

Consolidated Statement of Financial Condition

June 30, 2007

Securities products and services
are offered through
Prudential Equity Group, LLC
a Prudential company.



Prudential Equity Group, LLC and Subsidiaries Consolidated Statement of Financial Condition June 30, 2007 (in thousands)

Assets	
Cash and cash equivalents	\$21,887
Cash and securities segregated under federal and other regulations	105
Securities purchased under agreements to resell	105,366
Receivable from clearing organizations	3,184
Financial instruments owned, at fair value, on deposits with clearing broker:	
U.S. government and federal agency debt	36,935
Financial instruments owned, at fair value:	
Money market funds	45,000
Corporate debt	60,005
Commercial paper and certificates of deposit	12,142
Restricted equity investments	29,808
Firm Investments and other	10,736
Other assets	2,887
	<u>\$328,055</u>
Liabilities and Member's Equity	
Liabilities	
Financial instruments sold, but not yet purchased, at fair value:	
Equities	\$2
Due to affiliates	32,040
Accrued expenses and other liabilities	175,271
	<u>207,313</u>
Member's Equity	
Contributed capital	1,290,283
Accumulated losses	(1,170,550)
Accumulated other comprehensive income	1,009
Total Member's Equity	<u>120,742</u>
	<u>\$328,055</u>

The accompanying notes are an integral part of this consolidated financial statement.

Notes to Consolidated Statement of Financial Condition June 30, 2007 (in thousands, except where noted)

1. Summary of Significant Accounting Policies

This Consolidated Statement of Financial Condition includes the accounts of Prudential Equity Group, LLC and its subsidiaries (the "Company"), formerly known as Prudential Securities Incorporated and subsidiaries ("PSI"). As of February 2, 2004, the Company converted to a Limited Liability Company whose sole member is Prudential Securities Group Inc. (the "Parent"). The Parent is an indirect wholly-owned subsidiary of Prudential Financial, Inc. ("Prudential"). All material intercompany balances and transactions are eliminated in consolidation.

On June 6, 2007, Prudential announced its decision to exit the Company's principal business activities of providing equity research, sales and trading services to institutions in the United States, Europe and Japan that invest in U.S. equity securities. The Company's operations were substantially wound down by June 30, 2007, resulting in a \$106 million pretax loss in connection with this decision, primarily related to employee severance costs which are included in Accrued expenses and other liabilities in the Consolidated Statement of Financial Condition. Any compensation costs accrued up to the point the decision to wind down the principal business activities of the Company was made were also included in Accrued expenses and other liabilities on the Consolidated Statement of Financial Condition. The Company estimates it will incur approximately \$10 million of additional costs during 2007 in connection with this decision.

Proprietary securities transactions, commission revenues and related expenses are recorded on a trade date basis. Client transactions are recorded on a settlement date basis.

Cash equivalents are short-term interest-earning deposits.

Other assets consist primarily of exchange memberships and prepaid expenses. Accrued expenses and other liabilities consist primarily of costs relating to the decision to exit the equity sales, trading and research operations, and legal reserves.

Amounts related to contingencies are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable. Management evaluates whether there are incremental legal or other costs directly associated with the ultimate resolution of a matter that are reasonably estimable and, if so, such costs are included in the accrual.

In the ordinary course of business, the Company participates in a variety of financial transactions and administrative services with its Parent and affiliates as described in Notes 5, 6, 7, and 9. At June 30, 2007, approximately \$223 million of the Company's assets are managed by an affiliate, Prudential Investment Management.

The preparation of the Financial Statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Statement of Financial Condition. Actual results

could differ from those estimates and could have a material impact on the Consolidated Statement of Financial Condition. It is possible that such changes could occur in the near term. In presenting the Consolidated Statement of Financial Condition management makes estimates regarding the outcome of litigation, certain trading inventory valuations, certain costs allocated by affiliates and other matters that affect the reported amounts and disclosure of contingencies in the Consolidated Statement of Financial Condition.

2. Cash and Securities Segregated Under Federal and Other Regulations

The Company has segregated assets in cash totaling \$105 at June 30, 2007 under various regulatory requirements primarily representing funds deposited and accruing to customers as a result of trades or contracts.

3. Resale Agreements

Securities purchased under agreements to resell are accounted for as collateralized financing transactions and are carried at contract value plus accrued interest. It is Company policy to take possession or control of securities purchased under agreements to resell and to value the securities daily. To ensure the market value of the underlying collateral remains sufficient to protect against credit risk, additional collateral is obtained when deemed appropriate. The market value of collateral obtained by the Company pursuant to such agreement as of June 30, 2007 is \$105,366.

4. Financial Instruments Owned and Financial Instruments Sold But Not Yet Purchased

Financial instruments owned and financial instruments sold but not yet purchased are recorded on a trade date basis and are carried at fair value. Fair value is based on quoted market prices or dealer quotes where those are available and considered reliable. Additionally, other factors may be considered where appropriate such as market prices for related or similar financial instruments and coupon, yield, credit quality, prepayment terms, volatility and other economic factors.

The Restricted equity investments represent 641,416 shares in NYSE Euronext as a result of the conversion of the Company's exchange membership seats in the NYSE to NYSE Euronext common stock. The fair value of the NYSE Euronext shares is \$29,808 as of June 30, 2007. Restrictions on 320,708 shares have subsequently expired, the impact of the restrictions lifting were included in the third quarter of 2007. The remaining shares will expire in 2009. In determining its estimate of fair value, management has established a liquidity reserve against the market value of these securities in order to reflect the investment at fair value due to the restrictions on sale.

5. Income Taxes

In accordance with federal and applicable state tax law, the Company is treated as a branch of its single member owner, Prudential Securities Group Inc. The Parent is included in the consolidated federal income tax return of Prudential. The Parent also files separate state income tax returns and is included in certain consolidated state income tax returns.

All federal and state income tax liabilities and/or benefits incurred after February 2, 2004 are passed through to the sole member owner in

accordance with the Internal Revenue Code. The Company no longer files separate state income tax returns. Prior to converting to a Limited Liability Company, the Company was a member of a group of affiliated companies which joined in filing a consolidated federal income tax return. In addition, the Company also filed separate state and local income tax returns.

Pursuant to the tax allocation agreement, federal, state and local income tax expense is determined on a separate company basis. Members with losses record current tax benefits to the extent such losses are recognized in the consolidated federal and state and local tax provisions.

Total allocated federal, state and local taxes are paid by/to the Parent. Deferred taxes are recorded on the Parent's financial statements and therefore deferred taxes are not provided. The U.S. Federal, state and local tax benefit of \$10,410 was settled as a distribution from capital to its Parent in accordance with the Company's tax sharing agreement.

The Internal Revenue Service (the "Service") has completed all fieldwork with regards to its examination of the consolidated federal income tax returns for tax years 2002-2003. The Company and Service have agreed on all proposed adjustments. The Company submitted the final report to the Joint Committee on Taxation for their review in March of 2007. Management believes the close of the 2002 and 2003 examination does not result in material financial adjustment for the Company. In addition, the Service in January 2007 began an examination of tax years 2004 through 2006.

For tax year 2007, the Company has chosen to participate in the Service's new Compliance Assurance Program (the "CAP"). Under CAP, the Service assigns an examination team to review completed transactions contemporaneously during the 2007 tax year in order to reach agreement with the Company on how they should be reported in the tax return. If disagreements arise, accelerated resolutions programs are available to resolve the disagreements in a timely manner before the tax return is filed. It is management's expectation this new program will significantly shorten the time period between when the Company files its federal income tax return and the Service completes its examination of the return.

In July 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes" an interpretation of FASB Statement No. 109. This Interpretation prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN No. 48 on January 1, 2007, and it did not have a material effect on the Company's financial position or results of operations.

6. Net Capital Requirements

The Company is subject to the Uniform Net Capital Rule under the Securities Exchange Act of 1934. Under this Rule, the Company is required to maintain net capital, as defined, of not less than the minimum dollar net capital requirement of a reporting broker or dealer. At June 30, 2007, the Company has net capital of \$57,732 which is \$56,732 in excess of the minimum required net capital. See Note 9 regarding Prudential's guarantee to adequately fund the Company's net capital requirement.

At July 31, 2007, the Company has net capital of \$77,408, which is \$76,408 in excess of the minimum required net capital.

The Company operates the majority of its business under the provisions of paragraph (k) (2) (ii) of Rule 15c3-3 of the Securities Exchange Act of 1934 as a fully-disclosed introducing broker and, accordingly, customer accounts are carried on the books of the Clearing Broker.

The Company's ability to make capital and certain other distributions is subject to the rules and regulations of various exchanges, clearing organizations and other regulatory agencies.

7. Benefit Plans

Pension Plans

Substantially all of the Company's employees participate in a defined benefit pension plan sponsored by Prudential. Prudential charges these costs to the Company and maintains the ultimate obligation.

Other Employee Benefits

Prudential sponsors a voluntary 401(k) savings plan for employees. The plan provides for salary reduction contributions by employees and matching contributions by Prudential of up to 4% of annual salary.

Other Postretirement Benefits

Prudential provides for certain healthcare and life insurance benefits for eligible retired employees of the Company. Prudential charges these costs to the Company and maintains the ultimate obligation.

Stock-Based Compensation

In 2006 and prior, Prudential issued stock-based compensation in the form of stock options, restricted stock shares, restricted stock units and performance share awards.

Effective January 1, 2003, Prudential and the Company changed its accounting for employee stock options to adopt the fair value recognition provisions of SFAS No. 123 "Accounting for Stock-Based Compensation," as amended, prospectively for all new stock options granted to employees on or after January 1, 2003. Accordingly, the Company records the allocated compensation costs for these stock options over the requisite service period, generally three years, with a charge to compensation expense. Prior to January 1, 2003, Prudential and the Company accounted for employee stock options using the intrinsic value method of APB No. 25 "Accounting for Stock Issued to Employees," and related interpretations. Under this method, Prudential and the Company did not recognize any stock-based compensation expense for employee stock options as all options granted had an exercise price equal to the market value of Prudential's Common Stock on the date of grant.

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment," which replaces SFAS No. 123. SFAS No. 123(R) requires all entities to apply the fair value based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. Under this method, compensation costs of awards to employees, such as stock options, are measured at fair value and expensed over the period during which an employee is required to provide service in exchange for the award (requisite service period). As described above, Prudential and the Company had previously adopted the fair value recognition provisions of the original SFAS No. 123, prospectively for all new stock options issued to employees on or after January 1, 2003.

The Company adopted SFAS No. 123(R) on January 1, 2006. By that date, there were no unvested stock options issued prior to January 1, 2003. Accordingly, there was no material change to the Consolidated Statement of Financial Condition.

8. Risk Management

As mentioned in Note 1, Company assets of \$223 million are managed by an affiliate, Prudential Investment Management. This affiliate employs various processes for credit review and monitoring interest rate risk while managing these assets.

9. Commitments and Contingencies

Leases

The Company leases space in the home office from a related party, Wachovia Securities Financial Holdings. The Company leases its branch and home office space under noncancelable agreements expiring at various dates through the year 2014.

At June 30, 2007, the aggregate minimum rentals (net of sublease income) due under noncancelable operating leases are as follows:

2007 (remainder of 2007)	\$6,441
2008	11,408
2009	11,043
2010	11,209
2011	10,103
Thereafter	<u>26,596</u>
	<u>\$76,800</u>

Certain occupancy leases are subject to escalation or reduction based on specified costs incurred by the landlord.

Guarantee

On February 28, 2007, Prudential agreed to provide the Company financial support as necessary in order for the Company to maintain compliance with the Uniform Net Capital Rule under the Securities Exchange Act of 1934, for a period of time of one year from the date of the letter.

Litigation

The Company is subject to various legal and regulatory actions rising principally out of the retail brokerage business it operated prior to contribution of that business to the Company's joint venture with Wachovia Securities in July 2003. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damage.

Discontinued Operations

PSI has been named as a defendant in a number of industry-wide purported class actions in the United States District Court for the Southern District of New York relating to its former securities underwriting business. Plaintiffs in one consolidated proceeding, captioned *In re: Initial Public Offering Securities Litigation*, allege, among other things, that the underwriters engaged in a scheme involving tying agreements, undisclosed compensation arrangements and research analyst conflicts to manipulate and inflate the prices of shares sold in initial public offerings in violation of the federal securities laws. Certain issuers of these securities and their current and

former officers and directors have also been named as defendants. In October 2004, the district court granted plaintiffs' motion for class certification in six "focus cases." In December 2006, the United States Court of Appeals for the Second Circuit vacated that decision. In August 2000, PSI was named as a defendant, along with other underwriters, in a purported class action, captioned *CHS Electronics Inc. v. Credit Suisse First Boston Corp. et al.*, which alleges on behalf of issuers of securities in initial public offerings that the defendants conspired to fix at 7% the discount that underwriting syndicates receive from issuers in violation of federal antitrust laws. Plaintiffs moved for class certification in September 2004, and for partial summary judgment in November 2005. The summary judgment motion has been deferred pending disposition of the class certification motion. In April 2006, the court denied class certification. In September 2007, the Second Circuit reversed the court's decision denying class certification and remanded the action to the district court for further proceedings. In a related action, captioned *Gillet v. Goldman Sachs et al.*, plaintiffs allege substantially the same antitrust claims on behalf of investors, though only injunctive relief is currently being sought.

Mutual Fund Market Timing Practices

In August 2006, the Company reached a resolution of the previously disclosed regulatory and criminal investigations into deceptive market-related activities involving the Company's former PSI operations. The settlements relate to conduct that generally occurred between 1999 and 2003 involving certain former PSI brokers in Boston and certain other branch offices in the U.S., their supervisors and other members of the PSI control structure with responsibilities that related to the market timing activities, including certain former members of PSI senior management. The PSI operations were contributed to a joint venture with Wachovia Corporation in July 2003, but the Company retained liability for the market timing related activities. In connection with the resolution of the investigations, the Company entered into separate settlements with each of the United States Attorney for the District of Massachusetts ("USAO"), the Secretary of the Commonwealth of Massachusetts, Securities Division, SEC, the National Association of Securities Dealers, the New York Stock Exchange, the New Jersey Bureau of Securities and the New York Attorney General's Office. These settlements resolve the investigations by the above named authorities into these matters as to all Prudential entities without further regulatory proceedings or filing of charges so long as the terms of the settlements are followed and provided, in the case of the settlement agreement reached with the USAO, that the USAO has reserved the right to prosecute the Company if there is a material breach by the Company of that agreement during its five-year term and in certain other specified events. Under the terms of the settlements, the Company paid \$270 million into a Fair Fund administered by the SEC to compensate those harmed by the market timing activities. In addition, \$330 million was paid in fines and penalties. Pursuant to the settlements, the Company retained, at the Company's ongoing cost and expense, the services of an Independent Distribution Consultant acceptable to certain of the authorities to develop a proposed distribution plan for the distribution of Fair Fund amounts according to a methodology developed in consultation with and acceptable to certain of the authorities. In addition, as part of the settlements, the Company has agreed, among other things, to continue to cooperate with the above named authorities in any litigation, ongoing investigations or other proceedings relating to or arising from their investigations into these matters. In connection with the settlements, the Company has agreed with the USAO, among other things, to cooperate with the USAO and to maintain and periodically report on the effectiveness of its compliance procedures. The settlement documents include findings and admissions that may

adversely affect existing litigation or cause additional litigation and result in adverse publicity and other potentially adverse impacts to the Company's businesses.

In addition to the regulatory proceedings described above that were settled in 2006, in October 2004, Prudential Financial and PSI were named as defendants in several class actions brought on behalf of purchasers and holders of shares in a number of mutual fund complexes. The actions were consolidated as part of a multi-district proceeding, *In re: Mutual Fund Investment Litigation*, pending in the United States District Court for the District of Maryland. The complaints allege that the purchasers and holders were harmed by dilution of the funds' values and excessive fees, caused by market timing and late trading, and seek unspecified damages. In August 2005, the companies were dismissed from several of the actions, without prejudice to repleading the state claims, but remain defendants in other actions in the consolidated proceeding. In July 2006, in one of the consolidated mutual funds actions, *Saunders v. Putnam American Government Income Fund, et al.*, the United States District Court for the District of Maryland granted plaintiffs leave to refile their federal securities law claims against PSI. In August 2006, the second amended complaint was filed alleging federal securities law claims on behalf of a purported nationwide class of mutual fund investors seeking compensatory and punitive damages in unspecified amounts. Motions to dismiss the other action are pending.

Other

In September and October 2005, five purported class action lawsuits were filed against Prudential, PSI and the Company claiming that stockbrokers were improperly classified as exempt employees under state and federal wage and hour laws and, therefore, were improperly denied overtime pay. The complaints seek back overtime pay and statutory damages, interest, and attorneys' fees. Two of the complaints, *Janowsky v. Wachovia Securities, LLC* and *Prudential Securities Incorporated and Goldstein v. Prudential Financial, Inc.*, were filed in the United States District Court for the Southern District of New York. The *Goldstein* complaint purports to have been filed on behalf of a nationwide class. The *Janowsky* complaint alleges a class of New York brokers. Motions to dismiss and compel arbitration were filed in the *Janowsky* and *Goldstein* matters, which have been consolidated for pre-trial purposes. The three complaints filed in California Superior Court, *Dewane v. Prudential Equity Group, Prudential Securities Incorporated, and Wachovia Securities LLC; DiLustro v. Prudential Securities Incorporated, Prudential Equity Group Inc. and Wachovia Securities*; and *Carayanis v. Prudential Equity Group LLC and Prudential Securities Inc.*, purport to have been brought on behalf of classes of California brokers. In June 2006, a purported New York state class action complaint was filed in the United States District Court for the Eastern District of New York, *Panesenko v. Wachovia Securities, et al.*, alleging that PSI failed to pay overtime to brokers in violation of state and federal law. In September 2006, PSI was sued in *Badain v. Wachovia Securities, et al.*, a purported nationwide class action filed in the United States District Court for the Western District of New York. The complaint alleges that PSI failed to pay overtime to stockbrokers in violation of state and federal law and that improper deductions were made from the stockbrokers' wages in violation of state law. In December 2006, the stockbrokers' cases were transferred to the United States District Court for the Central District of California by the Judicial Panel on Multidistrict Litigation for coordinated or consolidated pre-trial proceedings.

Summary

The Company's litigation and regulatory matters are subject to many uncertainties, and, given their complexity and scope, the outcomes cannot be predicted. It is possible that the results of operations or cash flow in a particular period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period. Management believes, however, that the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on the Company's financial position.

10. Fair Value Disclosure

The financial instruments of the Company, namely reverse repurchase agreements, commercial paper and certificates of deposit are reported in the Consolidated Statement of Financial Condition at carrying amounts that approximate fair values because of the short maturities of the investments. All other financial instruments are reported in the Consolidated Statement of Financial Condition at market or fair value.

11. Subsequent Events

On August 23, 2007, the Company filed Form BDW (broker-dealer withdrawal) from the NYSE and various exchanges. It also has plans to file for withdrawal from the NASD by the end of 2007.

Subsequent to June 30, 2007 several of the branch locations that were closed in conjunction with exiting the equity research, sales and trading activities have been subleased to third parties.While lease commitments, net of sublease income, reported in Note 9 do not reflect the terms of these new sublease agreements, we expect these new agreements will have a favorable impact on expected cash flows.

Prudential Financial, Prudential and the Rock are service marks of The Prudential Insurance Company of America, Newark, NJ, and its affiliates.

A copy of our December 31, 2006 audited statement of financial condition filed pursuant to Rule 17a-5 of the Securities Exchange Act of 1934 is available for examination at our principal office at One New York Plaza and the New York Office of the Securities and Exchange Commission.

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