



Consolidated Statement of Financial Condition

UBS Financial Services Inc.

(a subsidiary of UBS Americas Inc.)

December 31, 2007
with Report of Independent Registered
Public Accounting Firm

UBS Financial Services Inc.

Consolidated Statement of Financial Condition

December 31, 2007

Contents

Report of Independent Registered Public Accounting Firm1

Consolidated Statement of Financial Condition2

Notes to the Consolidated Statement of Financial Condition3

**Report of Independent Registered
Public Accounting Firm**

Board of Directors
UBS Financial Services Inc.

We have audited the accompanying consolidated statement of financial condition of UBS Financial Services Inc. (the "Company") as of December 31, 2007. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the consolidated financial position of the Company at December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 15 to the consolidated statement of financial condition, the Company restated the beginning balance of stockholder's equity to reflect the correction of errors related to certain employee compensation and tax balances of prior years.

Ernst & Young LLP

February 29, 2008

UBS Financial Services Inc.*Consolidated Statement of Financial Condition*

December 31, 2007
(in thousands of dollars)

Assets

Cash and cash equivalents	\$ 541,035
Cash and securities segregated and on deposit for federal and other regulations	2,236,147
Financial instruments owned, at fair value	1,088,755
Securities received as collateral	293,054
Securities purchased under agreements to resell	14,905,549
Securities borrowed	2,140,064
Receivables:	
Clients (net of allowance for doubtful accounts of \$65)	4,188,571
Brokers and dealers	237,777
Dividends and interest	74,976
Fees and other	54,786
Receivable from affiliated companies	83,485
Investment in affiliate	335,000
Office equipment and leasehold improvements (net of accumulated depreciation and amortization of \$639,734)	413,078
Goodwill	547,510
Intangibles (net of accumulated amortization of \$20,038)	146,662
Other assets	1,905,624
Total assets	<u>\$29,192,073</u>

Liabilities and stockholder's equity

Financial instruments sold, not yet purchased, at fair value	\$ 17,817
Obligation to return securities	293,054
Securities sold under agreements to repurchase	13,551,316
Securities loaned	1,010,397
Payables:	
Clients (including free credit balances of \$3,643,382)	5,445,521
Brokers and dealers	262,636
Dividends and interest	76,275
Other liabilities and accrued expenses	1,479,895
Accrued compensation and benefits	795,850
Payable to affiliated companies	1,464,960
	<u>24,397,721</u>
Long-term borrowings	105,000
Commitments and contingencies	
Subordinated liabilities	2,130,000
Stockholder's equity	2,559,352
Total liabilities and stockholder's equity	<u>\$29,192,073</u>

See Notes to the Consolidated Statement of Financial Condition

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007

(in thousands of dollars)

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

The consolidated statement of financial condition includes the accounts of UBS Financial Services Inc. and its wholly owned subsidiaries (collectively, "UBSFSI" or the "Company"). All material intercompany balances and transactions have been eliminated. UBSFSI is a wholly owned subsidiary of UBS Americas Inc. ("UBS Americas"), which is a wholly owned subsidiary of UBS AG ("UBS"). The Company engages in material transactions with its affiliates.

The Company is a registered broker-dealer under the Securities Exchange Act of 1934 and is registered with the Financial Industry Regulatory Authority ("FINRA").

The Company is engaged in one principal line of business; that of serving the investment and capital needs of individual and institutional clients. The Company is a securities firm operating predominantly in the United States and Puerto Rico.

The consolidated statement of financial condition is prepared in conformity with accounting principles generally accepted in the United States, which require management to make judgments and assumptions that affect the amounts reported in the consolidated statement of financial condition and accompanying notes. Actual results could differ from those estimates.

Accounting Pronouncements

Effective January 1, 2007 the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of SFAS No.109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's statement of financial condition and prescribes that a company should use a more likely than not recognition threshold based on the technical merits of the tax position taken or expected to be taken. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands the required disclosures about an entity's fair value measurements. Additionally, SFAS No. 157 eliminates the requirement to defer calculated profit or loss on transaction values that include unobservable inputs "Day 1 profit and loss" and eliminates the use of block discounts for securities traded in an active market. SFAS No. 157 is effective for statement of financial condition issued for fiscal years beginning after November 15, 2007. The provisions of SFAS No. 157 should be applied prospectively upon initial adoption, except for the provisions that eliminate prior measurement guidance regarding block discounts and Day 1 profit or loss. Those changes should be applied retrospectively as an adjustment to the opening balance of retained earnings in the period of adoption. The Company is still assessing the impact SFAS No. 157 will have on its statement of financial condition.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007

(in thousands of dollars)

1. Summary of Significant Accounting Policies (continued)

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to irrevocably choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. For any eligible items that exist at the effective date for which an entity chooses to elect the fair value option, the effect of the first remeasurement to fair value shall be reported as a cumulative-effect adjustment to the opening balance of retained earnings. The Company is currently assessing whether to elect SFAS No. 159.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)") and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"). These new standards change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated statement of financial condition. Noncontrolling interest will now be reported as an element of consolidated equity and not within a mezzanine section of the balance sheet. There also will be separate disclosure of net income attributable to the parent and the noncontrolling interest on the face of the income statement. With respect to SFAS 141(R), transaction costs will not be considered part of the fair value of an acquirer's interest and will be expensed as incurred. In addition, restructuring accruals will no longer be considered as part of goodwill. SFAS No. 141(R) and SFAS No. 160 are effective for the first annual reporting period beginning on or after December 15, 2008. The adoption of SFAS No. 141(R) and SFAS No. 160 are not expected to have a material impact on the consolidated statement of financial condition.

In April 2007, the FASB issued FASB Staff Position No. FIN 39-1, "Amendment of FASB Interpretation No. 39", ("FSP FIN 39-1"). FSP FIN 39-1 amends certain provisions of FIN 39, "Offsetting of Amounts Related to Certain Contracts," and permits companies to offset fair value amounts recognized for cash collateral receivables or payables against fair value amounts recognized for net derivative positions executed with the same counterparty under the same master netting arrangement. FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early application permitted. The Company is currently assessing the impact FIN 39-1 will have on its consolidated statement of financial condition.

In June 2007, the FASB's Emerging Issues Task Force ("EITF") issued EITF Issue No. 06-11 "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). This issue requires that the tax benefits related to dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF 06-11 is effective prospectively to the income tax benefits on dividends declared in fiscal years beginning after December 15, 2007. The Company is currently assessing the impact EITF Issue No. 06-11 will have on its consolidated statement of financial condition.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007

(in thousands of dollars)

1. Summary of Significant Accounting Policies (continued)

Financial Instruments Owned and Financial Instruments Sold, Not Yet Purchased

Financial Instruments owned and financial instruments sold, not yet purchased, including derivative contracts held or issued for trading purposes, are recorded on a trade date basis at fair value. Fair value is generally based upon quoted market prices. If quoted market prices are not available or if liquidating the Company's position is reasonably expected to impact market prices, fair value is determined based upon other relevant factors, including dealer price quotations or price activity of similar instruments and pricing models. Pricing models consider time value and volatility factors underlying the financial instruments and other economic measurements.

Related revenues and expenses are recorded in the accounts on a trade date basis. Unrealized gains and losses from marking-to-market trading instruments daily are included in principal transactions revenue. Realized gains and losses on trading instruments and any related interest amounts are included in principal transactions revenue and interest revenue and expense, respectively.

Derivative Financial Instruments

A derivative is typically defined as an instrument whose value is "derived" from an underlying instrument or index such as a forward, future, swap or option contract and other financial instruments with similar characteristics. A derivative financial instrument also includes firm or standby commitments for the purchase of securities.

The derivative definition does not include cash instruments whose values are derived from changes in the value of some asset or index, such as mortgage-backed securities. Derivative contracts used by the Company generally represent future commitments to exchange interest payment streams based on the gross contract or notional amount or to purchase or sell financial instruments at specified terms and future dates.

In connection with the Company's trading activities, the Company may take a position based upon expected future market conditions. The Company also takes positions to facilitate client transactions.

Derivative instruments held or issued for trading purposes are marked-to-market with the resulting unrealized gains and losses recorded on the consolidated statement of financial condition in financial instruments owned or liabilities and the related profit or loss reflected in principal transactions revenues on the consolidated statement of income. The fair value of exchange-traded derivatives, such as futures and certain option contracts, are determined by quoted market prices while the fair value of derivatives negotiated in over-the-counter markets are valued based upon dealer price quotations or pricing models which consider time value and the volatility of the underlying instruments, as well as other economic factors.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007

(in thousands of dollars)

1. Summary of Significant Accounting Policies (continued)

Substantially all of the Company's other financial instruments are carried at fair value or amounts approximating fair value. Assets, including securities segregated for regulatory purposes and certain receivables, are carried at fair value or contracted amounts which approximate fair value. Similarly, liabilities including short-term borrowings, certain payables and long-term and subordinated liabilities are carried at fair value or contractual amounts approximating fair value.

Collateralized Securities Transactions

Securities purchased under agreements to resell ("resale agreements") and securities sold under agreements to repurchase ("repurchase agreements"), principally U.S. government and agency securities, are accounted for as financing transactions and are recorded at their contractual amounts, plus accrued interest. It is Company policy to obtain possession or control of securities, which have a fair value in excess of the original principal amount loaned, in order to collateralize resale agreements. The Company is required to provide securities to counterparties in order to collateralize repurchase agreements.

On a daily basis, the Company monitors the fair value of the securities purchased and sold under these agreements. Should the fair value of the securities purchased decline, or the fair value of securities sold increase, additional collateral is requested or excess collateral is returned when deemed appropriate to maintain contractual margin protection. When specific conditions are met, including the existence of a legally enforceable master netting agreement, balances relating to resale agreements and repurchase agreements may be netted by counterparty in the consolidated statement of financial condition.

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received in connection with the transaction. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. With respect to securities loaned, the Company receives collateral.

The initial collateral advanced or received has a fair value equal to or greater than the fair value of the securities borrowed or loaned. The Company monitors the fair value of the securities borrowed and loaned on a daily basis and requests additional collateral or returns excess collateral, as appropriate.

In the normal course of business, the Company has margin securities, and obtains securities under agreements to resell and securities borrowed on terms which permit it to repledge or resell the securities to others. At December 31, 2007, the Company obtained and had available securities with a fair value of approximately \$26,300,000 on such terms, of which approximately \$22,000,000 have been either pledged or otherwise transferred to others in connection with the Company's financing activities or to satisfy commitments under short sales.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007

(in thousands of dollars)

1. Summary of Significant Accounting Policies (continued)

Revenues

Commission income is recognized on settlement date. Recording commissions on a trade date basis would not have a material effect on the consolidated financial statements, taken as a whole. Asset management and investment banking fees are recognized in the period in which they are earned.

Depreciation and Amortization

The Company depreciates office and other equipment using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the remaining term of the lease.

Income Taxes

Certain income and expense items are accounted for in different periods for income tax purposes than for financial reporting purposes. Provisions for deferred taxes are made in recognition of these temporary differences in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109").

The Company is included in the consolidated federal income tax return and certain combined state and local tax returns of UBS Americas. Federal, state and local, and foreign taxes are provided for on a separate return basis.

Cash and Cash Equivalents

Cash and cash equivalents are defined as highly liquid investments not held for resale, with a maturity of three months or less when purchased. Cash and cash equivalents are carried at cost plus accrued interest, which approximates fair value.

Goodwill

The Company has adopted SFAS 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets." SFAS 141 requires reclassification of intangible assets to goodwill which no longer meet the recognition criteria under the new standard. SFAS 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized but be tested annually for impairment. Identifiable intangible assets with finite lives will continue to be amortized.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007
(in thousands of dollars)

2. Financial Instruments Owned and Financial Instruments Sold, Not Yet Purchased

At December 31, 2007, financial instruments owned (including those pledged to creditors) and liabilities, recorded at fair value, consisted of the following:

Financial instruments owned

Commercial paper and other short-term debt	\$	847,672
U.S. government and agency securities		174,045
Equity securities		63,045
Mortgage-backed securities		1,916
State and municipal obligations		1,670
Corporate debt obligations		407
	\$	<u>1,088,755</u>

Financial instruments sold, not yet purchased

U.S. government and agency securities	\$	16,099
Mortgage-backed securities		1,699
Corporate debt		19
	\$	<u>17,817</u>

Financial instruments sold, not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk as the Company's ultimate obligation to satisfy the financial instruments sold, not yet purchased may exceed the amount reflected in the consolidated statement of financial condition.

3. Related Party Transactions

In the normal course of business, the Company enters into transactions with affiliated companies. At December 31, 2007, the consolidated statement of financial condition included the following balances with affiliates:

Assets

Securities purchased under agreements to resell	\$	11,101,049
Securities borrowed		1,944,990
Cash and securities segregated and on deposit for federal and other regulations		2,092,430
Securities received as collateral		293,054
Receivables from affiliated companies		83,485

Liabilities

Securities sold under agreements to repurchase	\$	3,026,844
Securities loaned		973,201
Payable to affiliated companies		1,464,960
Subordinated liabilities		2,130,000
Obligation to return securities		293,054
Long-term borrowings		105,000

In the normal course of business, the Company enters into resale and repurchase agreements and securities lending transactions with affiliated companies in order to facilitate client transactions and to meet its short-term financing needs.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007

(in thousands of dollars)

3. Related Party Transactions (continued)

Included in cash and securities segregated and on deposit for federal and other regulations on the consolidated statement of financial condition are securities purchased under agreements to resell with an affiliate, UBS Securities LLC ("UBSS LLC"), of \$1,765,800 which are maintained in a special reserve account, at a third party bank, pursuant to the Securities and Exchange Commission ("SEC") Rule 15c3-3. In addition, cash and securities segregated and on deposit for federal and other regulations includes \$326,630 of cash and securities sent to UBSS LLC and maintained in a special reserve account.

A substantial portion of the payable to affiliated companies represents amounts due to UBS Cayman, which facilitates the funding between UBSFSI and affiliates. Interest on intercompany balances is based on the federal funds rate or the London Interbank Offered Rate ("LIBOR").

Pursuant to service level arrangements, the Company receives and provides certain services from and to affiliates. The significant arrangements in which the Company receives services include an agreement with UBS Services USA LLC for administrative and operational support services, and agreements with UBSS LLC and UBS for operational support services and securities research services. In 2007, administrative back office services were also provided by the UBS (India) Service Center. The significant arrangements where the Company provides services to affiliates include agreements with UBS Bank USA LLC ("UBS Bank") and UBS International Inc.

Pursuant to a service level agreement, assignments and subleases, the Company has obligations to UBS and certain other affiliates which have entered into various noncancelable operating lease agreements on the Company's behalf.

The Company clears commodity transactions on an omnibus basis and also clears certain mortgage-backed transactions on a fully disclosed basis through UBSS LLC.

The Company did not pay any dividends to UBS Americas during the year ended December 31, 2007.

4. Short-Term Borrowings

The Company meets its short-term financing needs by borrowing from affiliates, obtaining bank loans, on either a secured or unsecured basis, entering into agreements to repurchase, whereby securities are sold with a commitment to repurchase at a future date, and through securities lending activity.

5. Long-Term Borrowings

Long-term borrowings at December 31, 2007 consisted of a secured promissory note with UBS Americas for \$105,000, due October 31, 2010. The Note shall be payable as to principal in one payment on October 31, 2010 (the "Maturity Date") and shall bear interest from the closing date on the unpaid principal amount thereof at a rate per annum equal to the USD Overnight LIBOR as posted daily by the British Bankers Association. This note is classified as a long-term borrowing, which is collateralized by certain assets of the Company,

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007

(in thousands of dollars)

5. Long-Term Borrowings (continued)

totaling \$348,867 (the "Collateral"). UBS Americas' sole recourse is limited to the Collateral and in accordance with net capital rules as discussed in Note (10), \$105,000 of such assets are included as allowable assets in the calculation of regulatory capital.

6. Subordinated Liabilities

Under the terms of the Junior Subordinated Revolving Credit Agreement between UBSFSI and UBS Americas, UBS Americas has agreed to make revolving credit loans to UBSFSI up to a maximum of \$2,500,000, from time to time, until March 1, 2009. In addition, each loan shall have a March 1, 2010 maturity date and bear interest at a rate based upon USD Overnight LIBOR as posted daily by the British Banker's Association. At December 31, 2007, there was \$2,130,000 outstanding which is due March 1, 2010.

The loan is subordinated to claims of general creditors, is covered by an agreement approved by the FINRA and other regulatory authorities and is included by the Company for purposes of computing net capital under the SEC Uniform Net Capital Rule and NYSE Rule 326. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

7. Risk Management

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

Market Risk

Market risk is the potential change in value of the financial instrument caused by unfavorable changes in interest rates, equity prices and foreign currency exchange rates. The Company has a variety of methods to monitor its market risk profile. The senior management of each business area is responsible for reviewing trading positions, exposures, profits and losses, and trading strategies. The Company has a risk control group which reviews the Company's risk profile and aids in setting and monitoring risk policies of the Company, including monitoring adherence to the established limits, performing market risk modeling, and reviewing trading positions and hedging strategies.

Market risk modeling is based on estimating potential loss through models such as Value-at-Risk. Other market risk control procedures include monitoring inventory agings, reviewing traders' marks, and regular meetings between the senior management of the business groups and the risk control group.

Credit Risk in Proprietary Transactions

Counterparties to the Company's financing activities are primarily affiliates and other financial institutions, including banks, brokers and dealers, investment funds and insurance companies. Credit losses could arise should counterparties fail to perform and the value of any collateral prove inadequate. The Company manages credit risk by monitoring net exposure to individual counterparties on a

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007

(in thousands of dollars)

7. Risk Management (continued)

daily basis, monitoring credit limits and requiring additional collateral where appropriate.

Receivables and payables with brokers and dealers, agreements to resell and repurchase securities, and securities borrowed and loaned are generally collateralized by cash, and U.S. government and agency securities. Additional collateral is requested when considered necessary. The Company may pledge clients' margin securities as collateral in support of securities loaned and bank loans, as well as to satisfy margin requirements at clearing organizations. For margin loans, the amounts loaned or pledged are limited to the extent permitted by applicable margin regulations. Should the counterparty fail to return the clients' securities, the Company may be required to replace them at prevailing market prices. At December 31, 2007, the market value of client securities loaned to other brokers approximated the amounts due or collateral obtained.

Credit Risk in Client Activities

Client transactions are entered on either a cash or margin basis. In a margin transaction, the Company extends credit to a client, using the securities purchased and/or other securities held on behalf of the client, as collateral for amounts loaned. Amounts loaned are limited by margin regulations of the Federal Reserve Board and other regulatory authorities and are subject to the Company's credit review and daily monitoring procedures. Market declines could, however, reduce the value of any collateral below the principal amount loaned, plus accrued interest, before the collateral can be sold.

Client transactions include positions in commodities and financial futures, financial instruments sold, not yet purchased and written options. The risk to the Company's clients in these transactions can be substantial, principally due to price volatility which can reduce the clients' ability to meet their obligations. Margin deposit requirements pertaining to commodity futures and options transactions are generally lower than those for exchange-traded securities. To the extent clients are unable to meet their commitments to the Company and margin deposits are insufficient to cover outstanding liabilities, the Company may take market action and credit losses could be realized.

Client trades are recorded on a settlement date basis. Should either the client or broker fail to perform, the Company may be required to complete the transaction at prevailing market prices. Trades pending at December 31, 2007 were settled without material adverse effect on the consolidated statement of financial condition, taken as a whole.

Concentrations of Credit Risk

Concentrations of credit risk that arise from financial instruments (whether on- or off-balance sheet) exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet obligations to be similarly affected by economic, industry or geographic factors. The Company seeks to control its credit risk and the potential for risk concentration through a variety of reporting and control procedures.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007

(in thousands of dollars)

7. Risk Management (continued)

The Company's most significant industry concentration, which arises within its normal course of business activities, is with affiliates and other financial institutions including banks, brokers and dealers, investment funds and insurance companies.

Operational Risk

Operational risk focuses on the Company's ability to accumulate, process and communicate information necessary to conduct its daily operations. Deficiencies in technology, financial systems and controls, and losses attributable to operational problems all pose potential operating risks. In order to mitigate these risks, the Company has established and maintains an operational risk framework which incorporates various control mechanisms. The framework involves various oversight functions, such as risk, audit, accounting, controllers, legal and compliance. Certain of these functions are performed by affiliates on the Company's behalf.

8. Commitments and Contingencies

Leases

The Company leases office space and equipment under noncancelable operating and capital lease agreements which expire at various dates through 2023.

At December 31, 2007, the aggregate minimum future payments required by operating leases with initial or remaining lease terms exceeding one year, were as follows:

	Total Rent Payments	Total Sublease Receipts
2008	\$ 174,584	\$ 25,878
2009	164,770	25,966
2010	146,341	25,850
2011	131,649	25,869
2012	119,575	26,101
Thereafter	612,621	137,342
	<u>\$1,349,540</u>	<u>\$ 267,006</u>

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

Other Commitments and Contingencies

At December 31, 2007 the Company is contingently liable under standby letters of credit issued by third party banks, totaling \$366,331 which approximated fair value.

In meeting the financing needs of certain of its clients, the Company may also issue standby letters of credit, which are fully collateralized by customer margin securities. At December 31, 2007, the Company had outstanding \$259,482 of such standby letters of credit.

In the normal course of business, the Company enters into when-issued transactions and underwriting commitments in its subsidiary, UBS Financial Services Incorporated of Puerto Rico. Settlement of these transactions at December 31, 2007 would not have had a material impact on the consolidated statement of financial condition, taken as a whole.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007

(in thousands of dollars)

8. Commitments and Contingencies (continued)

Various claims and legal proceedings generally incidental to the normal course of business are pending or threatened against the Company. While the ultimate liability from these proceedings is presently indeterminable, in the opinion of management of the Company, after consultation with various counsel handling the matters, any additional liability is not expected to have a material adverse effect on the consolidated statement of financial condition.

9. Stockholder's Equity

There are one hundred shares authorized, issued and outstanding of one dollar par value common stock. Also, included as a direct increase to stockholder's equity is the tax benefit resulting from the exercise of employees' UBS stock options and change in market price between grant date and vesting date of UBS restricted stock.

10. Regulatory Requirements

The Company is subject to the SEC Uniform Net Capital Rule (15c-3-1) and the New York Stock Exchange ("NYSE") Growth and Business Reduction capital requirements. Under the alternative method of computing capital requirements adopted by the Company, minimum net capital shall not be less than 2% of combined aggregate debit items arising from client transactions, plus excess margin collected on resale agreements, as defined. A reduction of business is required if net capital is less than 4% of such aggregate debit items. Business may not be expanded if net capital is less than 5% of such aggregate debit items. At December 31, 2007, the Company's net capital of \$1,107,730 was 17.58% of its December 31, 2007 aggregate debit items and its net capital in excess of the minimum required was \$976,892.

Advances to UBS Americas and its affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the net capital rules of the SEC, NYSE and FINRA.

11. Employee Incentive Awards

Employees of the Company are covered under UBS's various Stock, Option and Award Plans which provide for the granting of restricted stock, nonqualified stock options, cash and restricted stock awards, and other stock based awards.

Restricted stock awards are granted to key employees through the UBS Equity Ownership Plan. These awards are mandatory deferrals from the employee's year-end incentive bonus that is above a certain level and are expensed up front in the performance year. The awards contain restrictions on sale or transfer lapsing over three years. These restricted stock awards are subject to forfeiture if the employee terminates prior to the end of the prescribed restriction period for cause or to join a competitor. Restricted stock awards may also be granted as part of a new hire recruiting package. The new hire awards generally contain restrictions on sale or transfer lapsing over three or ten years. These new hire awards are subject to forfeiture if the employee terminates prior to the end of the prescribed restriction period for cause or to join a competitor. These new hire awards are expensed over the vesting period.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007
(in thousands of dollars)

11. Employee Incentive Awards (continued)

Awards are granted to employees by UBS and the share delivery obligations are satisfied by UBS under its option-based participation plans either by purchasing UBS shares in the market on grant date or shortly thereafter or through the issuance of new shares. At exercise, shares held in treasury or newly issued shares are delivered to the employee against receipt of the strike price.

Certain employees are granted nonqualified stock options to purchase shares of UBS common stock at a price not less than the fair market value of the stock on the date the option is granted. The rights generally expire within seven to ten years after the date of grant.

With respect to the fair value of option awards, the Company uses a mix of implied and historical volatility instead of solely historical volatility and specific employee behavior patterns based on statistical data instead of a single expected life input.

The fair value of options granted during 2007 was determined using the following assumptions (in CHF):

2008 Awards	Weighted Average	Range Low	Range High
Expected volatility (%)	23.86	22.51	29.23
Risk free interest rate (%)	2.58	2.46	3.27
Expected dividend	3.13	2.20	4.56
Strike price	71.31	55.48	78.80
Share price	70.25	55.48	78.80

The valuation technique takes into account the specific terms and conditions under which the share options are granted such as the vesting period, forced exercised during the lifetime, and gain and time dependent exercise behavior.

Certain eligible employees of the Company participate in the UBSFSI PartnerPlus Plan (the "PartnerPlus Plan"), a nonqualified deferred compensation plan. Under the PartnerPlus Plan, the Company makes annual contributions and the employee may elect to make voluntary pretax contributions, subject to a maximum percent of the Company contribution. The Company and employee contributions earn tax-deferred interest and are subject to certain vesting provisions, generally over a six to ten year period. The awards and related interest are expensed on a straight line basis over the vesting period.

The Company has entered into various agreements with certain of its Financial Advisors whereby these Financial Advisors receive a forgivable loan. These employee forgivable loans ("EFLs") have been capitalized and are being amortized on a straight-line basis over the terms specified in each agreement.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007

(in thousands of dollars)

12. Employee Benefit Plans

Defined Benefit Pension Plan

Eligible employees of the Company were included in the non-contributory defined benefit pension plan of UBSFSI (the "Plan"), which was frozen in 1998.

The following table shows the changes in the projected benefit obligation and fair value of plan assets during 2007, as well as the funded status of the Plan which is included in accrued compensation and benefits on the Company's consolidated statement of financial condition at December 31, 2007:

Change in benefit obligation:

Benefit obligation at beginning of year	\$ 747,872
Service cost	7,031
Interest cost	41,764
Actuarial gain	(35,312)
Benefits paid	(44,448)
Benefit obligation at end of year	<u>716,907</u>

Change in Plan assets:

Fair value of Plan assets at beginning of year	641,868
Actual return on assets	51,271
Benefits paid	(44,448)
Fair value of Plan assets at end of year	<u>648,691</u>
Funded status at end of year	<u>\$ (68,216)</u>

The measurement date was December 31, 2007. The accumulated benefit obligation was \$713,453 for the year ended December 31, 2007.

For 2007, the benefit obligation for the Plan was determined using an assumed discount rate of 6.50% and an assumed rate of compensation increase of 4%. The weighted-average assumed rate of return on Plan assets was 8.5%. The weighted average of the expected returns for each asset class was used in determining the expected long-term rate of return on plan assets.

The underfunded status of the plan of \$68,216 at December 31, 2007 is recognized in the accompanying consolidated statement of financial condition in accrued compensation and benefits as long-term accrued pension liability. No plan assets are expected to be returned to the Company during the fiscal year-ended December 31, 2007.

The prior service cost and actuarial loss that are included in accumulated other comprehensive income and expected to be recognized in net periodic pension cost during the fiscal year-ended December 31, 2008 is \$0 and \$7,322, respectively.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007
(in thousands of dollars)

12. Employee Benefit Plans (continued)

UBSFSI Pension Plan's weighted average asset allocations at December 31, 2007 by asset category are as follows:

Asset Category

Equity securities*	65%
Debt securities*	32%
Other	3%
Total	<u>100%</u>

Investment Policies and Strategies

The Plan's long-term asset allocation target is 65% equity securities and 35% fixed income securities with a range of plus or minus 5%. The equity allocation includes U.S. equity of large, medium and small capitalization companies, international equity and alternative investments. The fixed income allocation includes U.S. long-term fixed income and opportunistic investments in high yield and international fixed income.

Postretirement Medical and Life Plans

The underfunded status of the plan of \$13,715 at December 31, 2007 is recognized in the accompanying consolidated statement of financial condition as \$12,888 as a long-term accrued pension liability and \$827 as a current liability. No plan assets are expected to be returned to the Company during the fiscal year-ended December 31, 2007.

The prior service cost, and actuarial loss that are included in accumulated other comprehensive income and expected to be recognized in net periodic pension cost during the fiscal year-ended December 31, 2008 is \$48 (\$28, net of tax) and \$204 (\$120, net of tax), respectively. The actuarial loss recognized in other comprehensive income in 2007 is \$286 (\$170, net of tax) and the prior service cost is \$286 (\$169, net of tax).

The following table shows the impact of a 1% change in the medical trend rate:

1% increase:

Effect on total service and interest cost	\$ 51
Effect on postretirement benefit obligation	227

1% decrease:

Effect on total service and interest cost	(47)
Effect on postretirement benefit obligation	(214)

Basis Used to Determine the Expected Long-Term Return on Plan Assets Assumption

A weighted average of the expected returns for each asset class was used in determining the expected long-term rate of return on plan assets. The expected returns are based on a capital markets model developed by the Plan's investment consultant.

*In 2007, there were no direct investments in UBS stock or debt included in the equity or debt securities components.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007
(in thousands of dollars)

12. Employee Benefit Plans (continued)

Expected Contributions

Based on the funded status of the Plan at the end of the 2007 fiscal year, UBS does not expect to contribute to the Pension Plan in 2007. This will be evaluated on a quarterly basis and is subject to change.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

Year	Defined Benefit Payments	Post Retirement Medical/Life Benefit Payments
2008	\$ 44,448	\$ 827
2009	34,951	1,376
2010	37,593	1,132
2011	40,424	1,182
2012	44,787	1,151
Years 2013 – 2017	271,044	6,619

Other Benefit Plans

Additionally, employees of the Company are eligible to participate in the UBSFSI 401(k) Plus Plan, which includes an employee savings investment plan and a defined contribution pension plan.

UBSFSI also provides certain life insurance and healthcare benefits to employees of the Company.

13. Business Combinations

On February 9, 2007, the Company acquired the branch network of McDonald Investments, a unit of KeyCorp. The cost of the business combination consisted of \$221,000 for the business operations including directly attributable transaction costs and of \$57,000 for the loans to customer portfolio of McDonald investments, resulting in a total cash consideration paid of \$278,000. The cost of the business combination was allocated to an intangible asset reflecting customer relationships of \$47,000, remaining net assets of \$53,000 including the net loans to customer portfolio, and goodwill of \$178,000.

14. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. For financial reporting purposes, net deferred tax assets are included in other assets in the consolidated statement of financial condition and are reflected with a reduction for a valuation allowance.

In accordance with SFAS 109, a valuation allowance is to be recorded whenever the ultimate realization of deferred tax assets is, more likely than not, not going to be realized. In assessing the recoverability of the deferred tax assets, the Company considered all available positive and negative evidence, including history of earnings as well as all possible tax planning strategies.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007
(in thousands of dollars)

14. Income Taxes (continued)

After consideration of all relevant evidence, the Company believes that it is more likely than not that a benefit will not be realized for certain of its foreign deferred tax assets, and accordingly, a valuation allowance of \$22,038 has been recorded.

The components of the Company's deferred tax assets and liabilities as of December 31, 2007 were as follows:

Deferred tax assets:

Employee benefits	\$ 701,660
Accelerated income and deferred deductions	105,206
Book over tax depreciation	41,466
Net operating loss carryforward – foreign	11,384
Sub – total	<u>859,716</u>
Valuation allowance	(22,038)
Total deferred tax assets	<u>837,678</u>

Deferred tax liabilities:

Valuation of trading assets and investments	5,423
Accelerated deductions and deferred income	20,921
Total deferred tax liabilities	<u>26,344</u>
Net deferred tax asset	<u>\$ 811,334</u>

At December 31, 2007, the Company's net operating loss carryforwards for foreign income tax purposes will begin to expire in 2012. For foreign income tax purposes there is no carryback allowed.

The effective tax rate for the Company differs from the statutory federal rate primarily due to state and local taxes, valuation allowance on certain of the Company's foreign deferred tax assets, additional reserves for state and local tax risks offset by the non-taxable royalty reimbursement.

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FASB Interpretation 48, UBSFSI did not recognize a change in the liability for unrecognized tax benefits and consequently the January 1, 2007 balance of retained earnings was unaffected.

UBS Financial Services Inc.

Notes to Consolidated Statement of Financial Condition

December 31, 2007
(in thousands of dollars)

14. Income Taxes (continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<u>Total</u>
Balance of unrecognized tax benefits as at January 1, 2007	\$ 138,969
Gross increases in tax positions taken during prior periods	49,801
Gross decreases in tax positions taken during prior periods	(18,203)
Gross increases in tax positions taken during the current period	236
Decreases due to settlements with tax authorities	(30,056)
Decreases due to lapse of statute of limitations	30
Balance of unrecognized tax benefits as at December 31, 2007	\$ 140,777
Total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate	\$ 73,372
Total interest and penalties recognized on the Statement of Income	\$ (3,986)
Total interest and penalties recognized on the Statement of Financial Condition	\$ 51,999

The Company is a member of a consolidated group that files consolidated income tax returns in the U.S. jurisdiction and various state and local jurisdictions. In addition, the Company files separate returns in various state and local and foreign jurisdictions. As of December 31, 2007, the consolidated group of which the Company is a member remains under examination by the Internal Revenue Service ("IRS") for the tax years 2000 through 2004. As the IRS audit examination of the consolidated group is expected to be completed in 2008, the Company believes that at the completion of the audit it is reasonably possible that reserves will decrease in the range of \$21,000 to \$33,000 by the end of 2008. As the completion of the IRS audit examination will affect the unrecognized tax benefits related to the state and local jurisdictions, the Company believes that such unrecognized tax benefits will decrease in the range of \$2,900 and \$6,000 by the end of 2008.

The company is currently under audit for the periods 1997 – 2006 with respect to various state & local taxing jurisdictions. While there is currently no ongoing audit of the foreign income tax return, tax years beginning 2003 – 2006 remain open for examination.

15. Prior Period Adjustment

During 2007, the Company restated the beginning balance of additional paid-in capital in the amount of \$5,122 and retained earnings in the amount of \$13,282, both reflected on an after-tax basis, for prior period adjustments related to certain tax benefits on employee compensation and deferred taxes.

Account Protection

(in actual dollars)

The Firm is a member of the Securities Investor Protection Corporation (SIPC). SIPC provides protection for your account(s) at the Firm for up to \$500,000 per customer, including a maximum of \$100,000 for free cash balances at the Firm in the unlikely event that the Firm fails financially. The SIPC asset protection limits apply to all accounts that you hold in a particular capacity. For example, if you have two accounts at the Firm where you are the sole account holder and a third account where you are a joint account holder, the two accounts are protected under SIPC up to a combined \$500,000 (not \$500,000 each), and the joint account is protected under SIPC separately for \$500,000. The Firm, together with certain affiliates, has also purchased supplemental protection. The maximum amount payable under the policy is \$600 million. Subject to this policy limit, cash at the Firm is protected up to \$1 million in the aggregate (including \$100,000 from SIPC) for all your accounts held in a particular capacity at UBS Financial Services. The SIPC protection and the supplemental protection both do not apply to (a) certain financial assets held away from UBS Financial Services Inc., even if controlled by the Firm and included in your account value (e.g., certain (i) cash on deposit at UBS Bank USA, (ii) insurance products (including variable annuities), and (iii) shares of mutual funds where such shares are registered directly in the name of the account holder on the books and records of the applicable issuer or transfer agent); (b) certain investment contracts or investment interests (e.g., limited partnerships and private placements) that are not registered under the Securities Act of 1933; and (c) commodities contracts (e.g., foreign exchange and precious metal contracts), including futures contracts and commodity option contracts. The SIPC protection and the supplemental protection do not apply to these assets even if they otherwise appear on your statements. The SIPC protection and the supplemental protection do not protect against changes in the market value of your investments (whether as a result of market movement, issuer bankruptcy or otherwise). More information is available upon request, or by visiting the SIPC website at www.sipc.org. You may also obtain information about SIPC, including the SIPC brochure, by contacting SIPC at (202) 371-8300.

UBS Financial Services is not a bank. Unless otherwise disclosed, securities and other investments held through UBS Financial Services ARE NOT FDIC-INSURED, ARE NOT BANK GUARANTEED, AND MAY LOSE VALUE.

©2008 UBS Financial Services Inc. All Rights Reserved. Member SIPC.



UBS Financial Services Inc.
www.ubs.com/financialservicesinc
080311-0667

UBS Financial Services Inc. is a subsidiary of UBS AG.