FMSbonds, Inc.

STATEMENT OF FINANCIAL CONDITION (UNAUDITED)
DECEMBER 31, 2008

ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash, including $101,747 segregated for the exclusive benefit of customers</td>
<td>$ 2,119,922</td>
</tr>
<tr>
<td>Receivable from brokers and dealers</td>
<td>451,641</td>
</tr>
<tr>
<td>Receivable from customers</td>
<td>4,588,006</td>
</tr>
<tr>
<td>Securities owned, at market (notes 5 and 9)</td>
<td>77,739,560</td>
</tr>
<tr>
<td>Bond interest and redemptions receivable</td>
<td>1,248,956</td>
</tr>
<tr>
<td>Secured demand notes collateralized by marketable securities (note 2)</td>
<td>8,350,000</td>
</tr>
<tr>
<td>Property and equipment (note 3)</td>
<td>738,836</td>
</tr>
<tr>
<td>Other assets (note 4)</td>
<td>802,250</td>
</tr>
<tr>
<td></td>
<td>$ 96,039,171</td>
</tr>
</tbody>
</table>

LIABILITIES AND STOCKHOLDERS’ EQUITY

LIABILITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral loan payable (note 5)</td>
<td>$ 64,652,324</td>
</tr>
<tr>
<td>Payable to brokers and dealers</td>
<td>220,161</td>
</tr>
<tr>
<td>Payable to customers</td>
<td>132,922</td>
</tr>
<tr>
<td>Securities sold, but not yet purchased, at market (note 9)</td>
<td>370,812</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities (note 7)</td>
<td>7,521,382</td>
</tr>
<tr>
<td></td>
<td>72,897,601</td>
</tr>
</tbody>
</table>

LEASE COMMITMENTS AND CONTINGENCIES (note 6)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUBORDINATED LIABILITIES (note 2)</td>
<td>8,350,000</td>
</tr>
<tr>
<td>STOCKHOLDERS’ EQUITY</td>
<td>14,791,570</td>
</tr>
<tr>
<td></td>
<td>$ 96,039,171</td>
</tr>
</tbody>
</table>

The Statement of Financial Condition of the most recent annual audit report of FMSbonds, Inc. pursuant to rule 17a-5(d) is available for examination at the offices of FMSbonds, Inc. and at the regional office of the Securities and Exchange Commission.

See accompanying notes.
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:

Furniture and fixtures 5 to 8 years
Office equipment 5 to 8 years
Leasehold improvements 5 to 10 years
Transportation equipment 5 years

Receivables
The Company does not provide a reserve for uncollectible 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 statement. 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.

The subordinated liabilities may be repaid at the stated maturity dates
only if, after giving effect to such repayment, the Company meets the
regulatory net capital requirements governing repayment of such
subordinated debt. These loans were made under agreements pursuant to
the rules and regulations of the Securities and Exchange Commission,
approved by the Financial Industry Regulatory Authority (“FINRA”)
(formally known as the National Association of Security Dealers, Inc.)
and are subordinated to the claims of general creditors.

The maturities of the subordinated liabilities for subsequent fiscal years
are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>-</td>
</tr>
<tr>
<td>2010</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>5,035,000</td>
</tr>
<tr>
<td>2012</td>
<td>3,315,000</td>
</tr>
<tr>
<td></td>
<td>$ 8,350,000</td>
</tr>
</tbody>
</table>

NOTE 3.  PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Furniture and fixtures $ 599,654
Office equipment 910,179
Leasehold improvements 540,018
Transportation equipment 416,607

Less accumulated depreciation and amortization (1,727,622)

$ 738,836

NOTE 4.  OTHER ASSETS

Other assets consisted of the following:

Prepays $ 68,411
Other receivables 14,686
Net cash value of life insurance policies 25,000
Deposits 152,844
Employee loans receivable 541,309

$ 802,250

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, 2008. All amounts due
are payable on demand.

NOTE 6.  LEASE COMMITMENTS AND CONTINGENCIES

The Company is obligated under various non-cancelable operating leases
for certain equipment.

As of December 31, 2008, the approximate future minimum annual rentals
under the non-cancelable leases for subsequent fiscal years are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>49,000</td>
</tr>
<tr>
<td>2010</td>
<td>35,000</td>
</tr>
<tr>
<td>2011</td>
<td>-</td>
</tr>
<tr>
<td>2012</td>
<td>-</td>
</tr>
<tr>
<td>2013</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$ 84,000</td>
</tr>
</tbody>
</table>

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, 2008, the Company had
accrued $313,000 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, 2008, the Company had accrued $2,491,590 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. At December 31,
2008, the Company's "Net Capital" was $13,075,593 which exceeded
requirements by $12,556,261. The ratio of "Aggregate Indebtedness" to
"Net Capital" was 0.60 to 1 at December 31, 2008.

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 aggregate $370,812 at December 31,
2008. 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, 2008,
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.