Agreement	
Due April 30, 2012.....	1,500
Total subordinated borrowings.....	8,200
Other long-term borrowings 3.3%–11.3% due various dates through 2050 ⁽¹⁾	7,058
Total subordinated and long-term borrowings.....	<u>\$ 15,258</u>

(1) Other long-term borrowings represent the long-term borrowings in those VIEs consolidated under US GAAP.

The Company has two subordinated debt agreements with the Parent Company totaling \$6.7 billion, one agreement for \$700 million maturing on May 31, 2016 and one agreement for \$6.0 billion maturing on March 31, 2016. The Company has a \$1.5 billion equity subordinated agreement with the Parent Company that matures on April 30, 2012. The above subordinated agreements are at floating interest rates and are equivalent to those obtained by the Parent Company for its long-term borrowings. The weighted average effective interest rate for these subordinated borrowings as of December 31, 2010 was 1.2%.

The subordinated borrowings under these subordinated agreements qualify as regulatory capital and the agreements include all statutory restrictions specified by the Uniform Net Capital Rule 15c3-1, under the Securities Exchange Act of 1934 ("the Exchange Act"), including restrictive covenants relating to additional subordinated borrowings and to minimum levels of net capital, as defined, and consolidated member's equity.

9. LEASES AND COMMITMENTS

The following table sets forth the Company's minimum operating lease commitments as of December 31, 2010:

<u>Twelve Months Ending December 31,</u>	(In millions)
2011.....	\$ 53
2012.....	55
2013.....	52
2014.....	46
2015.....	46
Thereafter.....	65
Total ⁽¹⁾	<u>\$ 317</u>

(1) Excludes sublease revenue of \$6 million and executory costs such as insurance, maintenance and taxes of \$126 million.

9. LEASES AND COMMITMENTS (CONT'D)

The following table sets forth the Company's commitments including the current portion as of December 31, 2010:

	Commitment Expiration Per Period				Total commit- ments
	Less than 1 year	1-3 years	4-5 years	Over 5 years	
	(In millions)				
Forward agreements ⁽¹⁾	\$ 2,366	\$ —	\$ —	\$ —	\$ 2,366
Total commitments.....	\$ 2,366	\$ —	\$ —	\$ —	\$ 2,366

(1) Represents commitments to enter into securities purchased under agreements to resell and agreements to borrow securities.

The Company used \$137 million in standby letters of credit as of December 31, 2010, in order to satisfy counterparty collateral requirements.

The Company had no capital lease obligations as of December 31, 2010. For information about certain of the Company's additional commitments, see Note 10.

10. GUARANTEES

From time to time the Company enters into guarantee contracts as guarantor. US GAAP requires disclosure by a guarantor of its maximum potential payment obligations under certain of its guarantees to the extent that it is possible to estimate them. In addition, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligations undertaken in issuing such guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that certain events or conditions occur. With certain exceptions, these liability recognition requirements apply to any guarantees entered into or modified after December 31, 2002.

The guarantees may require the Company to make payments to the guaranteed party based on changes related to an asset, a liability or an equity security of the guaranteed party. The Company may also be contingently required to make payments to the guaranteed party based on another entity's failure to perform under an agreement, or the Company may have an indirect guarantee of the indebtedness of others, even though the payment to the guaranteed party may not be based on changes related to an asset, liability or equity security of the guaranteed party.

In addition, US GAAP covers certain indemnification agreements that contingently require the Company to make payments to the indemnified party based on changes related to an asset, liability or equity security of the indemnified party, such as an adverse judgment in a lawsuit or the imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law.

The following table sets forth the maximum quantifiable contingent liabilities and carrying amounts associated with guarantees as of December 31, 2010 by maturity:

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10. GUARANTEES (CONT'D)

	Amount of Guarantee Expiration Per Period					Carrying amounts
	Less than 1 year	1-3 years	4-5 years	Over 5 years	Total guaran- tees	
	(In millions)					
Credit guarantees.....	\$ 34	\$ —	\$ —	\$ —	\$ 34	\$ 14
Derivatives.....	49	—	—	2	51	2
Total guarantees.....	<u>\$ 83</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 85</u>	<u>\$ 16</u>

Credit Guarantees

From time to time the Company enters into contracts that would require it, as the guarantor, to make payments to the guaranteed party if a third party fails to pay under a credit obligation. These credit guarantees are described below.

The Company offered to repurchase at par, auction rate securities held by eligible individual investors, charities and certain businesses. The Company estimates that it will buy back auction rate securities with a par value of \$34 million.

Derivatives

As of December 31, 2010, the Company had \$51 million of derivatives that were issued in the ordinary course of business and are considered guarantees, generally in the form of written put options. Derivative contracts that may be cash settled, and which the Company has no basis for concluding that it is probable that the counterparties held the underlying instruments at the inception of the contracts, are not considered guarantees. For derivative contracts executed with counterparties that generally act as financial intermediaries, such as investment banks, hedge funds, commercial banks and security dealers, the Company has concluded that there is no basis to assume that these counterparties hold the underlying instruments related to the derivative contracts and, therefore, does not report such contracts as guarantees.

The Company manages its exposure to these derivatives by engaging in various economic hedging strategies to reduce its exposure. For some contracts the maximum payout is not determinable as interest rates could theoretically rise without limit. For these contracts, notional amounts are disclosed in the table above in order to provide an indication of the underlying exposure. In addition, the Company carries all derivatives at fair value in the consolidated statement of financial condition and has considered the performance triggers and probabilities of payment when determining those fair values. It is more likely than not that written put options that are in-the-money to the counterparty will be exercised, for which the Company's exposure is limited to the fair value reflected in the table.

Other Guarantees

The Company has certain guarantees for which its maximum contingent liability cannot be quantified. These guarantees are not reflected in the table above and are discussed below.

10. GUARANTEEDS (CONTD)

Exchange and Clearinghouse Memberships

The Company is a member of numerous securities exchanges and clearinghouses, and may, as a result of its membership arrangements, be required to perform if another member defaults. The Company has determined that it is not possible to estimate the maximum amount of these obligations and believes that any potential requirement to make payments under these arrangements is remote.

11. CONCENTRATIONS OF CREDIT RISK

As a securities broker and dealer, the Company is engaged in various securities trading and brokerage activities servicing a diverse group of domestic and foreign corporations, governments and institutional and individual investors. A substantial portion of the Company's transactions are executed with and on behalf of institutional investors, including other brokers and dealers, commercial banks, U.S. agencies, mutual funds, hedge funds and other financial institutions. These transactions are generally collateralized. Credit risk is the potential for loss resulting from the default by a counterparty of its obligations. Exposure to credit risk is generated by securities and currency settlements, contracting derivatives and forward transactions with customers and dealers, and the holding of bonds in inventory. The Company uses various means to manage its credit risk. The creditworthiness of all counterparties is analyzed at the outset of a credit relationship with the Company. These counterparties are subsequently reviewed on a periodic basis. The Company sets a maximum exposure limit for each counterparty, as well as for groups of counterparties. Furthermore, the Company enters into master netting agreements when feasible and demands collateral from certain counterparties or for certain types of credit transactions. As of December 31, 2010, the Company did not have any significant concentrations of credit risk.

The Company's customer securities activities are transacted either in cash or on a margin basis, in which the Company extends credit to the customer. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral to comply with various regulatory and internal guidelines. The Company monitors required margin levels each day and requires customers to deposit additional collateral, or reduce positions, when necessary.

12. NET CAPITAL REQUIREMENTS

The Company is a registered broker-dealer and registered futures commission merchant and, accordingly, is subject to the minimum net capital requirements of the Securities and Exchange Commission ("SEC"), the Commodities Futures Trading Commission ("CFTC") and the Financial Industry Regulatory Authority ("FINRA"). Under the alternative method permitted by SEC Rule 15c-3-1, the required net capital may not be less than 2% of aggregate debit balances arising from customer transactions. Under CFTC Regulation 1.17, the required minimum net capital requirement is 8% of the total risk margin requirement (as defined) for all positions carried in customer and non-customer accounts. FINRA may require

12. NET CAPITAL REQUIREMENTS (CONTD)

a member firm to reduce its business if net capital is less than 4% of such aggregate debit items and may prohibit a firm from expanding its business if net capital is less than 5% of such aggregate debit items. As of December 31, 2010, the Company's net capital of approximately \$8.1 billion was 22.9% of aggregate debit balances and in excess of the SEC's minimum requirement by approximately \$7.2 billion.

13. CASH AND SECURITIES SEGREGATED UNDER FEDERAL AND OTHER REGULATIONS

As a registered broker-dealer, the Company is subject to the customer protection requirements of SEC Rule 15c3-3. The Company segregated U.S. Treasury securities with a market value of \$7.7 billion as of December 31, 2010 in a special reserve bank account exclusively for the benefit of customers as required by rule 15c3-3.

The Company is also required to perform a computation of reserve requirements for Proprietary Accounts of Introducing Brokers ("PAIB") pursuant to SEC Rule 15c3-3. As of December 31, 2010 the Company segregated U.S. Treasury securities with a market value of \$1.2 billion in a special reserve bank account to meet the PAIB requirement.

As a futures commission merchant, the Company is required to perform computations of the requirements of Section 4d(2) and Regulation 30.7 under the Commodity Exchange Act. As of December 31, 2010 cash and securities aggregating \$7.7 billion were segregated in separate accounts exclusively for the benefit of customers.

14. EMPLOYEE BENEFIT PLANS

The Company provides retirement and post-retirement benefits to its U.S. and certain non-U.S. employees through participation in a defined benefit pension plan, a defined contribution savings and retirement plan and other plans.

Pension Plans

The Company participates in a non-contributory defined benefit pension plan (the "Qualified Plan") available to individuals employed before January 1, 2000. Effective January 1, 2004, compensation and credited service for benefit purposes were frozen for certain participants. Employees who no longer accrue benefits in the Qualified Plan participate in a savings and retirement plan similar to employees hired on or after January 1, 2000.

CSG applies sponsor accounting for accounting and reporting for defined benefit pension plans. The Company and other CSG entities participate in and contribute to the same plan and the assets held by the plan are not restricted or segregated and can be used to provide benefits to employees of any of the participating CSG entities. The Company has been designated to be the sponsor of the plan and records all liabilities.

14. EMPLOYEE BENEFIT PLANS (CONT'D)

Contributions to the Qualified Plan are made as required by the Internal Revenue Code and applicable law but not in excess of the amounts deductible by the Company for income tax purposes.

The Company also sponsors a savings and retirement plan, which is a defined contribution plan, with both a savings and a retirement component. All employees are eligible to participate in the savings component whereby the Company matches a portion of the employee's contributions in accordance with the Company's guidelines. In addition, individuals employed before January 1, 2000 who do not accrue benefits under the Qualified Plan and employees hired on or after January 1, 2000 participate in the retirement component and receive a retirement contribution.

The Company also provides a non-contributory, non-qualified, unfunded plan (the "Supplemental Plan"), which provides benefits to certain senior employees and Qualified Plan participants whose benefits may be limited by tax regulations. Benefits under these pension plans are based on years of service and employee compensation.

Other Post-Retirement Plans

The Company provides certain subsidized unfunded health-care benefits for eligible retired employees (the "Other Plans"). Employees hired prior to July 1, 1988 become eligible for these benefits if they meet minimum age and service requirements. The plan sponsor has the right to modify or terminate these benefits. As of December 31, 2010, the aggregate accumulated post-retirement benefit obligation was \$170 million.

Amounts Recognized in the Consolidated Statement of Financial Condition

Amounts recognized in the consolidated statement of financial condition as of December 31, 2010 were as follows:

	Qualified	Supplemental and Other
	(In millions)	
Accrued benefit liability.....	\$ (220)	\$ (212)
Accumulated other comprehensive loss.....	324	73
Net amount recognized.....	<u>\$ 104</u>	<u>\$ (139)</u>

The following table presents the pre-tax amounts recognized in accumulated other comprehensive loss as of December 31, 2010:

	Qualified	Supplemental and Other
	(In millions)	
Prior service costs (credits).....	\$ —	\$ (5)
Losses.....	324	78
	<u>\$ 324</u>	<u>\$ 73</u>

Benefit Obligation and Plan Assets

The following table reconciles the changes in the projected benefit obligation and the fair value of the plan assets for the Qualified Plan, the

CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES
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14. EMPLOYEE BENEFIT PLANS (CONT'D)

Supplemental Plan and the Other Plans. Amounts shown are as of the measurement date, which is December 31, 2010:

	Qualified	Supplemental and Other
	(In millions)	
Change in Benefit Obligation		
Projected benefit obligation as of beginning of period.. \$	862	\$ 174
Service cost.....	10	1
Interest cost.....	51	10
Settlements	—	—
Actuarial loss	85	36
Benefits paid.....	(27)	(9)
Projected benefit obligation as of the end of period	<u>\$ 981</u>	<u>\$ 212</u>
Change in Plan Assets		
Fair value of assets as of the beginning of period..... \$	704	\$ —
Actual return on plan assets	84	—
Settlements	—	—
Employer contributions	—	9
Benefits paid.....	(27)	(9)
Fair value of assets as of the end of period.....	<u>\$ 761</u>	<u>\$ —</u>

Estimated Future Benefit Payments

The estimated future benefit payments expected to be made by the Qualified Plan, Supplemental Plan and Other Plans are as follows:

	Qualified	Supplemental and Other
	(In millions)	
2011.....	\$ 53	\$ 13
2012.....	54	14
2013.....	53	14
2014.....	55	14
2015.....	55	15
Years 2016-2020	283	73

Assumptions Used in Determining Costs and Obligations

The following table presents the assumptions used in determining the net periodic benefit costs for the Qualified Plan, the Supplemental Plan and the Other Plans for the year ended December 31, 2010:

	For the Year Ended December 31, 2010
Qualified Plan	
Discount rate.....	6.10%
Rate of compensation increase.....	4.25%
Expected rate of return ⁽¹⁾	7.10%
Supplemental Plan and Other Plans	
Discount rate.....	6.10%
Rate of compensation increase.....	4.25%
Expected rate of return.....	N/A

(1) The expected long-term rate of return on plan assets is based on total return forecasts and volatility and correlating estimates. Where possible, similar, if not, related, approaches are followed to forecast returns for the various asset classes. For most asset classes, clearly specified multi-linear regression models to forecast returns are used or reliance is put on traditional models such as dividend discount and fair value models.

14. EMPLOYEE BENEFIT PLANS (CONT'D)

The assumptions used in determining the projected benefit obligation for the Qualified Plan and Supplemental Plan and the projected health-care post-retirement benefit obligation for the Other Plans as of December 31, 2010 were:

	2010
Projected benefit obligation	
Discount rate.....	5.50%
Rate of compensation increase.....	4.05%
Projected health-care post-retirement benefit obligation	
Discount rate.....	5.50%
Rate of compensation increase.....	N/A

The assumptions used to determine the benefit obligation as of the measurement date are also used to calculate the net periodic pension cost for the 12-month period following this date. The discount rate is one of the factors used to determine the present value as of the measurement date of the future cash outflows currently expected to be required to satisfy the benefit obligations when due. The assumption pertaining to salary increases is used to calculate the projected benefit obligation ("PBO"), which is measured using an assumption as to future compensation levels.

The expected long-term rate of return on plan assets, which is used to calculate the expected return on assets as a component of the net periodic pension cost, shall reflect the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the PBO. In estimating that rate, appropriate consideration should be given to the returns being earned by the plan assets in the fund and the rates of return expected to be available for reinvestment.

The expected long-term rate of return on plan assets is based on total return forecasts, and volatility and correlation estimates. Where possible similar, if not related, approaches are followed to forecast returns for the various asset classes. For most asset classes clearly specified multi-linear regression models to forecast returns are used, while reliance is put on traditional models in the cases of equities such as dividend discount models and fair value models.

To estimate the expected long-term rate of return on equities a two-stage divided discount model is applied, which considers analyst consensus earnings to compute a market-implied equity risk premium. Dividends are estimated using market consensus earnings and the historical payout ratio. A subsequent scenario analysis is used to stress test the level of the return.

The expected long-term rate of return on fixed income reflects both accruing interest and price returns. The likely long-term relation existing between the total return and certain exogenous variables pre-defined by economic theory are explicitly used, which allows to directly link the fixed income total return forecasts to the macro-forecasts.

The expected long-term rate of return on private equity and hedge funds are estimated by using private equity and hedge fund benchmarks and indices. In both alternative investment classes, a set of factors tends to drive or explain returns. To capture these, multiple linear regression models with lagged returns are utilized. This methodology also lends itself to the fact that these alternative investments tend to be positively correlated with current and lagged stock returns.

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December 31, 2010

14. EMPLOYEE BENEFIT PLANS (CONT'D)

The estimate regarding the long-term rate of return on real estate is based on error correction models. The underlying economic models respect both the rental and the capital market side of the direct real estate market. This allows for a replicable and robust forecasting methodology for expected returns on real estate equity, fund and direct market indices.

In determining the accumulated post-retirement health-care benefit obligation and the net periodic post-retirement costs for 2010, the Company assumed the following:

	<u>Pre-65 Retirees</u>	<u>Post-65 Retirees</u>	<u>Medicare Part D</u>
Obligation - Assumed Health-Care Trend Rates at December 31, 2010			
Initial health-care trend rate.....	8.3%	9.0%	10.0%
Ultimate health-care trend rate	5.0%	5.0%	5.0%
Ultimate trend expected to be achieved.....	2016	2016	2016
Cost-Assumed Health-Care Trend Rates for the year ended December 31, 2010			
Initial health-care trend rate.....	9.0%	9.8%	11.5%
Ultimate health-care trend rate	5.0%	5.0%	5.0%
Ultimate trend expected to be achieved.....	2013	2013	2013

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care benefits. A 1% change in assumed health-care cost trend rates would have the following effects:

	<u>1% increase</u>	<u>1% decrease</u>
	(in millions)	
Effect on benefit obligation at end of year	\$ 28	\$ (22)
Effect on total of service and interest costs for a year.....	\$ 2	\$ (1)

Investments

The investment policies and strategies of the Qualified Plan are determined by a committee made up of the Company's senior management. The policy is based on long-term goals and is therefore not frequently revised. The investment goal is to create an asset mix that is adequate for future benefit obligations by creating a diversified investment portfolio, while managing various risk factors and maximizing the Qualified Plan's investment returns through use of related party and external fund managers and clearly defined strategies. Senior management regularly monitors actual allocation compared to the policy. The current asset allocation goal is to achieve an asset mix of approximately 30% in equities; 55% in fixed income securities; 14% in alternate investments (primarily hedge funds); and 1% in cash.

The following table presents the percentage of the fair value of the Qualified Plan assets as of December 31, 2010 by type of asset:

	<u>Qualified Plan 2010</u>
Asset Allocation::	
Equity securities.....	33%
Fixed income securities.....	44
Real estate.....	7
Cash.....	3
Alternative investments.....	13
Total.....	100%

14. EMPLOYEE BENEFIT PLANS (CONT'D)

Fair Value of Qualified Plan Assets

The fair value of the majority of the Qualified Plan's investments are based on quoted prices in active markets or observable inputs. These instruments include fixed income securities, cash and cash equivalents and equities.

In addition, the Qualified Plan holds financial instruments for which no prices are available, and which have little or no observable inputs. For these instruments the determination of fair value requires subjective assessment and varying degrees of judgment depending on liquidity, concentration, pricing assumptions, the current economic and competitive environment and the risks affecting the specific instrument. In such circumstances, valuation is generally determined based on assumptions that market participants would use in pricing the investments (including assumptions about risk). These instruments include investments in fixed income securities, real estate, private equity and alternative investments.

Deterioration of the financial markets could significantly impact the fair value of these financial instruments and the Qualified Plan's net assets and changes in net assets.

Qualified Plan Assets Measured at Fair Value

	Quoted prices in active markets for identical assets or liabilities (level 1)	Significant other observable inputs (level 2)	Significant unobserv- able inputs (level 3)	Total at fair value
	(In millions)			
December 31, 2010				
Assets				
Alternative investments.....	\$ —	\$ 3	\$ 87	\$ 90
Cash and cash equivalents.....	—	19	—	19
Equity.....	—	249	—	249
Fixed income securities.....	—	213	126	339
Private equity.....	—	—	8	8
Real estate.....	—	—	56	56
Total Qualified Plan assets at fair value.....	\$ —	\$ 484	\$ 277	\$ 761

Qualitative Disclosures of Valuation Techniques

Equities include shares of separately managed funds. The equity securities are generally based on inputs other than level 1 quoted prices that are observable directly or indirectly.

Fixed income securities primarily include investments in separately managed funds and are generally based on inputs other than level 1 quoted prices that are observable directly or indirectly. For fixed income securities for which market prices are not available, valuations are based on yields reflecting the perceived risk of the issuer and the maturity of the security, recent disposals in the market or other modeling techniques, which may involve judgment.

14. EMPLOYEE BENEFIT PLANS (CONT'D)

Alternative investments that are not directly quoted on a public stock exchange and/or for which a fair value is not readily determinable, are measured at fair value using net asset value.

Private equity includes direct investments and investments in partnerships that make private equity and related investments in various portfolio companies and funds, and also fund of funds partnerships. Private equity securities are valued taking into account a number of factors such as the most recent round of financing involving unrelated new investors, earnings multiple analyses using comparable companies or discounted cash flow analyses. Private equity securities for which a fair value is not readily determinable is measured at fair value using net asset value.

15. DEFERRED TAXES

The Company is included in the consolidated federal income tax return and certain state and local income tax returns filed by CS Holdings and CS USA. CS Holdings allocates federal income taxes to its subsidiaries on a separate return basis, and any state and local income taxes on a pro rata basis, pursuant to a tax sharing arrangement.

The Company is currently subject to ongoing tax audits and inquiries with the tax authorities in a number of jurisdictions. Although the timing of the completion of these audits is uncertain, it is reasonably possible that some of these audits and inquiries will be resolved within 12 months of December 31, 2010. The Company remains open to examination from either federal, New York State and New York City jurisdictions for the years 1999 and forward. The Company does not have any proposed settlements outstanding with any taxing jurisdictions and thus does not anticipate any material changes to its consolidated statement of financial condition due to settlements.

Deferred tax assets and deferred tax liabilities are generated by the following temporary differences:

	<u>(In millions)</u>
Deferred tax assets:	
Financial instruments.....	\$ 56
Other liabilities and accrued expenses.....	527
Compensation and benefits.....	<u>1,595</u>
Total deferred tax assets.....	<u>2,178</u>
 Deferred tax liabilities:	
Financial instruments.....	32
Investments.....	35
Other liabilities and accrued expenses.....	<u>433</u>
Total deferred tax liabilities.....	<u>500</u>
Net deferred tax asset.....	<u>\$ 1,678</u>

The net deferred tax asset as of December 31, 2010 was \$1.7 billion. As of December 31, 2010, the state and local deferred tax asset was \$317 million which represents the net deferred tax asset in the consolidated statement of financial condition. The federal deferred tax asset of \$1.4 billion is settled through the intercompany accounts at the balance sheet date and was included in other liabilities in the consolidated statement of financial condition.

15. DEFERRED TAXES (CONT'D)

No valuation allowance is recorded for the federal deferred tax asset of \$1.4 billion as the amounts were settled through the intercompany accounts. Based on anticipated future taxable income and tax planning strategies that would, if necessary, be implemented, the Company has not recorded a valuation allowance for its net state and local deferred tax assets of \$317 million as management believes that the state and local deferred tax assets as of December 31, 2010 are more likely than not to be realized. However, if estimates of future taxable income are reduced, the amount of the state and local deferred tax asset considered realizable could also be reduced.

16. LEGAL PROCEEDINGS

The Company is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its businesses. Some of these actions have been brought on behalf of various classes of claimants and seek damages of material and/or indeterminate amounts. The Company believes, based on currently available information and advice of counsel, that the results of such proceedings, in the aggregate, will not have a material adverse effect on its financial condition. The Company believes that the reasonably possible losses relating to such claims in excess of its provisions are either not material or not estimable.

The Company accrues for legal costs (including fees and expenses of external lawyers and other service providers) in connection with certain judicial, regulatory and arbitration proceedings when such costs are probable and reasonably estimable.

It is inherently difficult to predict the outcome of many of these matters. In presenting the consolidated statement of financial condition, management makes estimates regarding the outcome of these matters, records a reserve and takes a charge to income when losses with respect to such matters are probable and can be reasonably estimated. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, the Company's defenses and its experience in similar cases or proceedings, as well as its assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings.

Since February 2003, lawsuits have been filed against the Company and certain affiliates with respect to services that it provided to National Century Financial Enterprises, Inc. and its affiliates ("NCFE"). From January 1996 to May 2002, the Company acted as a placement agent for bonds issued by NCFE that were to be collateralized by health-care receivables and, in July 2002, as a placement agent for a sale of NCFE preferred stock. NCFE filed for bankruptcy protection in November 2002. In these lawsuits, which have since been consolidated in the US District Court for the Southern District of Ohio ("SDO") and are known as the MDL cases, investors in NCFE's bonds and preferred stock have sued numerous defendants, including the founders and directors of NCFE, the trustees for the bond issuances, NCFE's auditors and law firm, the rating agencies that rated NCFE's bonds and NCFE's placement agents, including the Company. The allegations include claims for breach of contract, negligence, fraud and violation of federal and state securities laws. The Company and its affiliates filed motions to dismiss these cases. In December

16. LEGAL PROCEEDINGS (CONT'D)

2007, the SDO denied, in large part, the Company's and its affiliates' motions to dismiss, allowing most of the investor claims to proceed. In February 2009, the Company and its affiliates filed motions for summary judgment seeking to dismiss the bond investors' remaining claims, and certain of the bond investors filed summary judgment motions seeking judgment on certain of their claims. In June 2009, one of the bond investors agreed to settle its lawsuit against the Company and its affiliates. In November 2009, the SDO heard oral argument on the summary judgment motions. In December 2010, the SDO ruled in the Company's favor on cross-motions for partial summary judgment with respect to a claim under Ohio's blue sky law. The other summary judgment motions remain under submission with the SDO.

In addition, in November 2004, the trust created through NCFE's confirmed bankruptcy plan commenced two actions against the Company and certain affiliates. The trust filed an action in the SDO asserting common law claims similar to those asserted in the MDL cases against several of the same defendants, and it also alleged statutory claims under the Ohio Corrupt Practices Act, claims for professional negligence and claims under the US Bankruptcy Code. The Company and its affiliates filed a motion to dismiss that action in March 2005. In March 2009, the SDO issued a decision in large part denying that motion. In May 2009, the Company and its affiliates moved for summary judgment, and the SDO heard oral argument on that motion in November 2009. The trust also filed an action in the US Bankruptcy Court for the Southern District of Ohio objecting to the proofs of claim filed by the Company and its affiliates in NCFE's bankruptcy and seeking disgorgement of amounts previously distributed to the Company and its affiliates under the bankruptcy plan. The Company and its affiliates have answered that complaint.

The Company is responding to a number of customer demands and defending against litigation and FINRA arbitrations relating to the sale of certain auction rate securities. In February 2008, ST Microelectronics ("ST") brought a FINRA arbitration against the Company concerning the purchase and sale of \$415 million notional amount of auction rate securities. The brokers of record for ST, who are no longer employed by the Company, have since been criminally convicted. In February 2009, the FINRA arbitration panel awarded ST \$406 million in damages in exchange for the Company taking possession of the auction rate securities. ST subsequently filed an action in the District Court for the Northern District of New York to confirm this award. In March 2009, the Company moved to vacate that award and that motion remains pending. Separately, in 2008, ST filed an action in the US District Court for the Eastern District of New York against the Company alleging violations of the federal securities laws and various common law causes of action relating to this auction rates securities portfolio. The Company has moved to dismiss that action and that motion is pending.

Further charges or releases of litigation reserves may be necessary in the future as developments in such litigation, claims or proceedings warrant.

17. SUBSEQUENT EVENTS

The Company has evaluated the potential for subsequent events through the date of issuance of the statement of financial condition on February 28, 2011.

Atlanta	404 897 3300
Boston	617 556 5500
Chicago	312 750 3000
Dallas	214 979 4000
Geneva	4122 394 6000
Houston	713 890 1400
Los Angeles	310 282 6100
Miami	305 347 2000
San Francisco	415 836 7600
Washington, DC	202 626 3300

For additional information, the Company's 2010 audited Consolidated Financial Statements, filed with the Securities and Exchange Commission pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, is available for examination and copying at the Company's main office at Eleven Madison Avenue, New York, New York and the New York Regional Office of the Securities and Exchange Commission.

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