107246 |30

Company Number FC026974

# DRW Investments, LLC

Financial Statements for the year ended 31 December 2007

**Contents**

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with section 700 of Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

# Smith & Williamson

Limited

**Accountants' Report to the Members on the Unaudited Financial Statements of DRW Investments LLC**

In accordance with the engagement letter dated 16 June 2008 and in order to assist you to fulfil your duties under section 700 of the Companies Act 1985, we have compiled the financial statements of the company which comprise the Profit and Loss Account, the Balance Sheet and the related notes numbered 1 to 8 from the accounting records and information and explanations you have given to us

This report is made to the Company's Board of Directors, as a body, in accordance with the terms of our engagement Our work has been undertaken so that we might compile the financial statements that we have been engaged to compile, report to the Company's Board of Directors that we have done so, and state those matters that we have agreed to state to them in this report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Board of Directors, as a body, for our work or for this report.

We have carried out this engagement in accordance with technical guidance issued by the Institute of Chartered Accountants in England and Wales and have complied with the ethical guidance laid down by the Institute relating to members undertaking the compilation of financial statements

You have acknowledged on page 3 for the year ended 31 December 2007 your duty to ensure that the company has kept proper accounting records and to prepare accounts that give a true and fair view under section 700 of the Companies Act 1985 You consider that the company is exempt from the statutory requirement for an audit in the United Kingdom for the year

We have not been instructed to carry out an audit of the financial statements For this reason, we have not verified the accuracy or completeness of the accounting records or information and explanations you have given to us and we do not, therefore, express any opinion on the financial statements

Smith & Williamson

**Smith & Williamson Limited**
Chartered Accountants

25 Moorgate
London
EC2R 6AY

Date 17 June 2008

DRW Investments, LLC

**Balance Sheet**
**December 31, 2007**

| | Notes | 2007<br>$ | 2006<br>$ |
|---|---|---|---|
| **Assets** | | | |
| Cash | | 896,248 | 123,748 |
| Receivable from clearing brokers, net | | 161,790,927 | 8,511,665 |
| Securities owned, at market value | 2 | 1,255,745,018 | 1,433,673,501 |
| Securities purchased under agreements to resell | | 62,842,370 | 344,852,091 |
| Memberships in exchanges, at cost (Market value $17,048,034 (2006 £15,708,155)) | | 4,688,084 | 8,097,394 |
| Subordinated loan receivable | | 3,000,000 | 3,000,000 |
| Other assets | 4 | 1,950,979 | 3,473 |
| **Total assets** | | 1,490,913,626 | 1,798,261,872 |
| **Liabilities and Member's Equity** | | | |
| Liabilities | | | |
| Payable to clearing broker | | - | 1,050,321,939 |
| Securities sold, not yet purchased, at market value | | 1,313,393,432 | 599,182,756 |
| Securities sold under agreements to repurchase | | 36,898,478 | 78,922,200 |
| Payable to affiliates | | 29,671,098 | 15,240,306 |
| Accrued expenses | | 8,900,332 | 49,907 |
| **Total liabilities** | | 1,388,863,340 | 1,743,717,108 |
| Member's Equity | | 102,050,286 | 54,544,764 |
| **Total liabilities and member's equity** | | 1,490,913,626 | 1,798,261,872 |

The accompanying notes are an integral part of these financial statements

The accounts were approved by the Board of Directors on 17 June '08 and were signed on its behalf by

Annabel Duff
A Duff
Director

**DRW Investments, LLC**

**Profit and Loss Account**
**Year Ended December 31, 2007**

| | Notes | 2007 $ | 2006 $ |
|---|---|---|---|
| Revenue | | | |
| Proprietary trading, net | | 185,145,585 | 97,206,106 |
| Interest and dividends | | 11,703,893 | 6,476,214 |
| Other | | 592,267 | 705,801 |
| **Total revenue** | | 197,441,745 | 104,388,121 |
| Expenses | | | |
| Trading expenses | | | |
| Commissions, trade execution and related fees | | 32,551,015 | 8,266,696 |
| Interest and dividends | | 16,718,190 | 12,294,970 |
| Other trading expenses | | 4,901,460 | 495,572 |
| **Total trading expenses** | | 54,170,665 | 21,057,238 |
| Operating expenses | | | |
| Employee compensation and benefits | | 40,519,120 | 20,002,552 |
| Other operating expenses | 3 | 6,370,415 | 5,566,418 |
| **Total operating expenses** | | 46,889,535 | 25,568,970 |
| **Total expenses** | | 101,060,200 | 46,626,208 |
| **Net income** | | 96,381,545 | 57,761,913 |

The accompanying notes are an integral part of these financial statements

**DRW Investments, LLC**

**Statement of Changes in Member's Equity**
**Year Ended December 31, 2007**

| | 2007 | 2006 |
|---|---|---|
| | $ | $ |
| Balance, January 1 | 54,544,764 | 60,131,275 |
| Capital contributions | 84,950,936 | 10,756,534 |
| Capital withdrawals | (133,826,959) | (74,104,958) |
| Net income | 96,381,545 | 57,761,913 |
| Balance, December 31 | **102,050,286** | **54,544,764** |

The accompanying notes are an integral part of these financial statements

**DRW Investments, LLC**

**Statement of Cash Flows**
**December 31, 2007**

| | 2007 $ | 2006 $ |
|---|---|---|
| Cash Flows from Operating Activites | | |
| Net income | 96,381,545 | 57,761,913 |
| Adjustments to reconcile net income to cash provided by operating activies | | |
| Gain on sale of membership in exchange | (12,008,984) | - |
| Changes in operating assets and liabilities | | |
| Receivable from clearing brokers | (153,279,262) | 2,023,133 |
| Securities owned | 177,928,483 | (936,283,065) |
| Securities purchased under agreements to resell | 282,009,721 | (344,852,091) |
| Other assets | (1,947,506) | 84,991 |
| Payable to clearing broker | (1,050,321,939) | 1,035,699,099 |
| Securities sold, not yet purchased | 714,210,676 | 175,391,968 |
| Securities sold under agreements to repurchase | (42,023,722) | 78,922,200 |
| Payable to affiliates | 14,430,792 | 5,118,561 |
| Accrued expenses | 8,850,425 | (82,160) |
| **Net cash provided by operating activities** | 34,230,229 | 73,784,549 |
| Cash Flows from Investing Activities | | |
| Proceeds from sale of membership in exchange | 15,418,294 | - |
| Purchase of membership in exchange | - | (3,545,094) |
| **Net cash provided by investing activities** | 15,418,294 | (3,545,094) |
| Cash Flows from Financing Activities | | |
| Repayment of borrowings | (6,000,000) | (6,800,000) |
| Proceeds from borrowings | 6,000,000 | - |
| Capital contributions | 84,950,936 | 10,756,534 |
| Capital withdrawals | (133,826,959) | (74,104,958) |
| **Net cash (used in) financing activities** | (48,876,023) | (70,148,424) |
| **Net increase in cash** | 772,500 | 91,031 |
| Cash | | |
| Beginning of year | 123,748 | 32,717 |
| End of year | 896,248 | 123,748 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash payments made for interest | 16,718,190 | 12,274,830 |

The accompanying notes are an integral part of these financial statements

DRW Investments, LLC

Notes to Financial Statements

**Note 1. Nature of Business and Significant Accounting Policies**

DRW Investments, LLC, (the Company) is an Illinois limited liability company and wholly-owned subsidiary of DRW Holdings, LLC (DRWH) which operates primarily as a market maker in fixed income derivatives The Company is a member of the Chicago Board of Trade (CBOT) and Chicago Mercantile Exchange (CME)

On August 31, 2006, the Company established DRW Investments, LLC (UK Branch) (the "Branch"), a branch registered in England and Wales under the Company The Branch is regulated by the Financial Services Authority of the United Kingdom (FSA) The activities of the Branch are consolidated into the Company for financial presentation

The following is a summary of the Company's significant accounting policies

Accounting estimates The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period Actual results could differ from those estimates

Securities transactions Securities owned and securities sold, not yet purchased are recorded on the trade-date basis and are recorded at market value (the settlement price on the relevant exchange on the day of valuation), with unrealized gains and losses reflected in proprietary trading revenue

At December 31, 2007, receivable from clearing brokers include cash and open trade equity on futures contracts

Resale and repurchase agreements Transactions involving purchases of securities under agreements to resell or securities sold under agreements to repurchase, comprised primarily of U S Government obligations, are accounted for as collateralized financings except where the Company does not have an agreement to sell (or purchase) the same or substantially the same securities before maturity at a fixed or determinable price It is the policy of the Company to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate

Memberships in exchanges Memberships in exchanges required to be held by the Company for clearing privileges at certain clearing organizations are carried at cost, or if other than a temporary impairment in value has occurred, at a value that reflects management's estimate of the impairment Management believes no such impairment in value occurred in 2007 Market values are based on the average of the last bid, ask and sale price for the memberships at December 31, 2007

Memberships in exchanges not held for operating purposes are carried at market value and are included in securities owned

Gains and losses on memberships are computed based on specific identification

Fair value of financial instruments Substantially all of the Company's assets and liabilities are either reflected at fair value or contract amounts and are short-term or replaceable on demand Therefore, their carrying amounts approximate fair value

Income taxes As a limited liability company, the Company is not subject to federal income taxes The Company's member separately accounts for the Company's income, deductions, losses and credits on its tax return Therefore, these financial statements do not include any provision for federal income taxes

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

For the year ended December 31, 2007, the Branch recorded a tax benefit of approximately $601,000 (2006 nil) which is included in other operating expenses on the statement of operations and additionally, has recorded a corresponding net deferred tax asset included in other assets on the statement of financial condition

Recent accounting pronouncements In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No 157, *Fair Value Measurements* ("SFAS 157") SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements SFAS 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets This Statement is effective for fiscal years beginning after November 15, 2007 The Company is currently assessing the potential effect of SFAS 157 on its financial position, results of operations and cash flows

In June 2006, the FASB issued FASB Interpretation No 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109* ("FIN 48") FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No 109, *Accounting for Income Taxes* FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to the opening balance of retained earnings Additional disclosures about the amounts of such liabilities will be required also In February 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2007 The Company will be required to adopt FIN 48 in its 2008 annual financial statements Management is currently assessing the impact of FIN 48 on its financial position and results of operations and has not determined if the adoption of FIN 48 will have a material impact on its financial statements

**Note 2. Securities Owned and Securities Sold, Not Yet Purchased**

At December 31, securities owned and securities sold, not yet purchased, are comprised of

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Securities Owned | Securities Sold, Not Yet Purchased | Securities Owned | Securities Sold, Not Yet Purchased |
| | $ | $ | $ | $ |
| Options on futures | 1,207,143,006 | 1,269,422,228 | 1,298,873,270 | 266,712,478 |
| U.S Government obligations | 47,219,346 | 43,971,204 | 134,753,334 | 329,442,229 |
| Interest rate swaps | 1,382,666 | - | 46,897 | 3,028,049 |
| | 1,255,745,018 | 1,313,393,432 | 1,433,673,501 | 599,182,756 |

## Note 3. Other operating expenses

| | 2007 $ | 2006 $ |
|---|---|---|
| Other operating expenses are stated after charging | | |
| Fees payable to the Company's auditor for the audit of the Company's financial statements | 22,000 | 20,000 |

## Note 4. Borrowings

The Company has entered into an agreement for a demand loan facility in the amount of $30,000,000 with a financial institution which is due on February 28, 2008, and accrues interest at an annual rate of the Federal Funds effective rate plus 1 percent (5 25 percent at December 31, 2007) The borrowing is secured by the assets of the Company that are on deposit with the clearing broker As of December 31, 2007, the Company had not drawn on this demand loan facility The financial institution requires the Company to satisfy certain financial reporting and other covenants, as defined At December 31, 2007, the Company is in compliance with all such covenants Subsequent to year-end, the term of the agreement was extended through February 28, 2009

Additionally, the Company has a demand loan facility in the amount of $10,000,000 with a separate financial institution which matures on February 28, 2008, and accrues interest at an annual rate of the London Interbank Offered rate plus 555 percent (5 0125 percent at December 31, 2007) The borrowing is secured by the assets of the Company that are on deposit with the clearing broker As of December 31, 2007, the Company has not drawn on this demand loan facility The financial institution requires the Company to satisfy certain financial reporting and other covenants, as defined At December 31, 2007, the Company is in compliance with all such covenants Subsequent to year-end, the term of the agreement was extended through February 28, 2009

There were no such loan facilities during the year ended December 31, 2006

## Note 5. Related Party Transactions

The Company pays all direct expenses associated with its trading activities The Company has entered into an agreement with DRWH whereby all employee compensation and other operating expenses, $47,490,741 for the year ended December 31, 2007 (2006 $25,568,970), are paid by DRWH and charged to the Company based on a series of usage factors The payable to affiliates balance as of December 31, 2007 is related to this agreement

The Company has entered into a subordinated loan agreement with an affiliated entity in the amount of $3,000,000 (2006 $3,000,000) The subordinated loan bears interest at the Federal Funds Effective Rate plus 0 625 percent and matures March 15, 2008 Subsequent to year-end, the term of the agreement was extended through March 15, 2009 To the extent that the affiliate requires the subordinated loan for compliance with minimum net capital requirements, it may not be repaid

**Note 6. Derivative Financial Instruments, Off-Balance Sheet Risk and Concentration of Credit Risk**

In the normal course of business, the Company enters into transactions in financial instruments with varying degrees of market and credit risk These financial instruments consist primarily of interest rate derivatives and U S Government obligations Derivatives include options on futures contracts Trading of these financial instruments is conducted on futures and securities exchanges located in the United States Settlement of these transactions takes place in the United States through clearing brokers utilized by the Company These instruments involve elements of market and credit risk that may exceed the amounts reflected in the balance sheet

Various factors affect the market risk of these transactions, among them are the size and composition of the positions held, the absolute and relative levels of interest rates and market volatility Also, the time period in which options may be exercised, the market value of the underlying instruments, and the exercise price affect market risk The most significant factor influencing the Company's overall exposure to market risk is its use of hedging strategies

Interest rate derivatives, such as options on Eurodollar futures contracts, provide the Company with the opportunity to deliver or to take delivery of specified financial futures contracts or securities at a contracted price Options written obligate the Company to deliver or to take delivery of specified financial futures contracts or securities at a contract price, and in the event the option is exercised by the holder, it may result in market risk not reflected in the balance sheet to the extent that the Company is obligated to purchase or sell the underlying financial futures contracts or equity securities in the open market To minimize these risks, the Company generally holds or sells short the underlying instruments which can be used to settle these transactions

Securities sold, not yet purchased represent obligations of the Company to deliver securities at the contracted prices and thereby create a liability to purchase these instruments in the open market at prevailing prices These transactions may result in market risk not reflected in balance sheet as the Company's ultimate obligation to satisfy its obligation for trading liabilities may exceed the amount reflected in the balance sheet To minimize this risk, the Company generally holds futures contracts which can be used to settle these obligations

Since the Company does not clear its own securities and futures transactions, it has established accounts with certain clearing brokers for this purpose This can and often does result in concentrations of credit risk with one or more of these firms Such risk, however, is mitigated by the clearing brokers' obligation to comply with rules and regulations governing brokers in the United States and Europe

The Company maintains its cash deposits with a financial institution On occasion, these deposits will exceed the maximum insurance level provided by the Federal Deposit Insurance Corporation

## Note 7. Commitments, Contingencies and Guarantees

FASB Interpretation No 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires the Company to disclose information about its obligations under certain guarantee arrangements FIN 45 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event related to an asset, liability or equity security of a guaranteed party FIN 45 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others

The Company trades and holds certain fair-valued derivative contracts, which may constitute guarantees under FIN 45 As of December 31, 2007, the maximum payouts for these contracts are limited to the notional amounts of each contract Maximum payouts do not represent the expected future cash requirements as the Company's written options positions may be liquidated or expire without being exercised by the holder In addition, maximum payout amounts are frequently decreased by offsetting positions taken by the Company as part of its hedging activities The fair values of all written option contracts as of December 31, 2007, are included as liabilities in securities owned and securities sold, not yet purchased on the balance sheet

The Company is a member of various exchanges that trade and clear securities and/or futures contracts Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange While the rules governing different exchange memberships may vary, in general the Company's guarantee obligations would arise only if the exchange had previously exhausted its resources In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange Any potential contingent liability under these membership agreements cannot be estimated The Company has not recorded any contingent liability in the financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote

## Note 8. Indemnifications

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing brokers, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications

Additionally, the Company enters into contracts and agreements that contain a variety of representations and warranties and which provide general indemnifications The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred The Company expects the risk of any future obligations under these indemnifications to be remote