FMSbonds, Inc.

STATEMENT OF FINANCIAL CONDITION (UNAUDITED)
DECEMBER 31, 2009

ASSETS

Cash, including $500,111 segregated for the exclusive benefit of customers  $ 2,744,930
Receivable from brokers and dealers  886,933
Receivable from customers  5,932,380
Securities owned, at market (notes 5 and 9)  155,525,764
Bond interest and redemptions receivable  1,562,081
Secured demand notes collateralized by marketable securities (note 2)  8,350,000
Property and equipment (note 3)  1,126,792
Other assets (note 4)  1,878,966

$178,007,846

LIABILITIES AND STOCKHOLDERS’ EQUITY

LIABILITIES

Collateral loan payable (note 5)  $116,550,000
Payable to brokers and dealers  311,603
Payable to customers  629,470
Securities sold, but not yet purchased, at market (note 9)  503,456
Accounts payable and accrued liabilities (note 7)  14,536,817

132,531,346

LEASE COMMITMENTS AND CONTINGENCIES (note 6)

SUBORDINATED LIABILITIES (note 2)  8,350,000

STOCKHOLDERS’ EQUITY  37,126,500

$178,007,846

See accompanying notes.
NOTES TO STATEMENT OF FINANCIAL CONDITION (UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Organization
FMSbonds, Inc. (the Company), is a broker and dealer specializing in municipal bonds. The Company acts primarily in a principal capacity, buying and selling for its own account and trading with customers and other dealers. To a lesser extent, the Company acts in an agency capacity, buying and selling equity securities and annuities for its customers and charging a commission.

Government and Other Regulation
The Company’s business is subject to significant regulation by various governmental agencies and self-regulatory organizations. Such regulation includes, among other things, periodic examinations by these regulatory bodies to determine whether the Company is conducting and reporting its operations in accordance with the applicable requirements of these organizations.

Revenue Recognition
Securities owned and securities sold, but not yet purchased are valued at market.

Property and Equipment
Property and equipment is recorded at cost. Expenditures for major betterments and additions are charged to the asset accounts while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense currently.

Depreciation and Amortization
Depreciation and amortization of property and equipment is computed using the straight-line method at various rates based upon the estimated useful lives of the assets. The range of estimated useful lives is summarized as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and fixtures</td>
<td>5 to 8 years</td>
</tr>
<tr>
<td>Office equipment</td>
<td>5 to 8 years</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>5 to 10 years</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>5 years</td>
</tr>
</tbody>
</table>

Receivables
The Company does not provide a reserve for uncollected receivables as substantially all amounts are collateralized by securities awaiting delivery. Amounts are charged directly to expense when deemed uncollectible, and have historically been immaterial.

Income Taxes
The Company has elected, with the stockholders’ consent, to be taxed under the S Corporation provisions of the Internal Revenue Code. Under these provisions, the taxable income of the Company is reflected by the stockholders on their personal income tax returns.

Use of Estimates in the Preparation of Financial Statements
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE 2. SECURED DEMAND NOTES COLLATERALIZED BY MARKETABLE SECURITIES AND SUBORDINATED LIABILITIES

Secured demand notes collateralized by marketable securities consist of non-interest bearing loans to stockholders of $8,350,000.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

<table>
<thead>
<tr>
<th>Component</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and fixtures</td>
<td>$780,920</td>
<td></td>
<td></td>
<td>$780,920</td>
</tr>
<tr>
<td>Office equipment</td>
<td>438,345</td>
<td></td>
<td></td>
<td>438,345</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>409,375</td>
<td></td>
<td></td>
<td>409,375</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>555,065</td>
<td></td>
<td></td>
<td>555,065</td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>(1,057,513)</td>
<td></td>
<td></td>
<td>(1,057,513)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,184,305</td>
<td></td>
<td></td>
<td>$2,184,305</td>
</tr>
</tbody>
</table>

NOTE 4. OTHER ASSETS

Other assets consisted of the following:

<table>
<thead>
<tr>
<th>Component</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid accounts</td>
<td>$73,096</td>
<td></td>
<td></td>
<td>$73,096</td>
</tr>
<tr>
<td>Other receivables</td>
<td>7,799</td>
<td></td>
<td></td>
<td>7,799</td>
</tr>
<tr>
<td>Net cash value of life</td>
<td>25,000</td>
<td></td>
<td></td>
<td>25,000</td>
</tr>
<tr>
<td>Insurance policies</td>
<td>1,395,930</td>
<td></td>
<td></td>
<td>1,395,930</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,476,825</td>
<td></td>
<td></td>
<td>$1,476,825</td>
</tr>
</tbody>
</table>

NOTE 5. COLLATERAL LOAN PAYABLE

Collateral loan payable represents amounts due to the Company’s clearing broker and is collateralized by securities owned or held as collateral by the Company and securities awaiting delivery on uncompleted transactions. Interest is payable monthly at the prevailing variable rate, which was 1.75% at December 31, 2009. All amounts due are payable on demand.

NOTE 6. LEASE COMMITMENTS AND CONTINGENCIES

The Company is obligated under various non-cancellable operating leases for certain equipment. As of December 3, 2009, the approximate future minimum annual rentals under the non-cancellable leases for subsequent fiscal years are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>45,000</td>
<td>11,000</td>
<td>11,000</td>
<td>6,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$76,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Company has a month-to-month lease arrangement with its stockholders for an office facility in North Miami Beach, Florida.

The Company is involved in various legal proceedings arising in the ordinary course of business. While it is not feasible to predict or determine the outcome of these proceedings, in the opinion of management, based on a review with legal counsel, any losses which may result from such legal proceedings are not expected to have a material adverse effect on the financial position or results of the Company.

NOTE 7. EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) plan covering substantially all employees. Employer contributions to the plan are at the discretion of management. For the year ended December 31, 2009, the Company had accrued $375,000 for this plan. Additionally, the Company maintains a non-qualified Senior Executives Retirement Plan (SERP). Contributions, the funding of which is at management’s discretion, are calculated based on the qualifying employee’s salary and years of employment. At December 31, 2009, the Company had accrued $3,500,000 for the SERP.

NOTE 8. NET CAPITAL REQUIREMENTS

As a registered broker-dealer, the Company is subject to the Uniform Net Capital Rule of the Securities and Exchange Commission, which requires that “Net Capital”, as defined, shall be at least the greater of $250,000 or 6-2/3% of “Aggregate Indebtedness”, as defined. As of December 31, 2009, the Company’s “Net Capital” was $33,748,507 which exceeded requirements by $32,728,466. The ratio of “Aggregate Indebtedness” to “Net Capital” was 0.45 to 1 at December 31, 2009.

NOTE 9. CREDIT CONCENTRATIONS AND OFF-BALANCE-SHEET RISK

In the normal course of business, the Company enters into financial transactions in which there is a risk of loss due to changes in the market (“market risk”), or failure of the other party to the transaction to perform (“credit risk”), as described below.

Securities Sold, But Not Yet Purchased
Securities sold, but not yet purchased aggregated $503,456 at December 31, 2009. Subsequent market fluctuations may require the Company to purchase these securities at prices which exceed the market value in the accompanying statement of financial condition.

Custody of Securities
Custodial functions for the Company’s securities transactions are substantially provided by a New York City bank. At December 31, 2009, a majority of securities owned is held by this bank.

Deposits with Financial Institutions
The Company may, during the course of operations, maintain cash deposits in excess of federally insured limits.

Other Risk Concentrations
In the normal course of business, the Company’s customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contractual obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.