

Mizuho Securities USA Inc.

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Consolidated Statement of Financial Condition

September 30, 2009  
*(unaudited)*



Mizuho Securities USA Inc.  
Consolidated Statement of Financial Condition

September 30, 2009

*(In thousands)*

*(Unaudited)*

**Assets**

Cash and cash equivalents	\$	90,359
Securities segregated for regulatory purposes		46,958
Collateralized agreements:		
Securities purchased under agreements to resell		26,410,245
Securities borrowed		12,538,628
Securities owned, at fair value (including securities pledged of \$11,231,067)		11,185,241
Receivables from brokers/dealers, clearing organizations and customers		737,185
Accrued interest receivable		73,656
Securities received as collateral, at fair value		7,083
Clearing and other deposits		230,394
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$31,488		15,188
Exchange memberships, at cost (market value of \$13,595)		7,758
Other assets		13,523
<b>Total assets</b>	<b>\$</b>	<b>51,356,218</b>

**Liabilities and Stockholders' Equity**

Short-term borrowings	\$	131,520
Collateralized agreements:		
Securities sold under agreements to repurchase		39,054,874
Securities loaned		3,646,614
Securities sold, not yet purchased, at fair value		3,569,102
Payables to brokers/dealers, clearing organizations and customers		4,335,962
Accrued interest payable		45,572
Obligation to return securities received as collateral, at fair value		7,083
Other liabilities		56,904
		<u>50,847,631</u>
Subordinated borrowings		150,000
Stockholders' equity		358,587
<b>Total liabilities and stockholders' equity</b>	<b>\$</b>	<b>51,356,218</b>

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

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## **1. Organization and Description of Business**

Mizuho Securities USA Inc. (the “Company”) is a majority-owned subsidiary of Mizuho Securities Co., Ltd (“MHSC”), which owns 70.5 percent of the Company, with the remaining 29.5 percent interest owned by Mizuho Corporate Bank, Ltd. (“MHCB”). MHSC, in turn, is majority-owned by MHCB, whose ultimate parent is Mizuho Financial Group, Inc. (“MHFG”). MHFG is a holding company listed on the Tokyo, Osaka, and New York Stock Exchanges that provides comprehensive financial services through its subsidiaries. MHCB is a global wholesale bank that serves clients ranging from large corporations to financial institutions to public sector entities. MHSC is a full service securities firm that offers a wide range of securities and investment banking services primarily to Japanese corporate and retail clients. As of May 7, 2009, MHSC merged with Shinko Securities Co., Ltd. and became a publicly listed company on the Tokyo, Osaka, and Nagoya Exchanges.

The Company is registered as a broker-dealer with the U.S. Securities and Exchange Commission (“SEC”) and a futures commission merchant with the U.S. Commodity Futures Trading Commission. The Company is a member of the Financial Industry Regulatory Authority (“FINRA”) and the National Futures Association (“NFA”). The Company is a member of or has access to most major international futures exchanges. The Company’s activities include securities and futures brokerage, origination and trading of debt and equity securities, and through its wholly-owned subsidiary, The Bridgeford Group, Inc. (“BFG”), mergers and acquisitions (“M&A”) advisory services. The Company is a Primary Dealer in U.S. government securities and, as such, participates in the Federal Reserve Bank of New York’s open market operations and in auctions of U.S. Treasury securities.

As of May 7, 2009, the Company merged with Shinko Securities Holdings Inc. (“SSH”), a wholly-owned subsidiary of MHSC that, through its broker-dealer subsidiary, engaged primarily in securities brokerage services. On the date of acquisition, the Company acquired 8 employees and net assets of \$7,015. In consideration for SSH, the Company issued 18 shares of its common stock to MHSC. This transaction did not have a material effect on the Company’s consolidated statement of financial condition.

## **2. Summary of Significant Accounting Policies**

### *Basis of Presentation*

The consolidated statement of financial condition includes the accounts of the Company and its wholly-owned subsidiary, BFG, and is presented in accordance with U.S. generally accepted accounting principles (“GAAP”). Intercompany balances and transactions have been eliminated.

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**2. Summary of Significant Accounting Policies (continued)**

*Estimates*

The preparation of the consolidated statement of financial condition in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated statement of financial condition. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

Cash and cash equivalents are defined as highly liquid investments with initial maturities of three months or less, which may include bank deposits and money market funds.

*Securities Segregated For Regulatory Purposes*

Included in securities segregated for regulatory purposes on the consolidated statement of financial condition are qualified securities, as defined, maintained in a special reserve bank account pursuant to SEC Rule 15c3-3.

*Collateralized Agreements*

The Company accounts for collateralized agreements, which include securities purchased under agreements to resell (“resale agreements”), securities sold under agreements to repurchase (“repurchase agreements”), and securities lending activities, as financing transactions in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 860, *Transfers and Servicing (Statement of Financial Accounting Standards (“SFAS”) No. 140)*. These transactions are reported on the consolidated statement of financial condition at amounts approximating fair value.

Resale and repurchase agreements are collateralized primarily by U.S. Treasury and federal agency securities. The Company’s policy is to take possession of securities collateralizing resale agreements at the time such agreements are made. In the same manner, the Company provides securities to counterparties in order to collateralize repurchase agreements. The market value of the underlying collateral is reviewed daily and additional cash or other collateral is obtained or returned as necessary. These contracts typically do not have maturities in excess of one year. The Company records resale and repurchase agreements at contract price, plus accrued interest. Securities borrowed and securities loaned transactions are generally reported as collateralized financings except where other securities are used as collateral.

Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. In securities loaned transactions, the Company receives collateral in the form of cash or

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**2. Summary of Significant Accounting Policies (continued)**

other collateral in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, and obtains or returns additional collateral as necessary. Securities borrowed and securities loaned are recorded at the amount of cash or other collateral advanced or received by the Company, plus accrued interest, which approximates fair value.

When specific conditions are met, including the existence of a legally enforceable master netting agreement, resale agreements are netted against repurchase agreements on the consolidated statement of financial condition as permitted under ASC 210-20-45-11 (*FASB Interpretation No. ("FIN") 41*), which governs balance sheet offsetting for resale and repurchase agreements.

At September 30, 2009, the Company had obtained securities as collateral that could be repledged, delivered or otherwise transferred with a fair value of approximately \$63,379,925. This collateral was generally received under resale agreements and securities borrowed transactions. Of these securities, approximately \$63,343,755 was repledged, delivered or otherwise transferred, generally as collateral under repurchase agreements, securities lending agreements or to satisfy the Company's commitments under proprietary short sales.

*Securities Transactions*

Securities owned and securities sold, not yet purchased, which includes contracts for financial futures and options, are recorded on a trade date basis at fair value. Fair value is generally based upon quoted market prices, where available. When quoted market prices are not available, other market data, such as transacted prices for the same or similar securities, benchmark prices and yields, and spreads over the yield curves for benchmark or similar securities are utilized in measuring fair value.

*Clearing and Other Deposits*

The Company is a member of various clearing organizations at which it maintains cash and/or securities required for the conduct of its day-to-day clearance activities. Securities in this account are reported at fair value.

*Property, Equipment and Leasehold Improvements*

Property and equipment are depreciated on a straight-line basis over their estimated useful lives, ranging from 3 to 10 years. Leasehold improvements are amortized over the shorter of the economic useful life of the asset or the remaining term of the lease. The Company's net balance on the consolidated statement of financial condition at September 30, 2009 is comprised of

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**2. Summary of Significant Accounting Policies (continued)**

\$7,328 in leasehold improvements, \$6,400 in information technology assets, and \$1,460 in furniture and fixtures.

*Exchange Memberships*

The Company's exchange memberships, which provide the Company with the right to conduct business on the exchanges, are recorded at cost and evaluated periodically for impairment. If management were to ascertain that an other than temporary impairment in value has occurred, the exchange membership would be reported at a value that reflects management's estimate of the impairment. There were no exchange membership impairments for the period ended September 30, 2009.

*Translation of Foreign Currencies*

The Company accounts for transactions denominated in foreign currencies in accordance with ASC 830, *Foreign Currency Matters (SFAS No. 52)*. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange on the consolidated statement of financial condition date.

*Income Taxes*

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes (SFAS No. 109)*. The Company recognizes the current and deferred tax consequences of all transactions recognized in the consolidated statement of financial condition using the provisions of the enacted tax laws.

ASC 740-10 addresses accounting for uncertainty in income taxes recognized in an entity's financial statements (*FIN 48*). It provides guidance related to the recognition, de-recognition and measurement of benefits related to an entity's uncertain tax positions. The Company's policy is to include interest and penalties related to gross unrecognized tax benefits within its provision for income taxes.

*Governing Accounting Principles*

Effective April 1, 2008, the Company adopted the provisions of ASC 820, *Fair Value Measurements and Disclosures (SFAS No. 157)*. ASC 820-10-20 defines fair value, establishes a framework for measuring fair value by creating a hierarchy of fair value measurements based on the quality of inputs used to measure fair value, distinguishing between observable independent market inputs and unobservable market assumptions by the reporting entity, and further expands required disclosures about such fair value measurements. ASC 820 applies whenever other accounting pronouncements require or permit assets or liabilities to be measured at fair value and

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**2. Summary of Significant Accounting Policies (continued)**

does not expand the use of fair value to any new circumstances. The adoption of ASC 820 did not have a material impact on the Company's consolidated statement of financial condition.

ASC 820-10-65-4 provides transition and effective date information related to FASB Staff Position ("FSP") Financial Accounting Standards ("FAS") No. 157-4, "*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*" ("FSP FAS 157-4") issued on April 9, 2009. The new content provides additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity. It also provides examples of circumstances indicating that a transaction is not orderly and prohibits entities from using a transaction price as the principal basis in estimating fair value unless the transaction is determined to be orderly. FSP FAS 157-4 is effective for reporting periods ending after June 15, 2009. The adoption of the new content did not have a material impact on the Company's consolidated statement of financial condition.

In February 2007, the FASB issued the "Fair Value Option" guidance covered in ASC 825, *Financial Instruments (SFAS No. 159)*. This guidance provides a fair value option that allows the Company to irrevocably elect fair value as the initial and subsequent measurement attribute for most financial assets and liabilities on an instrument-by-instrument basis. The Company has made no fair value elections under the Fair Value Option subsections of ASC 825.

ASC 805, *Business Combinations* includes the amended guidance issued by the FASB in December 2007 (*SFAS No. 141R*) in an effort to improve financial reporting about business combinations and to promote the international convergence of accounting standards. Specific amendments include requiring acquisition related expenses, which were previously capitalized as part of the purchase price, to be expensed as incurred. The guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of ASC 805 did not have a material impact on the Company's consolidated statement of financial condition.

In March 2008, the FASB issued additional guidance amending the disclosure requirements for derivative instruments and related hedged items (*SFAS No. 161*) in ASC 815, *Derivatives and Hedging (SFAS No. 133)*. Under the new provisions, entities are required to disclose how derivative instruments and related hedged items are accounted for, their location and amounts in a company's financial statements, and their effect on financial position, financial performance, and cash flows. Adoption of the amendments to ASC 815, effective for reporting periods beginning after November 15, 2008, did not have a material impact on the Company's consolidated statement of financial condition.

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**2. Summary of Significant Accounting Policies (continued)**

In May 2009, the FASB issued ASC 855, *Subsequent Events (SFAS No. 165)*. Under these provisions, companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued, or available to be issued in the case of non-public entities. ASC 855-10-50 requires entities to disclose the date through which subsequent events have been evaluated and recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including estimates inherent in the financial statements preparation. The adoption of ASC 855, effective for reporting periods ending after June 15, 2009, did not have a material impact on the Company's consolidated statement of financial condition. The Company evaluated all events and transactions that occurred through the submission of the consolidated statement of financial condition to the SEC on November 30, 2009 and identified one subsequent event, which is disclosed, as required under ASC 855, in Footnote 14.

In June 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-01, *Topic 105—Generally Accepted Accounting Principles—amendments based on SFAS No. 168—The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (“ASU 2009-01”). Effective for reporting periods ending after September 15, 2009, ASU 2009-01 establishes the *FASB Accounting Standards Codification* (“Codification”) as the sole source of authoritative nongovernmental U.S. GAAP recognized by the FASB. On the effective date, the Codification supersedes all then-existing U.S. GAAP and non-SEC accounting and reporting standards. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants, while all other nongrandfathered non-SEC accounting literature excluded from the Codification are nonauthoritative. While not intended to change U.S. GAAP, the Codification significantly reorganizes the accounting literature and changes how it is referenced. The adoption of ASU 2009-01 did not have a material impact on the Company’s consolidated statement of financial condition.

On September 2, 2009, the FASB issued ASU No. 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities* (“ASU 2009-06”). ASU 2009-06 provides additional implementation guidance on accounting for uncertainty in income taxes and eliminates certain disclosure requirements for nonpublic entities. ASU 2009-06 is effective for financial statements issued for interim and annual periods ending after 15 September 2009. The adoption of ASU 2009-06 did not have a material impact on the Company’s consolidated statement of financial condition.

On June 12, 2009, the FASB issued guidance amending the derecognition accounting and disclosure requirements in ASC 860, *Transfers and Servicing (SFAS No. 166)* to provide greater transparency about transfers of financial assets and a transferor’s continuing involvement with

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**2. Summary of Significant Accounting Policies (continued)**

transferred financial assets. The new content clarifies the surrendered control criteria and requires enhanced disclosures about a transferor's continued risk exposure arising from its continuing involvement in transferred financial assets. Transferors will be required to recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The amended guidance is effective for fiscal years beginning after November 15, 2009 and will be applied to transfers of financial assets occurring on or after the effective date. The Company is currently evaluating the potential impact, if any, of adopting the amended provisions on the consolidated statement of financial condition.

**3. Securities Owned and Securities Sold, Not Yet Purchased at Fair Value**

Securities owned and securities sold, not yet purchased, consist of U.S. government and federal agency securities, agency mortgage-backed securities, corporate debt, equity securities, and derivative futures contracts. Securities sold, not yet purchased result in off-balance sheet risk as the Company's ultimate obligation is to acquire the securities at then prevailing market prices, which may exceed the amount reflected on the consolidated statement of financial condition.

Securities owned includes proprietary positions that have been pledged as collateral to counterparties on terms which permit the counterparties to sell or repledge the securities to others.

Securities owned and securities sold, not yet purchased, at fair value at September 30, 2009 consist of the following:

	<b>Owned</b>	<b>Sold, not yet purchased</b>
U.S. Government and federal agency securities	\$ 8,539,039	\$ 3,145,976
U.S. Government, federal agency and agency mortgage-backed securities	2,040,530	14,822
Corporate debt	603,871	406,386
Equities	-	-
Derivative contracts	1,801	1,918
Total	\$ 11,185,241	\$ 3,569,102

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**4. Receivables from and Payables to Brokers/Dealers, Clearing Organizations and Customers**

Receivables from and payables to brokers/dealers, clearing organizations and customers at September 30, 2009 consist of the following:

	<u>Receivables</u>	<u>Payables</u>
Net payable for trades pending settlement	\$ -	\$ 2,843,402
Clearing organizations	659,889	5,432
Securities failed to deliver/receive	56,145	190,953
Futures customers	8,426	1,295,867
Other customers	222	234
Other	12,503	74
	<u>\$ 737,185</u>	<u>\$ 4,335,962</u>

Net payable for trades pending settlement represents the contract price of securities to be delivered or received by the Company. Should a counterparty fail to deliver the securities pending settlement to the Company, the Company may be required to purchase identical securities on the open market. The value of such securities at September 30, 2009 approximates the amounts owed. Trades pending settlement at September 30, 2009 were settled without a material effect on the Company's consolidated statement of financial condition.

Amounts receivable from clearing organizations represent balances receivable from exchanges for futures customer balances. Amounts payable to clearing organizations represent brokerage and execution fees payable to exchanges, primarily for futures business.

Securities failed to deliver or receive represent receivable or payable balances, respectively, arising from transactions with customers and broker/dealers.

Receivables from and payables to futures customers represent balances arising in connection with futures transactions, including gains and losses on open commodity futures contracts.

**5. Subordinated Borrowing**

Subordinated borrowings are carried at contracted amounts. These borrowings are subordinated to claims of general creditors, are covered by agreements approved by FINRA and the Chicago Mercantile Exchange, and are included by the Company for the purposes of computing net capital under the SEC's Uniform Net Capital Rule. To the extent that these borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

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**5. Subordinated Borrowing (continued)**

The Company has two subordinated notes payable to MHC B of \$50,000 maturing in April, 2012 and \$100,000 maturing September 2013, which bear interest rates of 4.575% and 4.625%, respectively. The rates will reset periodically, based on U.S. dollar six-month LIBOR plus a spread.

**6. Related Party Transactions**

In the normal course of business, the Company enters into arm's-length transactions with affiliated companies as part of its trading, clearing, financing, and general operations.

At September 30, 2009, the consolidated statement of financial condition included the following balances with affiliates:

**Assets**

Securities purchased under agreements to resell	654,325
Securities borrowed	813,154
Receivables from brokers/dealers, clearing organizations and customers	21,037
Other assets	307

**Liabilities**

Short-term borrowings	\$ 100,549
Securities sold under agreements to repurchase	446,965
Securities loaned	842,659
Payables to brokers/dealers, clearing organizations and customers	539,962
Accrued interest payable	3,284
Other liabilities	1,979
Subordinated borrowings	150,000

Material items contained in the above balances are discussed below.

*Financing Transactions*

The Company enters into collateralized financing transactions with affiliates under comparable financing rates and terms as with unaffiliated parties. At September 30, 2009, repurchase and resale agreements with Mizuho International Plc. ("MHI") and securities borrowed and loaned agreements with Mizuho Trust & Banking Co. (USA) comprise most of the financing transactions balances.

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**6. Related Party Transactions (continued)**

*Investment Banking*

The Company also participates in distributing debt and equity offerings managed by its affiliates. In corporate underwritings in which the Company is in the syndicate or selling group, the Company may utilize its affiliates in distributing securities to customers in their respective local markets.

*Futures Business*

The Company's commodity futures brokerage business generates commission revenue by facilitating order execution and providing clearing and settlement services to customers. The Company has brokerage accounts with affiliates in order to transact on behalf of its customers in markets to which the Company does not have access. Included in receivables from brokers/dealers, clearing organizations and customers at September 30, 2009 are net liquidating balances on open customer positions and associated accrued interest in the amount of \$18,860. The Company executes and clears futures transactions on foreign exchanges through Mizuho Securities (Singapore) Pte. Ltd. ("MHSS") and MHSC. The Company pays execution fees and commissions to its affiliates for acting as carrying brokers in these transactions. As a registered Futures Commissions Merchant with the Commodities Futures Trading Commission and a clearing member of a number of domestic and international futures exchanges, the Company maintains accounts for affiliates in order to execute and clear trades on their behalf. The Company recognizes payables to brokers/dealers, clearing organizations and customers for cash and open position balances in these accounts totaling \$539,625 at September 30, 2009. MHSC also introduces futures business to the Company through its futures sales team, accounting for a small portion of the payable balance.

*Equity Business*

The Company's equity business participates in shared coverage of customers with its affiliates in both agency and global equities research capacities. Through its joint-coverage arrangements with affiliates, the Company can offer its U.S.-domiciled customers access to markets and information resources in Asia and Europe. In conjunction with these arrangements, the Company enters into commission sharing and research coverage agreements with its affiliates.

In order to conduct its Japanese equity brokerage business, the Company maintains a custodial bank account with MHC B and a brokerage account with MHSC for the purpose of executing and clearing trades in its affiliates' local markets. The Company records bank account overdrafts with MHC B of \$549 as short-term borrowings.

Receivables from brokers/dealers, clearing organizations and customers in the Japanese equity business consist of clearing balances with MHSC totaling \$1,425 at September 30, 2009.

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**6. Related Party Transactions (continued)**

The Company also recognizes related party payables to brokers/dealers, clearing organizations and customers in the amount of \$337, comprised of fails to receive with MHSC, commission rebates payable to MHSC and Mizuho Securities Asia Limited (“MSA”), clearing fees payable to MHSC, and transaction and custody fees payable to MHCB.

In its global equity research business, the Company records global research services fees payable to MHSC of \$1,372 in other liabilities at September 30, 2009. The Company also recognizes \$157 in receivables from brokers/dealers, clearing organizations and customers in connection with equity research services provided to MHSC.

*Fixed Income Business*

The Company provides clearing and settlement services to Mizuho Capital Markets Corporation (“MCMC”) and MHI for fixed income securities transactions. Accrued clearing charges due from MCMC and MHI are reported as receivables from brokers/dealers, clearing organizations and customers.

The Company refers customers to its affiliates in its fixed income business. The Company is also referred customers from its affiliates. For transactions made on behalf of referred customers, the Company pays a sales commission to its affiliates. Conversely, the company earns commissions as agent for customer cash and financing trades introduced to its affiliates. The Company records commissions payable to MHSC in this capacity as other liabilities.

*Borrowing from Affiliates*

At September 30, 2009, the Company has \$150,000 in subordinated notes payable to MHCB and overnight loans (reported as short-term borrowings) in the amount of \$100,000 from MHSC, with accrued interest payable in the amount of \$2,957 and \$327, respectively.

*Support and Services*

MHSC allocates certain costs to the Company for research, information technology, and other operational support and services. The Company reports the unpaid balances of fees charged by MHSC for these services as other liabilities \$547.

The Company provides support and services to its affiliates, primarily in the areas of accounting and information technology. The unpaid balances of fees charged to affiliates for these functions are recorded as other assets and receivables from brokers/dealers, clearing organizations and customers in the amounts of \$282 and \$538, respectively.

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## 7. Employee Benefit Plan

Substantially all employees of the Company are covered by the Company's defined contribution benefit plan. The Company's contribution is determined under provisions of the plan.

## 8. Income Taxes

The Company files federal income tax returns on a separate company basis. The Company files various state and local income tax returns both on a combined basis and a separate company basis.

As of September 30, 2009, the Company had a deferred tax asset ("DTA") of \$5,874, net of a valuation allowance of \$2,998, which is included in other assets in the consolidated statement of financial condition. The gross DTA of \$8,872 consists primarily of net operating loss ("NOL") carry-forwards and tax credit carry-forwards of BFG, certain state tax credit carry-forwards, and accrued expenses not currently deductible for tax purposes. The valuation allowance is primarily provided against the NOL carry-forwards and tax credit carry-forwards because management believes that it is more likely than not that this portion of the gross DTA will not be realized.

Of the gross DTA, \$2,703 relates to BFG, and is attributable to its NOL and alternative minimum tax credit carryforward. A valuation allowance in the same amount was established against this asset. The NOL carryforward from BFG is limited by the separate return limitation year ("SRLY") rules, which limit the utilization of NOL to post-acquisition income in BFG.

BFG has a federal tax NOL carryforward of \$6,798, which will begin to expire in the current fiscal year. BFG also has a state NOL carry-forward of \$3,556, which will begin to expire after June 30, 2024.

The Company has also provided a full valuation allowance against its DTA of \$295 related to its New Jersey Alternative Minimum Assessment ("AMA") credit carry-forward because management believes that it is more likely than not that this portion of the gross deferred tax asset will not be realized.

The Company is routinely examined by various tax authorities. During the period ended September 30, 2009, New York City tax authorities continue to examine the combined New York City returns of the Company and MCMC for the years 2000 and 2001.

As of September 30, 2009, management does not believe that there are any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly change within the next 12 months. The Company's returns for tax years ending March 31, 2006 through March 31, 2008 remain subject to examination by the Internal Revenue Service for U.S. federal tax

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**8. Income Taxes (continued)**

purposes, and by the state and local tax authorities. There are no other on-going audits in other jurisdictions that are material to the Company's consolidated statement of financial condition. The Company has no unrecognized tax benefits or associated interest and penalties at September 30, 2009.

**9. Financial Instruments**

*Derivative Financial Instruments*

In the normal course of business, the Company enters into a variety of derivative financial instrument transactions. These derivative financial instruments primarily include forward and futures contracts, options on U.S. government securities and futures contracts, interest rate swap contracts, and mortgage-backed to-be-announced transactions ("TBAs"). The Company uses derivative financial instruments primarily to mitigate the interest rate risk associated with its proprietary fixed income positions.

In accordance with ASC 815-10-25-1, the Company recognizes all derivative financial instruments in the consolidated statement of financial condition as either assets or liabilities. The Company measures derivative financial instruments at fair value in accordance with ASC 815-10-35-1.

Futures contracts provide for the delayed delivery or purchase of securities at a specified future date at a specified price or yield. Futures contracts are exchange traded and cash settlement is made on a daily basis for market movements. The clearing organization acts as the counterparty to specific transactions and bears the risk of delivery to and from counterparties to specific positions.

Option contracts allow the holder to purchase or sell financial instruments for cash at a specified price and within a specified period of time. As a seller of options, the Company receives a premium at the outset and then bears the risk of unfavorable changes in the price of the financial instruments underlying the option. Options on futures contracts are contracts that allow the owner of the option to purchase or sell the underlying futures contract at a specified price and within a specified period of time.

Interest rate swaps are entered into by two counterparties, one on the "fixed leg" paying a fixed interest rate and one on the "floating leg" paying a floating rate based on a specified spread above a designated underlying rate, usually LIBOR. Companies typically use interest rate swaps to limit or manage exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate than would be available without the swap. The Company enters into interest rate swaps to help manage its exposure to interest rate risk.

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**9. Financial Instruments (continued)**

In the normal course of business, the Company enters into various commitments including "when issued" and TBA securities transactions. TBAs are forward contracts that give the purchaser/seller an obligation to obtain/deliver mortgage securities in the future. The performance of the forward contracts is dependent on the financial reliability of the counterparty and exposes the Company to credit risk, which is limited to the unrealized gains recorded in the consolidated statement of financial condition. Market risk is substantially dependent upon the underlying financial instruments and is affected by market forces such as volatility and changes in interest rates.

*Financial Instruments with off-Balance Sheet Risk*

In the normal course of business, the Company executes and clears futures, forwards, options, and securities transactions for the accounts of its customers, primarily financial institutions and affiliates. Such transactions may expose the Company to off-balance sheet risk in the event the customer is unable to satisfy its obligations, and the Company has to purchase or sell the underlying financial instrument at a loss.

In collateralized financing transactions, the Company uses securities as collateral for various secured financing sources. In the event the counterparty is unable to meet its contractual obligation to return securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its obligations. The Company controls this risk by monitoring the market value of financial instruments pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure.

Certain futures and options transactions are introduced to other clearing brokers. As such, the Company guarantees to the respective clearing houses or other brokers its customers' performance under these contracts. In accordance with regulatory requirements and market practice, the Company requires its customers to meet, at a minimum, the margin requirements established by each of the exchanges at which contracts are traded. Exchange-traded financial instruments, such as futures and options, generally do not give rise to significant unsecured counterparty exposure.

*Concentrations of Market and Credit Risk*

The Company enters into transactions that involve varying degrees of both market and credit risk. The Company monitors its exposure to these risks on a daily basis through a variety of financial, security position and credit exposure reporting and control procedures.

Market risk is the potential loss the Company may incur as a result of changes in the market value of a particular instrument. All financial instruments, including derivatives and short sales,

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**9. Financial Instruments (continued)**

are subject to market risk. The Company's exposure to market risk is determined by a number of factors, including the size, duration, composition, and diversification of positions held, the absolute and relative levels of interest rates and foreign currency exchange rates as well as market volatility and illiquidity. The Company manages market risk by setting risk limits and by economically hedging its exposure to risk factors.

Credit risk is the potential loss due to uncertainty in a counterparty's ability to meet its obligations. The Company is engaged in various other trading and brokerage activities. Counterparties primarily include brokers/dealers, banks and other institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to credit risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review the credit standing of each counterparty on a periodic basis. With respect to collateralized financing transactions, the Company continually monitors the value and adequacy of the collateral pledged by its counterparties. Consequently, management believes the risk of credit loss from counterparties' failure to perform in connection with collateralized lending activities is minimal.

**10. Fair Value Measurements**

ASC 820 defines fair value as, "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date," or an "exit price." The objective of a fair value measurement, as stated in ASC 820-10-35, is to determine this price, which should not be adjusted for transaction costs. ASC 820-10-35-56, further explains that if an input used to measure fair value is based on bid and ask prices, the price within the bid-ask spread that is most representative of fair value in the circumstances should be used to measure fair value.

Additionally, ASC 820-10-35-16C requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs, with emphasis on using techniques that are appropriate and for which sufficient data is available.

*Fair Value Hierarchy*

ASC 820 prioritizes the inputs used to measure fair value into three broad levels, assigning the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest to unobservable inputs (Level 3 measurements). If the inputs used to measure an asset or liability fall into different levels within the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

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**10. Fair Value Measurements (continued)**

The three categories are as follows:

Level 1 — Assets and liabilities whose values are based on unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 measurements include primarily U.S. Treasury Bills, on-the-run or recently issued Treasury bonds and notes, certain federal agency obligations, and exchange traded derivative contracts.

Level 2 — Assets and liabilities whose values are based on inputs that are observable either directly or indirectly, but do not qualify as Level 1 inputs. Level 2 measurements include primarily off-the-run Treasury bonds, notes, and strips, certain federal agency obligations, including variable floating rate coupon notes, pass-through mortgage-backed securities issued by U.S. government agencies or government sponsored entities, and corporate debt.

Level 3 — Assets and liabilities whose values are based on inputs that are both unobservable and significant to the overall fair value measurement. The Company did not have any financial assets or liabilities measured at fair value using unobservable inputs or for which unobservable inputs were significant to their fair value measurement throughout the period or at September 30, 2009.

In determining the appropriate measurement levels, the Company performs analyses on the assets and liabilities subject to ASC 820 at the end of each reporting period. Changes in the observability of significant valuation inputs during the reporting period may result in a reclassification of certain assets and liabilities within the fair value hierarchy.

The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis using the above fair value hierarchy at September 30, 2009:

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 47,700	\$ -	\$ -	\$ 47,700
Securities segregated for regulatory purposes	46,958	-	-	46,958
Securities owned	6,077,086	5,108,155	-	11,185,241
Receivable from brokers, dealers and customers	200,000	-	-	200,000
Securities received as collateral	-	7,083	-	7,083
Clearing and other deposits	214,919	-	-	214,919
Other assets	2,205	-	-	2,205
<b>Total</b>	<b>\$ 6,588,868</b>	<b>\$ 5,115,238</b>	<b>\$ -</b>	<b>\$ 11,704,106</b>

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**10. Fair Value Measurements (continued)**

<b>Liabilities</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Securities sold, not yet purchased	\$ 2,958,704	\$ 610,398	\$ -	\$ 3,569,102
Obligations to return securities received as collateral	-	7,083	-	7,083
Other liabilities	30	-	-	30
Total	<u>\$ 2,958,734</u>	<u>\$ 617,481</u>	<u>\$ -</u>	<u>\$ 3,576,215</u>

**11. Commitments and Contingencies**

The Company has minimum annual rental commitments for office spaces under non-cancelable leases with initial terms in excess of one year, as follows:

<u>Year ending March 31:</u>	<u>Amount</u>
2010	\$ 4,106
2011	3,052
2012	2,230
2013	2,187
2014	2,197
Thereafter	4,940
	<u>\$ 18,712</u>

Rentals are subject to periodic escalation charges and do not include amounts payable for insurance, taxes and maintenance.

The Company entered into an agreement with the New Jersey Economic Development Authority to receive Business Employment Incentive Grants. As of September 30, 2009, the cumulative amount of grants the Company has recorded is \$3,559. Pursuant to the agreement, the Company must continuously maintain at least 25 employees in its Hoboken, New Jersey office until November 30, 2016 in order to receive future grants and retain the grants received. The Company currently has employees in excess of this threshold.

In the normal course of business, the Company is subject to pending legal actions and proceedings. The Company believes that the outcome of any of these matters will not have a material adverse effect on its financial condition or results of operations.

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**12. Net Capital Requirements**

The Company is subject to the SEC’s Uniform Net Capital Rule (“Rule 15c3-1”), which requires the maintenance of minimum net capital. The Company computes its net capital under the alternative method permitted by Rule 15c3-1. This method requires that minimum net capital not be less than the greater of \$500 or 2% of aggregate debit items arising from customer transactions pursuant to SEC Rule 15c3-3, plus excess margin collected on securities received on resale agreements, as defined, or 8% of total risk margin requirement for all positions carried in futures customer accounts, plus 4% of total risk margin requirement for all positions carried in futures non-customer accounts pursuant to the Commodity Exchange Act.

At September 30, 2009, the Company’s net capital of \$346,567 was \$303,642 in excess of required net capital. Advances to affiliates, repayment of subordinated liabilities, dividend payments, and other equity withdrawals are subject to certain limitations and other provisions of the net capital rules of the SEC and other regulators.

BFG is also subject to Rule 15c3-1. As of September 30, 2009, this subsidiary was in compliance with its net capital requirements.

**13. Assets Segregated or Held in Separate Accounts**

Included in the consolidated statement of financial condition are assets segregated or held in separate accounts under the Commodity Exchange Act at September 30, 2009 as follows:

Cash and cash equivalents	\$ 52,553
Securities purchased under agreements to resell	450,001
Securities owned	100,375
Receivables from brokers/dealers, clearing organizations and customers	481,554
Total	\$ 1,084,483

Assets are also segregated in a special reserve bank account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission. At September 30, 2009, securities at fair value of \$46,958 were segregated under this Rule, and are reflected in securities segregated for regulatory purposes on the consolidated statement of financial condition.

**14. Subsequent Event**

In early November, the Company redeemed 357,718 shares of LCH.Clearnet ordinary stock, in accordance with the clearing house’s recent redemption program. The Company received payment for the tendered shares as of November 20, 2009 in the amount of \$5,355.