

BNY MELLON CAPITAL MARKETS LLC
(A Wholly Owned Subsidiary of
The Bank of New York Mellon Corp.)

Unaudited Statement of Financial Condition
and Supplemental Information

June 30, 2009

These financial statements and schedules should be deemed
confidential pursuant to subparagraph (e)(3) of SEC Rule 17a-5

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Unaudited Statement of Financial Condition
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Unaudited Statement of Financial Condition

June 30, 2009

Assets		
Cash		\$ 1,231,811
Cash segregated for regulatory purposes		1,500,000
Receivable from broker-dealers		347,788,533
Securities owned, at fair value (note 3)		852,284,474
Fees receivable		11,925,259
Interest receivable		15,497,030
Receivable from affiliate		4,880,316
Furniture, equipment and leasehold improvements at cost (net of accumulated depreciation and amortization of \$1,545,898)		176,123
Goodwill		31,442,822
Other assets		4,888,977
Total Assets		<u>\$ 1,271,615,345</u>
 Liabilities and Member's Equity		
Liabilities		
Securities sold under agreements to repurchase (note 7)		\$ 333,100,000
Securities sold not yet purchased, at fair value		279,005,310
Short-term borrowings (note 8)		55,500,000
Payable to Parent (note 9)		14,734,605
Payable to broker-dealers		178,481,512
Payable to customers		733,989
Interest Payable		12,966,714
Accrued compensation and other expenses		28,396,824
Deferred tax liability		8,299,896
		<u>911,218,850</u>
Subordinated liabilities (note 13)		<u>65,000,000</u>
 Member's equity		
Managing member's equity		100
Member's equity		295,396,395
Total Member's equity		<u>295,396,495</u>
Total Liabilities and Member's equity		<u>\$ 1,271,615,345</u>

See accompanying notes to statement of financial condition

BNY MELLON CAPITAL MARKETS LLC
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Notes to Financial Statements

June 30, 2009

(1) Organization

BNY Mellon Capital Markets LLC (the Company), is a wholly owned subsidiary of The Bank of New York Mellon Corp. (the Parent). The Company is a registered broker-dealer with the Securities and Exchange Commission (the SEC) and is a member of the Financial Industry Regulatory Authority (the FINRA). The Company is also a member of the Municipal Securities Rule Making Board and the Securities Investor Protection Corporation and the National Association of Securities Dealers Automated Quotations (the NASDAQ). The Company has been authorized by the Federal Reserve Board (the Board) to underwrite and deal in all types of debt and equity securities.

The Company provides a wide range of financial services. Its businesses include securities underwriting, distribution and trading. The Company conducts trading activity with its customers on both a principal and agency basis. Securities products offered and sold by the Company are not insured by the Federal Deposit Insurance Corporation, are not deposits or other obligations of the Parent, are not guaranteed by the Parent, and are subject to investment risks including the possibility of loss of principal invested.

The Company clears all its transactions, except for mortgage backed securities, through an affiliate broker-dealer on a fully disclosed basis. Mortgage Backed Securities are cleared by the Company.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in the financial statements are reasonable. Actual results could differ from these estimates. Current market conditions increase the risk and complexity of the judgments in these estimates.

(b) Principal Transactions

Securities transactions and related revenues and expenses are recorded on a trade date basis. Securities owned and securities sold, not yet purchased, including derivative contracts held for trading purposes, are stated at fair value with related changes in unrealized appreciation or depreciation reflected in principal transactions on the statement of income. Fair value is generally based on listed market prices. If listed market prices are not available, fair value is determined based on other relevant factors, including broker or dealer price quotations.

Securities sold, not yet purchased, represent obligations to deliver specified securities at predetermined prices. The Company is obligated to acquire the securities sold, not yet purchased at prevailing market prices in the future to satisfy these obligations.

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Fair value is defined under Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 157, *Fair Value Measurements*, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 was adopted by the Company on January 1, 2008, and establishes a hierarchy of inputs for measuring value:

Level 1 inputs	Unadjusted quoted prices at the measurement date in active, accessible markets for identical assets or liabilities.
Level 2 inputs	Quoted prices in inactive markets for identical instruments, quoted prices in active markets for similar instruments, other observable inputs (interest rates and yield curves) or other inputs derived from/corroborated by observable market data.
Level 3 inputs	Best information available when no observable market activity for the asset or liability exists at the measurement date.

In valuing its positions, the Company uses listed market prices for exchange traded securities and prices quoted by independent brokers and dealers for U.S. Government and other over-the-counter securities.

(c) *Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements of Repurchase*

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are carried at amounts at which the securities will be subsequently resold or repurchased plus accrued interest. It is the Company's policy to take possession or control of securities purchased under agreements to resell. The Company is required to provide securities to counterparties in order to collateralize repurchase agreements. The Company minimizes credit risk associated with these activities by monitoring credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited or returned when deemed appropriate.

In the normal course of business, the Company obtains securities under resale agreements on terms which, permit it to repledge or resell the securities to others.

Interest is accrued on repurchase and resale contract amounts, securities borrowed and loaned transactions and securities owned, and is included in accrued interest receivable/payable on the statement of financial condition and the respective interest balances on the statement of income.

(d) *Furniture, equipment, and leasehold improvements*

Furniture, equipment and leasehold improvements are carried at cost, net of accumulated depreciation and amortization. Furniture and equipment are depreciated using the straight-line method over the respective useful lives of the asset, generally ranging from four to ten years. Leasehold improvements are amortized over the lesser of fifteen years or the term of the lease.

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(e) **Goodwill**

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, goodwill is tested at least annually for impairment. An impairment loss is triggered if the estimated fair value of a reporting unit is less than its estimated net book value. Such a loss is calculated as a difference between the implied fair value of goodwill and its carrying value. For the period ended June 30, 2009, no impairment was recorded.

(f) **Income Taxes**

The Company is included in the consolidated federal and combined state and local income tax returns filed by the Parent. Income taxes are calculated as if the Company filed on a separate return basis, and the amount of current tax expense or benefit calculated is either remitted to or received from the Parent, pursuant to a tax sharing agreement between the Parent and the Company. The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires recognition of tax benefits or expenses on the temporary differences between the financial reporting and the tax basis of assets and liabilities. If appropriate, deferred tax assets are adjusted by a valuation allowance, which reflects expectations of the extent to which such assets will be realized.

(3) **Securities Owned and Securities Sold, Not Yet Purchased**

At June 30, 2009, securities owned and securities sold, not yet purchased consist of the following, at fair value:

	Owned	Sold, not yet purchased
Mortgage backed securities	\$ 417,239,010	—
State and municipal obligations	61,314,339	340,839
Obligations of the U.S. government or its agencies	173,516,482	151,696,598
Corporate debt	177,185,750	126,963,288
Equities securities	6,143,999	4,585
Auction rate securities	9,877,450	—
Commercial paper / Certificate of Deposit	7,007,444	—
	\$ 852,284,474	279,005,310

The Company holds mortgage-backed to-be-announced securities (TBAs) which are stated at fair value with related changes in unrealized appreciation or depreciation reflected in principal transactions on the statement of income. The Company's mortgage-backed securities are backed by prime assets.

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(4) Financial Instruments

(a) Fair Value

In accordance with SFAS 157, the Company groups its financial assets and liabilities measured at fair value in three levels, based on markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 primarily consists of securities whose value is based on quoted market prices in active markets such as listed equities. Additionally, this category also includes U.S. Government and U.S. Treasury securities for which the Company typically receives independent external valuation information based on active markets.

Level 2 primarily consists of securities whose value is based on quoted prices in inactive markets for identical instruments, quoted prices in active markets for similar assets or liabilities, and inputs that are observable or can be corroborated, either directly or indirectly, for substantially the full term of the security. This category primarily includes mortgage backed securities and corporate debt.

Level 3 is comprised of securities whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are unobservable from objective sources.

The balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2009, are as follows:

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Assets at fair value	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Securities owned, at fair value:				
Mortgage backed securities	\$ —	417,239,010	—	417,239,010
State and municipal obligations	—	48,087,342	13,226,997	61,314,339
Obligations of the U.S. government or its agencies	173,516,482	—	—	173,516,482
Corporate debt	—	177,185,750	—	177,185,750
Equities securities	—	500,432	5,643,567	6,143,999
Auction rate securities	—	—	9,877,450	9,877,450
Commercial paper	—	7,007,444	—	7,007,444
Total securities owned at fair value	<u>\$ 173,516,482</u>	<u>650,019,978</u>	<u>28,748,014</u>	<u>852,284,474</u>
Liabilities at fair value	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Securities sold, not yet purchased, at fair value:				
Corporate debt	\$ —	126,963,288	—	126,963,288
Obligations of the U.S. government or its agencies	151,696,598	—	—	151,696,598
Equities securities	—	4,585	—	4,585
State and municipal obligations	—	340,839	—	340,839
Total securities owned at fair value	<u>151,696,598</u>	<u>127,308,712</u>	<u>—</u>	<u>279,005,310</u>
Other liabilities				
To be announced securities	—	6,649,653	—	6,649,653
Auction rate securities derivative	—	—	—	—
Total other liabilities	<u>—</u>	<u>6,649,653</u>	<u>—</u>	<u>6,649,653</u>
Total liabilities at fair value	<u>\$ 151,696,598</u>	<u>133,958,365</u>	<u>—</u>	<u>285,654,963</u>

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(5) Receivable From and Payable to Customers and Broker/Dealers

Receivable from and payable to Customers and Broker/Dealers at June 30, 2009, consist of the following:

	Receivable	Payable
Receivable from/payable to clearing broker	\$ 346,609,522	174,463,444
Broker/dealers trade pending settlement	—	—
Securities failed-to-deliver/receive	1,179,011	4,018,068
Receivable from/payable to customers	—	733,989
	\$ 347,788,533	179,215,501

The Company clears its proprietary and customer transactions, with the exception of mortgage backed securities, through another broker-dealer on a fully disclosed basis. The amount receivable from the clearing broker relates to the aforementioned transactions.

Receivable from and payable to customer and broker/dealer include amounts due on securities transactions. Securities owned by customer and broker/dealer are held as collateral for the receivable. Such collateral is not reflected in the financial statements.

Customers and broker/dealer trades pending settlement represent the contract price of securities to be delivered or received by the Company. Should the counterparty not deliver the securities to the Company, the Company may be required to purchase identical securities on the open market. The value of such securities at June 30, 2009 approximates the amounts owed. Trades pending settlement at June 30, 2009 were subsequently settled at the contract price without an adverse effect to the Company's statement of financial condition.

(6) Furniture, Equipment and Leasehold Improvements

Furniture and office equipment, computer equipment and leasehold improvements at cost consist of the following as of June 30, 2009:

Furniture and office equipment	\$ 688,410
Computer equipment	1,016,485
Leasehold improvements	17,125
	1,722,020
Less accumulated depreciation	1,545,897
Furniture, equipment and leasehold improvements, net	\$ 176,123

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(7) Securities Sold Under Agreements to Repurchase

At June 30, 2009, the Company had pledged securities with an average interest rate of 0.75% and a market value of \$354,300,000 as collateral for its obligation under securities sold under agreements to repurchase of \$333,100,000.

(8) Short-Term Borrowings

The Company maintains uncommitted lines of credit totaling \$100,000,000 with unrelated financial institutions. In addition, the Company maintains an additional uncommitted line of credit with an unrelated financial institution that does not have a maximum principal borrowing amount. In each case, these lines of credit are used to finance the Company's proprietary trading business. As of June, 2009, the Company has overnight borrowings of \$55,500,000 outstanding with unrelated financial institutions under these lines of credit at a weighted average rate of 1.197%.

(9) Related-Party Transactions

The Company conducts transactions in the ordinary course of business with the Parent and its affiliates. As of June 30, 2009, such transactions included purchases of securities under agreements to resell.

As of June 30, 2009, amounts payable to Parent consist of the following:

Accrued interest payable on subordinated liabilities (note 11)	\$ 1,206,780
Income taxes payable (note 13)	8,949,114
Stock compensation (note 10)	134,541
Other payables	4,444,170
	<u>\$ 14,734,605</u>

In addition, the Company had receivable from the Parent and its affiliate totaling \$4,880,316 of which \$1,052,964 is unrestricted cash.

(10) Employee Benefits

(a) Retirement Benefits

The Parent has defined benefit and defined contribution retirement plans covering substantially all full-time and eligible part-time employees and other post-retirement plans providing healthcare benefits for certain retired employees.

(b) Stock Compensation

The Parent's Long-Term Incentive Plans provide for the issuance of stock options, restricted stock, RSUs, and other stock-based awards to employees of the Company. The Parent's stock options plans provide for the issuance of stock options at fair market value at the date of grant to officers and employees of the Company.

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(11) Liabilities Subordinated to Claims of General Creditors

The borrowings under subordination represent cash subordination agreements with the Parent and its affiliates. At June 30, 2009 liabilities subordinated to claims of general creditors consists of the following:

Subordinated notes, Libor plus 1.50%, due February 28, 2012	\$ 50,000,000
Subordinated notes, Libor plus 0.63%, due December 31, 2009	<u>15,000,000</u>
	<u>\$ 65,000,000</u>

These loans are subordinated to the claims of general creditors. FINRA has approved these subordinated loans to constitute part of the Company's net capital under the Uniform Net Capital Rule. The subordinated loans may be repaid only if, after giving effect to such repayment, the Company continues to meet its minimum net capital requirements. The Company will not renew its Subordinated notes due December 31, 2009.

(12) Regulatory Requirements

(a) Cash and Securities Segregated Under Federal and Other Regulations

Cash of \$1,500,000 has been segregated in a special reserve bank account for the benefit of customers under Rule 15c3-3 of the SEC.

(b) Net Capital Requirement

The Company is subject to the Uniform Net Capital requirements of the SEC under Rule 15c3-1 which requires the maintenance of minimum net capital. The SEC's requirements also provide that equity capital may not be withdrawn or cash dividends paid if certain minimum net capital requirements are not met. The Company computes its net capital in accordance with the alternative method of this Rule.

At June 30, 2009, the Company had net capital of \$210,776,049 which was \$210,526,049 in excess of the amount required to be maintained at that date.

In addition, the Company performs weekly computations to determine the reserve deposit requirements under Rule 15c3-3. As of June 30, 2009, the Company had \$733,173 reserve deposit requirement.

Advances to affiliates, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule or other regulatory bodies.

Under the clearing arrangement with the clearing broker, the Company is required to maintain certain minimum levels of net capital and comply with other financial ratio requirements. At June 30, 2009, the Company was in compliance with all such requirements.

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(13) Income Taxes

The deferred income taxes reflect the tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. The Company has a gross deferred tax liability of \$8,299,896 at June 30, 2009. The deferred tax liability is attributable to amortization of goodwill.

The Company is included in the consolidated federal income tax return and certain combined and unitary returns of the Parent. In addition, the Company files stand-alone tax returns in certain states which include New Jersey. BNY Mellon's federal consolidated income tax returns are closed to examination through 2002. BNY Mellon's New York State and New York City return examinations have been completed through 1996. The Company's New Jersey tax return examinations have been completed through 2003.

(14) Financial Instruments With Off-Balance Sheet – Risk and Credit Risk

In the normal course of business, the Company's activities involve the execution of securities transactions. These activities may expose the Company to off-balance sheet credit risk in the event the counterparty is unable to fulfill its contracted obligation. The Company conducts business with brokers and dealers that are members of the major securities exchanges. The Company monitors the credit standing of such brokers and dealers.

The Company's securities activities are transacted on a delivery versus payment basis. In delivery versus payment transactions, the Company is exposed risk of loss in the event of the customer's or broker's inability to meet the terms of their contracts. Should the customer or broker fail to perform, the Company may be required to complete the transaction at prevailing market prices. Trades pending at June 30, 2009 were settled without an adverse effect on the Company's financial statements.

Subsequent market fluctuations of securities sold, but not yet purchased may require purchasing these securities at prices which differ from values reflected on the statement of financial condition. Inventory positions are monitored on a daily basis to minimize the risk of loss.

The Company's exposure to credit risk can be directly impacted by volatile securities markets which may impair the ability of counterparties to satisfy their contractual obligations.

The Company seeks to control its credit risk through a variety of reporting and control procedures and by applying uniform credit standards maintained for all activities with credit risk.

(15) Commitments and Contingencies

The Company has obligations under operating leases with unrelated parties. The lease agreements have initial noncancelable terms in excess of one year.

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Aggregate annual rentals for office space at June 30, 2009 are:

	<u>Gross rental</u>	<u>Sub-lease rental</u>	<u>Net obligation</u>
2010	966,576	(1,652,649)	(686,073)
2011	563,836	(964,045)	(400,209)
Total	\$ <u>1,530,412</u>	<u>(2,616,694)</u>	<u>(1,086,282)</u>

In the ordinary course of business, the Company is routinely a defendant in or party to a number of pending and potential legal actions, including actions brought on behalf of various classes of claimants, and regulatory matters. Claims for significant monetary damages are asserted in certain of these actions and proceedings. In regulatory enforcement matters, claims for disgorgement and the imposition of penalties and/or other remedial sanctions are possible. Due to the inherent difficulty of predicting the outcome of such matters, the Company cannot ascertain what the eventual outcome of these matters will be; however based on current knowledge and after consultation with legal counsel, the Company does not believe that judgments or settlements, if any, arising from pending or potential legal actions or regulatory matters, either individually or in the aggregate, will have a material adverse effect on the financial position or liquidity of the Company although they could have a material effect on the net income for a given period. The Company intends to defend itself vigorously against all of the claims asserted in these legal actions.