
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 1-6862

Credit Suisse (USA), Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-1898818

(I.R.S. Employer
Identification No.)

Eleven Madison Avenue

New York, New York

(Address of principal executive offices)

10010

(Zip Code)

(212) 325-2000

(Registrant's telephone number, including area code)

The Registrant meets the conditions set forth in General Instruction H (1) (a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Because the registrant is an indirect wholly owned subsidiary of Credit Suisse Group, none of the registrant's outstanding voting stock is held by nonaffiliates of the registrant. As of the date hereof, 1,100.103543 shares of the registrant's Common Stock, \$.10 par value, were issued and outstanding and held by Credit Suisse Holdings (USA), Inc.

CREDIT SUISSE (USA), INC.

Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2006

PART I FINANCIAL INFORMATION

ITEM 1: Financial Statements

Condensed Consolidated Statements of Financial Condition (Unaudited) as of March 31, 2006 and December 31, 2005	2
Condensed Consolidated Statements of Income (Unaudited) for the three months ended March 31, 2006 and 2005	4
Condensed Consolidated Statements of Changes in Stockholder's Equity (Unaudited) for the three months ended March 31, 2006 and 2005	5
Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2006 and 2005	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	
1. Summary of Significant Accounting Policies	7
2. Related Party Transactions	11
3. Transfers and Servicing of Financial Assets	14
4. Private Equity and Other Long-Term Investments	18
5. Derivatives Contracts	19
6. Borrowings	20
7. Leases and Commitments	22
8. Guarantees	23
9. Net Capital Requirements	24
10. Cash and Securities Segregated Under Federal and Other Regulations	25
11. Employee Benefit Plans	25
12. Legal Proceedings	26
13. Industry Segment and Geographic Data	27
14. Subsequent Event	29
Report of Independent Registered Public Accounting Firm	30

ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations	31
ITEM 3: Quantitative and Qualitative Disclosures About Market Risk	58
ITEM 4: Controls and Procedures	61

PART II OTHER INFORMATION

ITEM 1: Legal Proceedings	62
ITEM 1A: Risk Factors	63
ITEM 6: Exhibits	63
Signature	64

AVAILABLE INFORMATION

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission, or SEC. Our SEC filings are available to the public over the internet on the SEC's website at www.sec.gov. You may also view our annual, quarterly and current reports on our website at www.csfb.com/about_csfb/company_information/sec/index.shtml as soon as is reasonably practicable after the report is electronically filed with, or furnished to, the SEC. The information on our website is not incorporated by reference into this Quarterly Report.

PART I
FINANCIAL INFORMATION

Item 1: Financial Statements

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition
(Unaudited)
(In millions)

	March 31, 2006	December 31, 2005
ASSETS		
Cash and cash equivalents	\$ 955	\$ 884
Collateralized short-term financings:		
Securities purchased under agreements to resell.	49,507	54,454
Securities borrowed	93,889	82,802
Receivables:		
Customers	3,384	3,299
Brokers, dealers and other	10,113	8,128
Financial instruments owned (includes securities pledged as collateral of \$73,573 and \$73,043, respectively):		
U.S. government and agencies	28,435	31,366
Corporate debt	19,600	20,561
Mortgage whole loans	19,516	17,817
Equities	37,520	35,244
Commercial paper	3,333	1,523
Private equity and other long-term investments	10,252	3,641
Derivatives contracts	7,052	5,085
Other	4,221	3,929
Net deferred tax asset	961	1,202
Office facilities at cost (net of accumulated depreciation and amortization of \$893 and \$852, respectively)	471	453
Goodwill	585	562
Loans receivable from parent and affiliates	27,644	25,225
Other assets and deferred amounts (includes encumbered loans of \$8,083 as of March 31, 2006)	9,923	1,579
Total assets	<u>\$327,361</u>	<u>\$297,754</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition (Continued)
(Unaudited)
(In millions, except share data)

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Commercial paper and short-term borrowings	\$ 17,080	\$ 13,654
Collateralized short-term financings:		
Securities sold under agreements to repurchase	124,153	126,323
Securities loaned	51,951	45,956
Payables:		
Customers	11,456	10,129
Brokers, dealers and other	4,453	3,884
Financial instruments sold not yet purchased:		
U.S. government and agencies	22,621	20,078
Corporate debt	3,755	3,696
Equities	9,506	12,402
Derivatives contracts	4,771	2,262
Other	444	155
Obligation to return securities received as collateral	4,876	3,077
Accounts payable and accrued expenses	2,142	3,152
Other liabilities	20,962	7,049
Long-term borrowings	36,549	33,926
Total liabilities	<u>314,719</u>	<u>285,743</u>
Stockholder's Equity:		
Common stock (\$0.10 par value; 50,000 shares authorized; 1,100 shares issued and outstanding)	—	—
Paid-in capital	9,844	9,530
Retained earnings	2,978	2,661
Accumulated other comprehensive loss	(180)	(180)
Total stockholder's equity	<u>12,642</u>	<u>12,011</u>
Total liabilities and stockholder's equity	<u>\$327,361</u>	<u>\$297,754</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(Unaudited)
(In millions)

	For the Three Months Ended March 31,	
	2006	2005
Revenues:		
Principal transactions-net	\$1,655	\$ 367
Investment banking and advisory	583	321
Commissions and fees	351	351
Other	47	17
	<u>2,636</u>	<u>1,056</u>
Interest and dividends	4,082	2,724
Interest expense	<u>3,788</u>	<u>2,147</u>
Net interest and dividends	294	577
Total net revenues	<u>2,930</u>	<u>1,633</u>
Expenses:		
Employee compensation and benefits	1,164	947
Occupancy and equipment rental	121	120
Brokerage, clearing and exchange fees	85	77
Communications	41	36
Professional fees	82	67
Other operating expenses	40	(5)
Total expenses	<u>1,533</u>	<u>1,242</u>
Income before provision for income taxes, minority interests and cumulative effect of a change in accounting principle	1,397	391
Provision for income taxes	137	66
Minority interests	<u>943</u>	<u>155</u>
Income before cumulative effect of a change in accounting principle	317	170
Cumulative effect of a change in accounting principle, net of income tax expense of \$3 in 2005	<u>—</u>	<u>6</u>
Net income	<u>\$ 317</u>	<u>\$ 176</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholder's Equity
For the Three Months Ended March 31, 2006 and 2005
(Unaudited)
(In millions)

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Balances as of December 31, 2004	\$ —	\$8,538	\$2,534	\$ (8)	\$11,064
Net income	—	—	176	—	176
Net change in cash flow hedge, including tax benefit of \$2	—	—	—	(3)	(3)
Total comprehensive income					<u>173</u>
CSG share plan activity, including tax charge of \$11	—	118	—	—	118
Balances as of March 31, 2005	<u>\$ —</u>	<u>\$8,656</u>	<u>\$2,710</u>	<u>\$ (11)</u>	<u>\$11,355</u>
Balances as of December 31, 2005	\$ —	\$9,530	\$2,661	\$ (180)	\$12,011
Net income	—	—	317	—	317
Total comprehensive income					<u>317</u>
CSG share plan activity, including tax benefit of \$19	—	314	—	—	314
Balances as of March 31, 2006	<u>\$ —</u>	<u>\$9,844</u>	<u>\$2,978</u>	<u>\$ (180)</u>	<u>\$12,642</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2006 and 2005
(Unaudited)
(In millions)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net income	\$ 317	\$ 176
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	51	33
Non-cash CSG share plan activity	295	129
Tax benefit on CSG share plan activity	19	—
Deferred taxes	239	85
Other, net	—	(14)
Change in operating assets and operating liabilities:		
Securities borrowed	(11,087)	3,529
Receivables from customers	(85)	282
Receivables from brokers, dealers and other	(1,985)	(10,771)
Financial instruments owned	(2,010)	(5,403)
Other assets and deferred amounts and Other liabilities, net	(3,524)	(2,177)
Securities loaned	5,995	3,974
Payables to customers	1,327	1,269
Payables to brokers, dealers and other	569	(1,508)
Financial instruments sold not yet purchased	2,504	11,952
Obligation to return securities received as collateral	1,799	(953)
Accounts payable and accrued expenses	(1,010)	(1,458)
Net cash used in operating activities	<u>(6,586)</u>	<u>(855)</u>
Cash flows from investing activities:		
Net (payments for) proceeds from:		
Loans receivable from parent and affiliates	(2,419)	1,943
Office facilities, net	(64)	(30)
Net cash (used in) provided by investing activities	<u>(2,483)</u>	<u>1,913</u>
Cash flows from financing activities:		
Net proceeds from (payments for):		
Commercial paper and short-term borrowings	3,426	(5,942)
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell	2,777	6,240
Issuances of long-term borrowings	3,040	3
Redemptions and maturities of long-term borrowings	(103)	(1,621)
Net cash provided by (used in) financing activities	<u>9,140</u>	<u>(1,320)</u>
Increase (decrease) in cash and cash equivalents	71	(262)
Cash and cash equivalents as of the beginning of period	884	727
Cash and cash equivalents as of the end of period	<u>\$ 955</u>	<u>\$ 465</u>
SUPPLEMENTAL DISCLOSURES		
Cash payments for interest	\$ 3,749	\$ 2,001
Cash payments for income taxes, net of refunds	\$ 19	\$ 6

See accompanying notes to condensed consolidated financial statements (unaudited).

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2006

1. Summary of Significant Accounting Policies

The Company

The condensed consolidated financial statements include Credit Suisse (USA), Inc., and its subsidiaries (the “Company”). The Company is an integrated investment bank serving institutional, corporate, government and high-net-worth individual clients. The Company’s products and services include securities underwriting, sales and trading, financial advisory services, private equity investments, full service brokerage services, derivatives and risk management products, asset management and investment research. The Company is an indirect wholly owned subsidiary of Credit Suisse, a Swiss bank, and Credit Suisse Group (“CSG”). Effective January 16, 2006, the Company changed its name from Credit Suisse First Boston (USA), Inc. to Credit Suisse (USA), Inc.

Basis of Presentation

All significant intercompany balances and transactions have been eliminated. The Company is a wholly owned subsidiary of Credit Suisse Holdings (USA), Inc. (“CS Holdings”).

Certain financial information that is normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States but not required for interim reporting purposes has been condensed or omitted. These condensed consolidated financial statements reflect, in the opinion of management, all adjustments (consisting of normal, recurring accruals) that are necessary for a fair presentation of the condensed consolidated statements of financial condition and income for the interim periods presented.

The results of operations for interim periods are not necessarily indicative of results for the entire year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005.

To prepare condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States, management must make estimates and assumptions. The reported amounts of assets and liabilities and revenues and expenses are affected by these estimates and assumptions, the most significant of which are discussed in the notes to the condensed consolidated financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ materially from these estimates. For a description of the Company’s significant accounting policies, see Note 1 of the consolidated financial statements in Part II, Item 8 in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005.

Effective January 1, 2006, CSG realigned its organizational structure to its new strategic orientation, which is to focus on banking and hold its insurance business as a financial investment. As a result of this realignment, CSG’s banking business consists of three reporting segments: Investment Banking, Private Banking and Asset Management. The Company is managed as a subsidiary of Credit Suisse and CSG, and its businesses are a part of each of these banking segments. Therefore, effective January 1, 2006 the Company began operating and managing its businesses along these same three banking segments.

The Company’s Investment Banking segment consists principally of the businesses that comprised its former Institutional Securities segment, with the addition of the private funds group that was formerly part

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

1. Summary of Significant Accounting Policies (Continued)

of its Wealth & Asset Management segment. The Company's Private Banking segment consists of the private client services business in the U.S. (other than Volaris) that was formerly part of the Company's Wealth & Asset Management segment. The Company's Asset Management segment consists of the private equity business and the Volaris business that were formerly part of its Wealth & Asset Management segment.

The Company manages and reports its segments on a pre-tax basis and excludes revenues and expenses primarily from the consolidation of certain private equity funds which are reported in Elimination & Other. Net income is unaffected by the consolidation of these private equity funds because offsetting minority interests are also recorded in Elimination & Other.

Certain reclassifications have been made to prior year condensed consolidated financial statements in this Quarterly Report to reflect the operational and management structure in place during 2006.

RECENTLY ADOPTED ACCOUNTING STANDARDS

Consolidation

In June 2005, the Financial Accounting Standards Board ("FASB") ratified Emerging Issues Task Force ("EITF") Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" ("EITF 04-5"). EITF 04-5 provides a framework for evaluating whether a general partner or a group of general partners controls a limited partnership and therefore should consolidate it. EITF 04-5 states that the presumption of general partner control is overcome only when the limited partners have substantive "kick-out rights" or "participating rights." These rights would allow a simple majority of the limited partners to dissolve or liquidate the partnership or otherwise remove the general partner "without cause" or effectively participate in significant decisions made in the ordinary course of the partnership business. EITF 04-5 was effective upon ratification for all newly formed limited partnerships and for existing limited partnership agreements that have been modified. The guidance was effective for the Company with respect to existing unmodified partnerships as of January 1, 2006.

As a result of the ratification of EITF 04-5, EITF Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights" ("EITF 96-16") was updated and FASB Staff Position ("FSP") No. SOP 78-9-1, "Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5" ("FSP SOP 78-9-1") was issued. The amendments to EITF 96-16 were effective on a prospective basis upon issuance, whereas, similar to EITF 04-5, FSP SOP 78-9-1 was effective upon issuance for all new partnerships formed and for existing partnership agreements modified after June 29, 2005, and was effective for the Company with respect to existing unmodified partnerships as of January 1, 2006.

The changes to EITF 96-16 and the provisions of EITF 04-5 and FSP SOP 78-9-1 in effect during 2005 did not have a material impact on the Company's financial condition, results of operations or cash flows. As of January 1, 2006, the Company increased its assets and liabilities by \$6.7 billion, due to the consolidation of certain unmodified private equity partnerships which existed prior to June 2005.

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

1. Summary of Significant Accounting Policies (Continued)

Share-based Compensation

In December 2004, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 123 (Revised 2004), “Share-Based Payment” (“SFAS 123R”). SFAS 123R was effective for annual reporting periods beginning after June 15, 2005. The Company early adopted SFAS 123R as of January 1, 2005, applying the modified prospective method. The Company’s policy is to expense all share-based awards over the requisite service period.

The most significant accounting implications of the adoption of SFAS 123R for the Company were as follows: (i) inclusion of forfeitures in the estimate of compensation expense determined at the grant date rather than as they occur. The Company recorded a cumulative adjustment of approximately \$6 million, net of tax, during the first quarter of 2005 to reverse the expense previously recognized on all outstanding unvested awards expected to be forfeited. For new grants after January 1, 2005, forfeitures have been included in the initial estimation of the compensation expense at the grant date; (ii) recognition of compensation cost for all outstanding unvested awards as of January 1, 2005, that were previously accounted for under Accounting Principles Board (“APB”) Opinion No. 25 and for which no expense was previously recognized, based on the original grant-date fair value of each award over the remaining requisite service period of the respective award (the recognition of this expense was not material); and (iii) adoption of changes to the presentation of the statement of cash flows in accordance with the revised standard.

In a December 2005 speech, the Securities and Exchange Commission (“SEC”) staff provided further guidance on SFAS 123R, relating to accounting for share-based compensation awards subject to a non-competition provision that have scheduled vesting beyond an employee’s eligibility for early retirement. The SEC staff noted that such share-based awards should generally be expensed over the period from the grant date to the date an employee becomes eligible for early retirement, rather than over the entire vesting, or stated service, period, unless the non-competition provision and other factors establish an in-substance requisite service period that extends beyond the early retirement date. As a result of the December 2005 guidance, and based on subsequent discussions with the SEC staff, the Company recorded in the fourth quarter of 2005 an incremental expense to reflect the full-year cost of its 2005 share-based awards. This incremental expense reflected the attribution of the total cost of these awards over the period from the grant date to the date the employee becomes eligible for early retirement rather than over the vesting period that ranged from three to five years.

The impact of the Company’s change in accounting was to increase fourth quarter and full year 2005 compensation and benefits by \$296 million (\$12 million of which was charged to CSG affiliates outside of the Company and reflected as a reduction in other operating expenses), and to decrease fourth quarter and full year 2005 net income by \$185 million. This non-cash charge, recorded in Elimination & Other for segment reporting purposes, represents the recognition of compensation expense for share-based awards granted in 2005 that otherwise would have been recorded in the Company’s segments, principally Investment Banking, generally over vesting periods of three to five years.

The share-based awards granted in March 2006 provide for early retirement eligibility no earlier than two years after the award grant date. These awards will be recorded as compensation expense in the

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

1. Summary of Significant Accounting Policies (Continued)

Company's operating segments over the period from the grant date of March 2006 to the date an employee becomes eligible for early retirement if earlier than the three to five year vesting period.

Accounting Changes

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, 'Accounting Changes' ("APB 20") and FASB Statement No. 3, 'Reporting Accounting Changes in Interim Financial Statements (an Amendment of APB Opinion No. 28, 'Interim Financial Reporting')' ("SFAS 154"). SFAS 154 requires retrospective application, unless impracticable, to prior periods' financial statements for voluntary changes in accounting principles and changes required by an accounting pronouncement in the unusual circumstances in which the pronouncement does not include specific transition provisions. The statement also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets should be accounted for as a change in accounting estimate effected by a change in accounting principle (i.e., as a retrospective application). The guidance for reporting the correction of an error in previously issued financial statements and the change of an accounting estimate does not change from APB 20. SFAS 154 was effective for the Company as of January 1, 2006. The adoption of SFAS 154 did not have a material impact on the Company's financial condition, results of operations or cash flows.

Hybrids

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS 155"), which amended SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended ("SFAS 133") and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). Under SFAS 155, hybrid financial instruments that contain embedded derivatives that would otherwise require bifurcation may be accounted for at fair value, with changes in fair value recognized in the condensed consolidated statement of income. The fair value designation may be applied on an instrument-by-instrument basis; however, the election to apply fair value accounting is irrevocable. SFAS 155 will be effective for those instruments acquired or issued on or after an entity's fiscal year beginning after September 15, 2006, but early adoption is permitted as of the beginning of a fiscal year for which an entity has not previously issued interim financial statements. SFAS 155 allows limited retrospective application for existing bifurcated hybrid financial instruments. The Company elected to early adopt SFAS 155 as of January 1, 2006. The adoption of SFAS 155 did not have a material impact on the Company's financial condition, results of operations or cash flows.

Servicing

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets" ("SFAS 156"), which amended SFAS 140. SFAS 156 requires that all separately recognized servicing rights after the effective date be initially measured at fair value, and permits separately recognized servicing rights to be accounted for at fair value in subsequent periods, with changes in fair value recognized in the income statement. SFAS 156 permits an irrevocable election to apply fair value accounting for classes of servicing rights based on the different valuation and risk characteristics of the underlying assets and the

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

1. Summary of Significant Accounting Policies (Continued)

way the economic risks are managed. SFAS 156 will be effective on a prospective basis for fiscal years beginning after September 15, 2006; however early adoption is permitted as of the beginning of a fiscal year for which an entity has not previously issued interim financial statements. SFAS 156 also allows limited retrospective application for existing separately recognized servicing rights. The Company elected to early adopt SFAS 156 as of January 1, 2006. The adoption of SFAS 156 did not have an impact on the Company's financial condition, results of operations or cash flows.

Insurance

In March 2006, the FASB issued FASB Staff Position ("FSP") No. FTB 85-4-1, "Accounting for Life Settlement Contracts by Third Party Investors" ("FSP FTB 85-4-1"). FSP FTB 85-4-1 provides a contract-by-contract election to account for life settlement contracts on either a fair value basis, with changes in fair value recognized in the income statement, or through use of the investment method. Under the investment method, the initial investment and continuing costs are capitalized; however, no income is recognized until death of the insured party. The guidance of FSP FTB 85-4-1 will be effective for fiscal years beginning after June 15, 2006 and will permit early adoption; however, upon adoption, limited retrospective application of the measurement guidance is required. The Company elected to early adopt FSP FTB 85-4-1 as of January 1, 2006. The adoption of FSP FTB 85-4-1 did not have an impact on the Company's financial condition, results of operations or cash flows.

STANDARDS TO BE ADOPTED IN FUTURE PERIODS

FSP FIN 46(R)-6

In April 2006, the FASB issued FSP No. FIN 46(R)-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)" ("FSP FIN 46(R)-6"). FSP FIN 46(R)-6 provides guidance regarding how contracts or arrangements that create or reduce variability should be considered when determining whether entities qualify as variable interest entities ("VIEs") and when assessing the need for consolidation of VIEs. FSP FIN 46(R)-6 requires that evaluations of the variability created or absorbed in an entity from its contracts or arrangements be based on an analysis of the entity's design. In evaluating the design of an entity, an analysis must be performed as to the potential risks to which the entity is exposed as well as the risks that the entity was designed to create and pass along to its interest holders based on the purpose for which the entity was formed. The guidance of FSP FIN 46(R)-6 must be applied on a prospective basis in reporting periods beginning after June 15, 2006, but need not be applied to existing entities unless a reconsideration event occurs. The Company is currently evaluating the impact of adopting FSP FIN 46(R)-6.

2. Related Party Transactions

CSG, through CS Holdings, owns all of the Company's outstanding voting common stock. The Company is involved in significant financing and other transactions, and has significant related party balances, with CSG affiliates, primarily Credit Suisse, and certain of its subsidiaries and affiliates. The Company generally enters into these transactions in the ordinary course of business and believes that these transactions are generally on market terms that could be obtained from unrelated third parties.

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

2. Related Party Transactions (Continued)

The following table sets forth the Company's related party assets and liabilities as of March 31, 2006 and December 31, 2005:

	March 31, 2006	December 31, 2005
	(In millions)	
ASSETS		
Securities purchased under agreements to resell	\$ 6,644	\$ 5,163
Securities borrowed	6,158	4,323
Receivables from customers	25	—
Receivables from brokers, dealers and other	3,915	2,247
Derivatives contracts	1,665	842
Net deferred tax asset	961	1,202
Loans receivable from parent and affiliates	27,644	25,225
Total assets	<u>\$47,012</u>	<u>\$39,002</u>
LIABILITIES		
Short-term borrowings	\$15,212	\$12,093
Securities sold under agreements to repurchase	25,391	25,634
Securities loaned	39,857	33,976
Payables to customers	2,589	2,853
Payables to brokers, dealers and other	3,813	2,036
Derivatives contracts	1,510	489
Obligation to return securities received as collateral	2,339	1,242
Taxes payable (included in Other liabilities)	204	350
Intercompany payables (included in Other liabilities)	173	626
Total liabilities	<u>\$91,088</u>	<u>\$79,299</u>

Included in the condensed consolidated statements of income are revenues and expenses resulting from various securities trading and financing activities with certain affiliates, as well as fees for administrative services performed by the Company under the terms of various agreements. The Company earns commission revenues and incurs commission expenses during the normal course of business for securities transactions conducted with affiliates. Other operating expenses include affiliate service fees that are treated as a reduction in other operating expenses in the condensed consolidated statements of income. These fees include compensation and benefits expense relating to business activities conducted by Company employees on behalf of CSG affiliates outside the Company.

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

2. Related Party Transactions (Continued)

The following table sets forth the Company's related party revenues and expenses for the three months ended March 31, 2006 and 2005:

	For the Three Months Ended March 31,	
	2006	2005
Principal transactions-net (derivatives contracts)	\$ 252	\$ 310
Commissions and fees, net	(22)	(7)
Interest and dividend revenues	458	238
Interest expense	(753)	(434)
Total net revenues	<u>\$ (65)</u>	<u>\$ 107</u>
Other operating expenses	\$ (51)	\$ (84)
Total expenses	<u>\$ (51)</u>	<u>\$ (84)</u>

From time to time, the Company sells at cost to CS Holdings the right, title and interest in certain assets. Once the assets are sold, the Company continues to service these assets on behalf of CS Holdings. For the three months ended March 31, 2006, the value of the assets sold, net of collections applied, was not material.

As of March 31, 2006, certain private equity funds of funds, hedge funds of funds and VIEs that issue collateralized debt obligations ("CDOs"), with aggregate assets under management of approximately \$21.1 billion, of CS Alternative Capital, Inc., an indirect wholly owned subsidiary of CS Holdings, are managed by the Company's Alternative Investments division. CS Alternative Capital, Inc. reimburses the Company for all expenses incurred by the Company in connection with managing these assets. The Company treats these reimbursements as a reduction in other operating expenses in the condensed consolidated statements of income.

The Credit Suisse Group International Share Plan provides for the grant of equity-based awards to Company employees based on CSG shares pursuant to which employees of the Company may be granted, as compensation, shares or other equity-based awards as compensation for services performed. CS Holdings purchases shares from CSG to satisfy these awards, but CS Holdings does not require reimbursement from the Company; therefore, amounts associated with these awards are considered a capital contribution to the Company and credited to paid-in-capital. Amounts contributed by CS Holdings relating to compensation expense for the three months ended March 31, 2006 and 2005 were \$314 million and \$118 million, respectively, including tax effects. See Note 1 for further information on the Company's share-based compensation.

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

2. Related Party Transactions (Continued)

Certain of the Company's directors, officers and employees and those of its affiliates and their subsidiaries maintain margin accounts with the Company's principal broker-dealer subsidiary, CS Securities (USA) LLC ("CS Securities") and other affiliated broker-dealers in the ordinary course of business. In addition, certain of such directors, officers and employees have investments or commitments to invest in various private equity funds. The Company makes loans to directors and executive officers on the same terms as are generally available to third parties or otherwise pursuant to widely available employee benefit plans. CS Securities and other affiliated broker-dealers, from time to time and in the ordinary course of business, enter into, as principal, transactions involving the purchase or sale of securities from or to such directors, officers and employees and members of their immediate families.

The Company issues guarantees to customers with respect to certain obligations of its affiliates in the ordinary course of business, including, but not limited to, certain derivatives transactions. Failure to perform by an affiliate would require the Company to perform under the guarantee. See Note 8 for more information.

The Company is included in the consolidated federal income tax return and certain state and local income tax returns filed by CS Holdings.

3. Transfers and Servicing of Financial Assets

As part of the Company's financing and securities settlement activities, the Company uses securities as collateral to support various secured financing sources. If the counterparty does not meet its contractual obligation to return securities used as collateral, the Company may be exposed to the risk of reacquiring the securities at prevailing market prices to satisfy its obligations. The Company controls this risk by monitoring the market value of financial instruments pledged each day and by requiring collateral levels to be adjusted in the event of excess market exposure.

As of March 31, 2006 and December 31, 2005, the fair value of assets that the Company pledged to counterparties was \$228.0 billion and \$212.5 billion, respectively, of which \$73.6 billion and \$73.0 billion, respectively, was included in financial instruments owned in the condensed consolidated statements of financial condition.

The Company has also received similar assets as collateral that the Company has the right to re-pledge or sell. The Company routinely re-pledges or sells these assets to third parties. As of March 31, 2006 and December 31, 2005, the fair value of the assets pledged to the Company was \$205.1 billion and \$184.6 billion, respectively, of which \$205.0 billion and \$178.1 billion, respectively, was re-pledged or sold.

Securitization Activities

The Company originates and purchases residential mortgages and originates commercial loans for the purpose of securitization. The Company sells these mortgage loans to qualified special purpose entities ("QSPEs"). The QSPEs issue securities that are backed by the assets transferred to the QSPEs and pay a return based on the returns on those assets. Investors in these mortgage-backed securities typically have recourse to the assets in the QSPE. The investors and the QSPEs have no recourse to the Company's assets. CS Securities is an underwriter of, and makes a market in, these securities.

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

3. Transfers and Servicing of Financial Assets (Continued)

As of March 31, 2006, the Company held encumbered mortgage loans totaling \$8.1 billion related to securitization transactions that did not qualify for sale accounting treatment under paragraph 40b of SFAS 140. Prior to securitization, such encumbered loans were accounted for in financial instruments owned, however due to the transfer of legal title in the form of a pledge in the securitization, these loans have been reclassified to Other assets and deferred amounts in the condensed consolidated statements of financial condition. Cash amounts received in payment upon transfer for such loans are accounted for as secured borrowings and are recorded in Other liabilities in the condensed consolidated statements of financial condition.

The following table presents the proceeds and gains related to the securitization of commercial mortgage loans, residential mortgage loans and other asset-backed loans for the three months ended March 31, 2006 and 2005. The gain on securitizations includes underwriting revenues, deferred origination fees and expenses, gains or losses on the sale of the collateral to the QSPE or VIE and gains or losses on the sale of the newly issued securities to third parties but excludes net interest revenues earned on assets prior to securitization.

	<u>Commercial mortgage loans⁽¹⁾</u>	<u>Residential mortgage loans⁽²⁾</u> (In millions)	<u>Other asset-backed loans⁽²⁾⁽³⁾</u>
For the Three Months Ended March 31, 2006			
Proceeds from securitizations.....	\$2,267	\$ 6,494	\$1,220
Gain on securitizations	\$ 63	\$ 10	\$ 9
For the Three Months Ended March, 2005			
Proceeds from securitizations.....	\$1,357	\$11,755	\$1,908
Gain on securitizations	\$ 42	\$ 11	\$ 15

(1) The gains or losses on the sale of the collateral to the QSPE is the difference between the carrying value on the day prior to the securitization date (the lower of cost or fair value) and the selling price of the mortgage whole loans to the QSPE on the securitization pricing date.

(2) The gains or losses on the sale of the collateral to the QSPE is the difference between the fair value on the day prior to securitization pricing date and the selling price of the mortgage whole loans to the QSPE on the securitization pricing date.

(3) Includes home equity loans and other securities collateralized by residential mortgage loans.

The Company may retain interests in these securitized assets in connection with its underwriting and market-making activities. The Company's primary exposure in its securitization activities is limited to its retained interests. Retained interests in securitized financial assets are included at fair value in corporate debt in financial instruments owned in the condensed consolidated statements of financial condition. Any changes in the fair value of these retained interests are recognized in the condensed consolidated statements of income. The fair values of retained interests are determined using market quotes where available or present value of estimated future cash flows valuation techniques that incorporate assumptions that marketplace participants customarily use in their estimates of values. As of March 31, 2006 and

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

3. Transfers and Servicing of Financial Assets (Continued)

December 31, 2005, the fair value of the interests retained by the Company was \$2.7 billion and \$5.1 billion, respectively.

Key economic assumptions used in measuring at the date of securitization the fair value of the retained interests resulting from securitizations completed during the three months ended March 31, 2006 were as follows:

	For the Three Months Ended March 31, 2006		
	Commercial mortgage loans⁽¹⁾	Residential mortgage loans	Other asset-backed loans
Weighted-average life (in years)	N/A	6.2	8.9
Prepayment rate (in rate per annum) ⁽²⁾	N/A	10.0%-41.5%	25%
Cash flow discount rate (in rate per annum) ⁽³⁾	N/A	3.5%-36.6%	N/A
Expected credit losses (in rate per annum)	N/A	0.0%-29.7%	N/A

The following table sets forth the fair value of retained interests from securitizations as of March 31, 2006, key economic assumptions used to determine the fair value and the sensitivity of the fair value to immediate adverse changes in those assumptions:

	As of March 31, 2006		
	Commercial mortgage loans⁽¹⁾	Residential mortgage loans	Other asset-backed
		(Dollars in millions)	
Fair value of retained interests	\$ 39	\$ 2,635	\$ 59
Weighted-average life (in years)	1.9	4.2	5.4
Prepayment rate (in rate per annum) ⁽²⁾	N/A	0.5%-70.9%	15.2%-46.3%
Impact on fair value of 10% adverse change	—	\$ (21)	—
Impact on fair value of 20% adverse change	—	\$ (37)	—
Cash flow discount rate (in rate per annum) ⁽³⁾	10.2%	7.8%	N/A
Impact on fair value of 10% adverse change	\$ (1)	\$ (51)	—
Impact on fair value of 20% adverse change	\$ (1)	\$ (103)	—
Expected credit losses (in rate per annum)	5.3%	1.2%	N/A
Impact on fair value of 10% adverse change	\$ —	\$ (8)	—
Impact on fair value of 20% adverse change	\$ (1)	\$ (16)	—

⁽¹⁾ To deter prepayment, commercial mortgage loans typically have prepayment protection in the form of prepayment lockouts and yield maintenances.

⁽²⁾ The Company utilizes the constant prepayment rate assumptions.

⁽³⁾ The rate is based on the weighted average yield on the retained interest.

These sensitivities are hypothetical and do not reflect the benefits of hedging activities. Changes in fair value based on a 10% or 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

3. Transfers and Servicing of Financial Assets (Continued)

changing any other assumption. In practice, changes in one assumption may result in changes in other assumptions (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which may magnify or counteract the sensitivities.

Variable Interest Entities

The Company has variable interests in several CDO VIEs. As described under “—Securitization Activities,” in the normal course of its business, the Company purchases loans and other debt obligations from and on behalf of clients primarily for the purpose of securitization. These assets are sold to and warehoused by affiliates and, at the end of a warehousing period, the assets are sold to CDO VIEs or QSPEs for securitization. The Company engages in these transactions to meet the needs of clients, to earn fees and to sell financial assets. The purpose of these CDO VIEs and QSPEs is to provide investors a return based on the underlying debt instruments of the CDO VIEs and QSPEs. In connection with its underwriting and market-making activities, the Company may retain interests in the CDO VIEs and QSPEs. The CDO entities may have actively managed (“open”) portfolios or static or unmanaged (“closed”) portfolios. The closed CDO transactions are typically structured to use QSPEs, which are not consolidated in the Company’s financial statements.

The Company has consolidated all CDO VIEs and other VIEs for which it is the primary beneficiary. As of March 31, 2006 and December 31, 2005, the Company recorded \$959 million and \$673 million, respectively, representing the carrying amount of the consolidated assets of these CDO VIEs and other VIEs that are collateral for the VIE obligations. The beneficial interests of these consolidated CDO VIEs and other VIEs are payable solely from the cash flows of the related collateral, and the creditors of these CDO VIEs do not have recourse to the Company in the event of default.

The Company holds significant debt and equity interests in CDO VIEs that are not consolidated because the Company is not the primary beneficiary. The total assets in these CDO VIEs as of March 31, 2006 and December 31, 2005 were \$6.2 billion and \$5.4 billion, respectively. The Company’s maximum exposure to loss on significant debt and equity interests in CDO VIEs as of March 31, 2006 and December 31, 2005 was \$103 million and \$127 million, respectively, which was the amount carried at fair value in financial instruments owned.

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

3. Transfers and Servicing of Financial Assets (Continued)

In the normal course of its private equity activities, the Company is typically the general partner and investment adviser to private equity funds. Limited partners of these funds typically have recourse to the fund's assets but have no recourse to the Company's assets. The Company consolidates certain private equity funds that are managed by the Company. A portion of these private equity funds are not VIEs but are consolidated based on the Company's control of the voting interest of the fund. See Note 1 for more information. The following table presents the impact on the condensed consolidated statements of financial condition of the Company as a result of consolidating certain private equity funds as of March 31, 2006 and December 31, 2005:

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
	(In millions)	
Private equity and other long-term investments	\$9,072	\$2,562
All other assets, net	507	177
Total assets	<u>\$9,579</u>	<u>\$2,739</u>
Minority interests (included in other liabilities)	\$8,995	\$2,549
All other liabilities, net (excluding minority interests)	584	190
Total liabilities	<u>\$9,579</u>	<u>\$2,739</u>

The following table presents the impact on the condensed consolidated statements of income of the Company as a result of consolidating certain private equity funds, for the three months ended March 31, 2006 and 2005:

	<u>For the Three Months Ended March 31, 2006</u>	<u>2005</u>
	(In millions)	
Net revenues	\$948	\$157
Expenses	5	2
Minority interests	<u>\$943</u>	<u>\$155</u>

4. Private Equity and Other Long-Term Investments

Private equity and other long-term investments include direct investments and investments in partnerships that make private equity and related investments in various portfolio companies and funds. The Company categorizes its private equity and other long-term investments into three categories: Credit Suisse-managed funds, which include consolidated funds, funds managed by third parties and direct investments. These investments generally have no readily available market or may be otherwise restricted as to resale under the Securities Act of 1933 ("Securities Act"); therefore, these investments are carried at management's best estimate of fair value.

As of March 31, 2006 and December 31, 2005, the Company had investments in private equity and other long-term investments of \$10.3 billion and \$3.6 billion, respectively, including \$9.1 billion and \$2.6 billion, respectively, in private equity investments the Company is required to consolidate. Changes in net unrealized appreciation/depreciation arising from changes in fair value and the gain or loss realized

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

4. Private Equity and Other Long-Term Investments (Continued)

upon sale are reflected in principal transactions-net in the condensed consolidated statements of income. See Notes 1 and 3 for more information. The original cost of these investments, excluding the consolidated private equity investments, was \$1.5 billion as of March 31, 2006 and \$1.4 billion as of December 31, 2005. As of March 31, 2006 the Company had commitments to invest up to an additional \$391 million in non-consolidated private equity funds and \$1.1 billion in consolidated private equity funds.

The Company's subsidiaries manage many private equity partnerships (the "Funds"). When the investment performance on Credit Suisse-managed Funds exceeds specific thresholds, the Company and certain other partners, most of which are current and former employees of the Company (collectively the "GPs"), may be entitled to receive a carried interest distribution under the governing documents of the Funds. Carried interest distributions are based on the cumulative investment performance of each Fund at the time the distribution is made. As a result, the Company may be obligated to return to investors in the Funds all or a portion of the carried interest distributed to the GPs. The amount of such contingent obligations is based upon the performance of the Funds but cannot exceed the amount of carried interest received by the GPs. As of March 31, 2006 and December 31, 2005, the maximum amount of such contingent obligations was \$616 million and \$620 million, respectively, assuming the Funds' remaining investments were worthless. Assuming the Funds' remaining investments were sold at their current carrying values as of March 31, 2006 and December 31, 2005, the contingent obligations would have been \$12 million and \$18 million, respectively. As of March 31, 2006 and December 31, 2005, the Company withheld cash from distributions on prior realizations to the partners, and recorded corresponding liabilities of \$129 million and \$126 million, respectively, in connection with the Company's guarantee to return prior carried interest distributions to third party investors in the Funds.

In addition, pursuant to certain contractual arrangements, the Company is obligated to make cash payments to certain investors in certain Funds if specified performance thresholds are not met. As of March 31, 2006 and December 31, 2005, the maximum amount of such contingent obligations was \$45 million assuming the Funds' remaining investments were worthless. Assuming the Funds' remaining investments were sold at their current carrying values as of March 31, 2006 and December 31, 2005, there would have been no contingent obligation.

5. Derivatives Contracts

The Company uses derivatives contracts for trading and hedging purposes and to provide products for clients. These derivatives include options, forwards, futures and swaps. For more information on the Company's derivatives, see Note 6 of the consolidated financial statements in Part II, Item 8 in the Annual Report on Form 10-K for the year ended December 31, 2005.

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

5. Derivatives Contracts (Continued)

Quantitative Disclosures for All Derivatives

The fair values of all derivatives contracts outstanding as of March 31, 2006 and December 31, 2005 were as follows:

	<u>March 31, 2006</u>		<u>December 31, 2005</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
	(In millions)			
Options.....	\$1,258	\$1,007	\$1,167	\$ 728
Forward contracts.....	3,803	1,828	3,049	1,076
Swaps	1,991	1,936	869	458
Total	<u>\$7,052</u>	<u>\$4,771</u>	<u>\$5,085</u>	<u>\$2,262</u>

These assets and liabilities are included as derivatives contracts in financial instruments owned/sold not yet purchased, respectively, in the condensed consolidated statements of financial condition.

6. Borrowings

Short-term borrowings are generally demand obligations with interest approximating the federal funds rate, the London Interbank Offered Rate ("LIBOR") or other money market indices. Such borrowings are generally used to facilitate the securities settlement process, finance financial instruments owned and finance securities purchased by customers on margin. As of March 31, 2006 and December 31, 2005, there were no short-term borrowings secured by Company-owned securities.

The following table sets forth the Company's short-term borrowings and their weighted average interest rates:

	<u>Short-term borrowings</u>		<u>Weighted average interest rates</u>	
	<u>As of</u>	<u>As of</u>	<u>As of</u>	<u>As of</u>
	<u>March 31,</u>	<u>December 31,</u>	<u>March 31,</u>	<u>December 31,</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In millions)			
Bank loans, including loans from affiliates ⁽¹⁾	\$15,930	\$12,356	4.92%	4.32%
Commercial paper	1,150	1,298	4.59%	4.19%
Total short-term borrowings.....	<u>\$17,080</u>	<u>\$13,654</u>		

⁽¹⁾ Includes \$15.2 billion and \$12.1 billion in loans from affiliates as of March 31, 2006 and December 31, 2005, respectively.

The Company has a commercial paper program exempt from registration under the Securities Act that allows the Company to issue up to \$5.0 billion in commercial paper. As of March 31, 2006 and December 31, 2005, \$1.2 billion and \$1.3 billion, respectively, of commercial paper was outstanding under this program.

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

6. Borrowings (Continued)

In February 2006, the Company filed with the SEC an automatic shelf registration statement that allows the Company to issue from time to time senior and subordinated debt securities, and warrants to purchase such securities.

In July 2001, the Company established a Euro medium-term note program, that allows the Company to issue up to \$5.0 billion of notes. Under this program, the Company had, as of May 10, 2006 approximately \$1.2 billion available for issuance.

The following table sets forth the Company's long-term borrowings as of March 31, 2006 and December 31, 2005:

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
	<u>(In millions)</u>	
Senior notes 3.9%-7.1%, due various dates through 2032	\$ 31,788	\$ 29,214
Medium-term notes 3.1%-7.4%, due various dates		
through 2032	4,139	4,223
Structured borrowings 4.5% -16.1%, due various dates		
through 2015	622	489
Total long-term borrowings	<u>\$36,549</u>	<u>\$33,926</u>
Current maturities of long-term borrowings	<u>\$ 3,971</u>	<u>\$ 3,692</u>

As of March 31, 2006 and December 31, 2005, long-term borrowings included downward fair value adjustments of approximately \$278 million and upward fair value adjustments of \$52 million, respectively, associated with fair value hedges under SFAS 133. As of March 31, 2006 and December 31, 2005, the Company had entered into interest rate swaps, with a notional amount of \$25.4 billion and \$23.6 billion, respectively, on the Company's long-term borrowings for hedging purposes. Substantially all of these swaps qualified as fair value hedges under SFAS 133. See Note 5 for more information.

The following table sets forth scheduled maturities of all long-term borrowings as of March 31, 2006:

	<u>Twelve Months</u>
	<u>Ended March 31,</u>
	<u>(In millions)</u>
2007	3,971
2008	4,955
2009	6,775
2010	2,795
2011	4,232
2012-2032	13,821
Total	<u>\$36,549</u>

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

6. Borrowings (Continued)

The following table sets forth scheduled maturities of the current portion of long-term borrowings as of March 31, 2006:

	<u>Three Months Ended</u> (In millions)
June 30, 2006.....	\$1,363
September 30, 2006	2,238
December 31, 2006.....	—
March 31, 2007	370
Total	<u>\$3,971</u>

As of March 31, 2006, CS Securities maintained with third parties five 364-day committed secured revolving credit facilities totaling \$2.2 billion, with one facility for \$500 million maturing in July 2006, one facility for \$200 million maturing in August 2006, one facility for \$500 million maturing in November 2006, one facility for \$500 million maturing in February 2007 and one facility for \$500 million maturing in March 2007. The Company expects to renew these facilities as they mature. These facilities require CS Securities to pledge unencumbered marketable securities to secure any borrowings. Borrowings under each facility would bear interest at short-term rates related to either the Federal Funds rate or LIBOR and can be used for general corporate purposes. The facilities contain customary covenants that the Company believes will not impair its ability to obtain funding. As of March 31, 2006, no borrowings were outstanding under any of the facilities.

2006 Financings

During the three months ended March 31, 2006, the Company issued \$3.0 billion of senior notes and \$40 million in structured notes and repaid approximately \$90 million of medium-term notes and \$13 million of structured notes.

7. Leases and Commitments

The following table sets forth the Company's minimum operating lease commitments as of March 31, 2006:

	<u>Twelve Months</u> <u>Ending March 31,</u> (In millions)
2007.....	\$ 155
2008.....	147
2009.....	142
2010.....	139
2011.....	134
2012-2025	950
Total ⁽¹⁾	<u>\$1,667</u>

⁽¹⁾ Excludes sublease revenue of \$298 million and executory costs such as insurance, maintenance and taxes of \$545 million.

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

7. Leases and Commitments (Continued)

The following table sets forth the Company's commitments, including the current portion as of March 31, 2006:

	Commitment Expiration Per Period				
	Less than 1 year	1-3 years	4-5 years (In millions)	Over 5 years	Total commitments
Standby resale agreements ⁽¹⁾	\$ 25	\$125	\$ —	\$ —	\$ 150
Private equity ⁽²⁾	88	22	13	268	391
Forward agreements ⁽³⁾	9,274	—	—	—	9,274
Unfunded lending commitments ⁽⁴⁾	590	227	114	276	1,207
Unfunded warehousing commitments ⁽⁵⁾	1,991	—	—	—	1,991
Total commitments.	<u>\$11,968</u>	<u>\$374</u>	<u>\$127</u>	<u>\$544</u>	<u>\$13,013</u>

⁽¹⁾ In the ordinary course of business, the Company maintains certain standby resale agreement facilities that commit the Company to enter into securities purchased under agreements to resell with customers at current market rates.

⁽²⁾ As of March 31, 2006, the Company had commitments to invest up to an additional \$391 million in non-consolidated private equity funds and \$1.1 billion in consolidated private equity funds.

⁽³⁾ Represents commitments to enter into securities purchased under agreements to resell and agreements to borrow securities.

⁽⁴⁾ The Company enters into commitments to extend credit in connection with certain premium finance, leveraged finance and other activities.

⁽⁵⁾ The Company enters into commitments to warehouse commercial mortgage whole loans.

Excluded from the table above are certain commitments to originate and purchase mortgage whole loans that qualify as derivatives. These commitments are reflected in derivatives contracts in the condensed consolidated statements of financial condition. For more information on the Company's derivatives contracts see Note 5.

As of March 31, 2006, the Company used \$400 million in outstanding standby letters of credit to satisfy counterparty collateral requirements.

The Company had no material capital lease obligations as of March 31, 2006. For information about certain of the Company's additional commitments, see Notes 4 and 8.

8. Guarantees

In the ordinary course of business, the Company enters into guarantee contracts as guarantor. FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), requires disclosure by a guarantor of its maximum potential payment obligations under certain of its guarantees to the extent that it is possible to estimate them. FIN 45 also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligations undertaken in issuing such guarantee, including its ongoing obligation to stand

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

8. Guarantees (Continued)

ready to perform over the term of the guarantee in the event that certain events or conditions occur. With certain exceptions, these liability recognition requirements apply to any guarantees entered into or modified after December 31, 2002.

The guarantees covered by FIN 45 may require the Company to make payments to the guaranteed party based on changes related to an asset, a liability or an equity security of the guaranteed party. The Company may also be contingently required to make payments to the guaranteed party based on another entity's failure to perform under an agreement, or the Company may have an indirect guarantee of the indebtedness of others, even though the payment to the guaranteed party may not be based on changes related to an asset, liability or equity security of the guaranteed party.

In addition, FIN 45 covers certain indemnification agreements that contingently require the Company to make payments to the indemnified party based on changes related to an asset, liability or equity security of the indemnified party, such as an adverse judgment in a lawsuit or the imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law.

The following table sets forth the maximum quantifiable contingent liabilities and carrying amounts associated with guarantees covered by FIN 45 as of March 31, 2006 by maturity.

	Amount of Guarantee Expiration Per Period				Total guarantees	Carrying amounts
	Less than 1 year	1-3 years	4-5 years	Over 5 years		
	(In millions)					
Credit guarantees	\$ —	\$ 31	\$ 16	\$ 427	\$ 474	\$10
Performance guarantees	53	552	—	—	605	8
Derivatives	937	2,080	284	1,018	4,319	6
Related party guarantees	—	—	—	1	1	—
Total guarantees	<u>\$990</u>	<u>\$2,663</u>	<u>\$300</u>	<u>\$1,446</u>	<u>\$5,399</u>	<u>\$24</u>

For more information on the Company's guarantees, including guarantees for which the maximum contingent liability cannot be quantified, see Note 10 of the consolidated financial statements in Part II, Item 8 in the Annual Report on Form 10-K for the year ended December 31, 2005.

9. Net Capital Requirements

The Company's principal wholly owned subsidiary, CS Securities, is a registered broker-dealer, registered futures commission merchant and member firm of the New York Stock Exchange, Inc. Accordingly, the Company is subject to the minimum net capital requirements of the SEC and the Commodities Futures Trading Commission ("CFTC"). Under the alternative method permitted by Rule 15c3-1 under the Securities Exchange Act of 1934 (the "Exchange Act"), the required net capital may not be less than the greater of 2% of aggregate debit balances arising from customer transactions or 4% of the funds required to be segregated pursuant to the Commodity Exchange Act less the market value of certain commodity options, all as defined. Under CFTC Regulation 1.17, the required minimum net capital requirement is 8% of the total risk margin requirement (as defined) for all positions carried in customer accounts plus 4% of the total risk margin requirement (as defined) for all positions carried in

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

9. Net Capital Requirements (Continued)

non-customer accounts. As of March 31, 2006, CS Securities' net capital of approximately \$5.2 billion was 64.3% of aggregate debit balances and in excess of the CFTC's minimum requirement by approximately \$5.0 billion.

The Company's over-the-counter ("OTC") derivatives dealer subsidiary, Credit Suisse Capital LLC ("CS Capital") is also subject to the uniform net capital rule, but computes its net capital based on value at risk under Appendix F of Rule 15c3-1 under the Exchange Act. As of March 31, 2006, CS Capital's net capital of \$623 million, after allowing for market and credit risk exposure of \$43 million and \$110 million, respectively, was in excess of the minimum net capital requirement by \$603 million. CS Capital is in compliance with the exemptive provisions of Rule 15c3-3 under the Exchange Act because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities.

As of March 31, 2006, the Company and its subsidiaries complied with all applicable regulatory capital adequacy requirements.

10. Cash and Securities Segregated Under Federal and Other Regulations

In compliance with the Commodity Exchange Act, CS Securities segregates funds deposited by customers and funds accruing to customers as a result of trades or contracts. As of March 31, 2006 and December 31, 2005, cash and securities aggregating \$2.8 billion and \$2.7 billion, respectively, were segregated or secured by CS Securities in separate accounts exclusively for the benefit of customers.

In accordance with the SEC's no-action letter dated November 3, 1998, CS Securities computed a reserve requirement for the proprietary accounts of introducing broker-dealers. As of March 31, 2006 and December 31, 2005, CS Securities segregated securities aggregating \$4.3 billion and \$1.9 billion, respectively, on behalf of introducing broker-dealers.

In addition, CS Securities segregated U.S. Treasury securities with a market value of \$4.8 billion and \$3.3 billion as of March 31, 2006 and December 31, 2005, respectively, in a special reserve bank account exclusively for the benefit of customers as required by Rule 15c3-3 of the Exchange Act.

11. Employee Benefit Plans

The Company provides retirement and postretirement benefits to its U.S. and certain non-U.S. employees through participation in defined benefit pension plans, a defined contribution savings and retirement plan and other post-retirement plans. The Company's measurement date is September 30 for its pension and other plans. For more information on the Company's employee benefit plans, see Note 16 of the consolidated financial statements in Part II, Item 8 in the Annual Report on Form 10-K for the year ended December 31, 2005.

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

11. Employee Benefit Plans (Continued)

The following table presents the pension expense by component for the Company's defined benefit pension plans and other post-retirement plans for the three months ended March 31, 2006 and 2005:

	For the Three Months Ended March 31,	
	2006	2005
	(In millions)	
Components of Net Periodic Benefit Cost:		
Service cost	\$ 7	\$ 6
Interest cost	12	11
Expected return on plan assets	(13)	(14)
Amortization of loss	10	5
Net periodic benefit cost	<u>\$ 16</u>	<u>\$ 8</u>

The Company did not make payments to the qualified pension plan during the three months ended March 31, 2006 and does not expect to make any payments during the remainder of the year ending December 31, 2006. The Company made payments of less than \$1 million to participants in the supplemental plan and the other post-retirement plans during the three months ended March 31, 2006 and expects to pay a total of \$1 million during the remainder of the year ending December 31, 2006.

12. Legal Proceedings

The Company has provided reserves for litigation, claims and proceedings involving the Company in accordance with SFAS No. 5, "Accounting for Contingencies." The Company recorded in the second quarter of 2005 a \$750 million litigation charge to increase the reserve for private litigation involving Enron, certain initial public offering allocation practices, research analyst independence and other related litigation. This charge, coupled with the charge recorded in 2002, brings the Company's reserves for these private litigation matters to \$1.1 billion after the application of settlements entered into through March 31, 2006.

The Company is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its businesses. The Company believes, based on currently available information and advice of counsel, that the results of such proceedings, in the aggregate, will not have a material adverse effect on its financial condition but might be material to operating results for any particular period, depending, in part, upon the operating results for such period. The Company intends to defend itself vigorously in these matters, litigating or settling when determined by management to be in the best interests of the Company.

It is inherently difficult to predict the outcome of many of these matters. In presenting the condensed consolidated financial statements, management makes estimates regarding the outcome of these matters and records a reserve and takes a charge to income when losses with respect to such matters are probable and can be reasonably estimated. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, the Company's defenses and its experience in similar cases or proceedings as well as its assessment of matters, including

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

12. Legal Proceedings (Continued)

settlements, involving other defendants in similar or related cases or proceedings. Further litigation charges or releases of litigation reserves may be necessary in the future as developments in such cases or proceedings warrant.

13. Industry Segment and Geographic Data

The Company operates and manages its businesses through three operating segments: the Investment Banking segment, consisting primarily of investment banking, trading and certain separately managed private equity and distressed assets; the Asset Management segment, consisting primarily of the private equity business; and Private Banking, consisting of the private client services business in the U.S. For additional information, see Note 1.

The Company's segments are managed based on types of products and services offered and their related client bases. The Company evaluates the performance of its segments based primarily on income (loss) before provision (benefit) for income taxes and cumulative effect of a change in accounting principle but excluding minority interests. Minority interest-related revenues and expenses resulting from the consolidation of certain private equity funds are reported in Elimination & Other. Net income is unaffected by the consolidation of these private equity funds because offsetting minority interests are also recorded in Elimination & Other.

The Investment Banking segment consists of:

- investment banking, which serves a broad range of users and suppliers of capital and provides financial advisory and securities underwriting and placement services; and
- trading, which trades and distributes equity and equity-related products, including listed and OTC derivatives, fixed income financial instruments and derivatives and risk management products, and engages in securities lending and borrowing.

The Investment Banking segment also includes the results from certain separately managed private equity and distressed assets.

The Asset Management segment consists primarily of the private equity business. The private equity business makes privately negotiated investments and acts as an investment advisor for private equity funds.

The Private Banking segment consists of the private client services business in the U.S. Private client services is a financial advisory business serving high-net-worth individuals and corporate investors with a wide range of Credit Suisse and third-party investment management products and services.

The Company allocates to its segments a *pro rata* share of certain centrally managed costs. Leased facilities and equipment costs, employee benefits and certain general overhead expenses are allocated based upon specified amounts, usage criteria or agreed rates. Interest expense is allocated based upon the particular type of asset. The allocation of some costs, such as incentive bonuses, has been estimated. The timing and magnitude of changes in our incentive bonus accrual can have a significant effect on our operating results for a given period. Any revenues and expenses not allocated to the Company's segments appear in Elimination & Other in the table below. For additional information, see Note 1.

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

13. Industry Segment and Geographic Data (Continued)

The following table sets forth selected financial information for the Company's segments.

	<u>Investment Banking</u>	<u>Asset Management</u>	<u>Private Banking</u> (In millions)	<u>Elimination & Other⁽³⁾</u>	<u>Total</u>
For the three months ended March 31, 2006:					
Net revenues excluding net interest	\$ 1,555	\$ 91	\$ 64	\$ 926	\$ 2,636
Net interest and dividends revenue	286	—	2	6	294
Total net revenues ⁽¹⁾	<u>1,841</u>	<u>91</u>	<u>66</u>	<u>932</u>	<u>2,930</u>
Total expenses	1,390	62	75	6	1,533
Income (loss) ⁽²⁾	451	29	(9)	926	1,397
Minority interests	—	—	—	943	943
Income (loss) after minority interests ⁽⁴⁾	<u>\$ 451</u>	<u>\$ 29</u>	<u>\$ (9)</u>	<u>\$ (17)</u>	<u>\$ 454</u>
For the three months ended March 31, 2005:					
Net revenues excluding net interest	\$ 727	\$ 120	\$ 57	\$ 152	\$ 1,056
Net interest and dividends revenue	570	—	1	6	577
Total net revenues ⁽¹⁾	<u>1,297</u>	<u>120</u>	<u>58</u>	<u>158</u>	<u>1,633</u>
Total expenses	1,127	51	62	2	1,242
Income (loss) ⁽²⁾	170	69	(4)	156	391
Minority interests	—	—	—	155	155
Income (loss) after minority interests ⁽⁴⁾	<u>\$ 170</u>	<u>\$ 69</u>	<u>\$ (4)</u>	<u>\$ 1</u>	<u>\$ 236</u>
Segment assets as of March 31, 2006	<u>\$315,748</u>	<u>\$1,762</u>	<u>\$272</u>	<u>\$9,579</u>	<u>\$327,361</u>
Segment assets as of December 31, 2005	<u>\$293,278</u>	<u>\$1,512</u>	<u>\$225</u>	<u>\$2,739</u>	<u>\$297,754</u>

(1) Interest income and expense is accrued at the stated coupon rate for coupon-bearing financial instruments, and for non-coupon-bearing financial instruments, interest income is recognized by accreting the discount over the life of the instrument. For coupon-bearing financial instruments purchased at a discount or premium, the difference between interest income and expense accrued at the stated coupon rate and interest income and expense determined on an effective yield basis, which could be significant, is included in principal transactions-net instead of interest and dividends, net, in the Company's condensed consolidated statements of income and in net revenues excluding net interest.

(2) Income (loss) before provision (benefit) for income taxes, minority interests and cumulative effect of a change in accounting principle.

(3) Related primarily to the Company's consolidation of certain private equity funds. See Note 1 and 3 for more information. Also includes a limited amount of treasury costs associated with the Company's capitalization not allocated to the Company's segments.

(4) Income (loss) before provision (benefit) for income taxes and cumulative effect of a change in accounting principle.

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2006

14. Subsequent Event

In April 2006, the Company reached an agreement with a number of professional liability insurers to resolve insurance obligations relating to certain litigation and related costs involving the Investment Banking segment. Under this agreement, the Company has received \$300 million. The Company expects to reflect the payments received in the second quarter of 2006 as a reduction in Investment Banking's operating expenses.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder
Credit Suisse (USA), Inc.

We have reviewed the condensed consolidated statement of financial condition of Credit Suisse (USA), Inc. and subsidiaries (the “Company”) as of March 31, 2006, the related condensed consolidated statements of income for the three-month periods ended March 31, 2006 and 2005, and the related condensed consolidated statements of changes in stockholder’s equity and cash flows for the three-month periods ended March 31, 2006 and 2005. These condensed consolidated financial statements are the responsibility of the Company’s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of Credit Suisse (USA), Inc. and subsidiaries as of December 31, 2005, and the related consolidated statements of income, changes in stockholder’s equity, and cash flows for the year then ended (not presented herein); and in our report dated March 20, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of December 31, 2005 is fairly stated, in all material respects, in relation to the consolidated statement of financial condition from which it has been derived.

/s/ KPMG LLP
New York, New York
May 11, 2006

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

We serve institutional, corporate, government and high-net-worth individual clients. Our businesses include securities underwriting, sales and trading, financial advisory services, private equity investments, full-service brokerage services, derivatives and risk management products, asset management and investment research. We are part of three segments, Investment Banking, Asset Management and Private Banking, of Credit Suisse Group, or CSG, and our results do not reflect the overall performance of these segments or CSG.

When we use the terms “we,” “our,” “us” and the “Company,” we mean Credit Suisse (USA), Inc., a Delaware corporation, and its consolidated subsidiaries.

The Company's principal operations are located in the United States. The Company's foreign revenues are not significant.

BUSINESS ENVIRONMENT

Our principal business activities, investment banking, securities underwriting and sales, trading and asset management are, by their nature, highly competitive and subject to general market conditions that include volatile trading markets, fluctuations in the volume of new issues, mergers and acquisitions activities and the value of securities. Consequently, our results have been, and are likely to continue to be, subject to wide fluctuations reflecting the impact of many factors beyond our control, including securities market conditions, the level and volatility of interest rates, competitive conditions, the size and timing of transactions and the geopolitical environment.

The U.S. economy experienced solid growth during the three months ended March 31, 2006 as gross domestic product growth and consumer spending were strong and unemployment rates declined. The Federal Reserve Board continued to raise short-term interest rates at a measured pace and hinted that the end of the tightening process may be nearing.

The major U.S. stock market indices were up for the three months ended March 31, 2006 despite rising interest rates and high energy prices. For the three months ended March 31, 2006, the Dow Jones Industrial Average, the Standard & Poor's 500 stock index and the NASDAQ composite index increased 4%, 4% and 6%, respectively.

During the three months ended March 31, 2006, short-term interest rates continued to rise. The federal funds rate was 4.75% as of March 31, 2006 compared to 4.25% as of December 31, 2005 as the Federal Reserve Board increased the federal funds rate twice during the three months ended March 31, 2006. The yield on 10-year U.S. Treasury notes increased from 4.39% as of December 31, 2005 to 4.86% as of March 31, 2006.

The dollar value of U.S. equity and equity-related underwriting increased slightly for the three months ended March 31, 2006 compared to the three months ended March 31, 2005, reflecting increases in secondary common stock issuances and convertible securities issuances offset in part by a decrease in initial public offerings. The dollar value of U.S. debt underwriting increased for the three months ended March 31, 2006 compared to the three months ended March 31, 2005, primarily as a result of an increase in investment grade and mortgage-backed securities underwritings. Mergers and acquisitions activity was robust as the dollar value of both announced and completed U.S. mergers and acquisitions for the three months ended March 31, 2006 increased compared to the three months ended March 31, 2005.

MANAGEMENT OVERVIEW

In a climate of solid economic growth and strong equity markets in the U.S., the Company recorded net income of \$317 million in the first quarter of 2006 compared to \$176 million in the first quarter of 2005. Our results reflected an increase in revenues partially offset by higher expenses.

Our total net revenues increased by \$1.3 billion, or 79%, compared to the first quarter of 2005. Net revenues for the first quarter of 2006 include \$948 million from the consolidation of certain private equity funds, compared to \$157 million in the first quarter of 2005. Net income was unaffected by this consolidation as we recorded offsetting minority interests and related operating expenses. The increase in net revenues also reflects higher revenues across all of our Investment Banking businesses, including equity and fixed income trading and underwriting and advisory and other fees. In particular, our equity proprietary trading, equity customer flow business and mergers and acquisitions advisory businesses performed well in the first quarter of 2006. These increases were offset in part by lower revenues from structured products, particularly asset-backed and commercial mortgage-backed securities, and lower private equity investment-related gains. Our total expenses for the first quarter of 2006 increased \$291 million, or 23%, compared to the first quarter of 2005, primarily reflecting higher employee compensation and benefits expenses.

The newly integrated Credit Suisse global bank was launched on January 1, 2006. We continue to be managed as a subsidiary of Credit Suisse and CSG and our businesses are part of their banking segments: Investment Banking, Private Banking and Asset Management. Going forward, we expect to benefit from being part of the integrated bank by improving our client service, strengthening our competitive position and improving our cost discipline.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In order to prepare the condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, we must make estimates and assumptions based on judgment and available information. The reported amounts of assets and liabilities and revenues and expenses are affected by these estimates and assumptions. Actual results could differ from these estimates, and the differences could be material.

Our significant accounting policies and a discussion of new accounting pronouncements are disclosed in Note 1 of the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2005. We believe that the critical accounting policies discussed below involve the most complex judgments. We believe that the estimates and assumptions used in the preparation of the condensed consolidated financial statements are reasonable and consistently applied.

Fair Value

The fair value of the majority of our financial instruments is based on quoted market prices in active markets or observable market parameters, or is derived from such prices or parameters. These instruments include government and agency securities, commercial paper, most investment-grade corporate debt securities, most high-yield debt securities, exchange traded and certain over-the-counter, or OTC, derivative instruments, most collateralized debt obligations, or CDOs, most mortgage-backed and asset-backed securities, certain residential mortgage whole loans and listed equities.

In addition, we hold financial instruments that are thinly traded or for which no market prices are available, and which have reduced or no price transparency. For these instruments the determination of fair value requires subjective assessment and varying degrees of judgment depending on liquidity, concentration, pricing assumptions and the risks affecting the specific instrument. In such circumstances, valuation is determined based on management's best estimate of fair value. These instruments include

certain investment-grade corporate debt securities, high-yield debt securities, distressed debt securities, certain mortgage-backed and asset-backed securities, certain CDOs, certain residential mortgage whole loans, certain OTC derivatives, non-traded equity securities and private equity and other long-term investments. Valuation techniques for certain of these instruments are described more fully below.

Controls over the fair valuation process

Control processes are applied to ensure that the fair value of the financial instruments reported in our condensed consolidated financial statements, including those derived from pricing models, are appropriate and determined on a reliable basis. The Company determines fair value using observable market prices or market-based parameters whenever possible. In the absence of observable market prices or market-based parameters in an active market, observable prices or market-based parameters of comparable market transactions, or other observable data supporting an estimation of fair value using a valuation model at the inception of a contract, fair value is based on the transaction price. Control processes are designed to assure that the valuation approach utilized is appropriate and the assumptions are reasonable.

These control processes include the review and approval of new instruments, review of profit and loss at regular intervals, risk monitoring and review, price verification procedures and reviews of models used to estimate the fair value of financial instruments by senior management and personnel with relevant expertise who are independent of the trading and investment functions.

The Company also has agreements with certain counterparties to exchange collateral based on the fair value of derivatives contracts. Through this process, one or both parties provide the other party with the fair value of these derivatives contracts in order to determine the amount of collateral required. This exchange of information provides additional support for valuation of certain derivatives contracts. As a participant in the OTC derivatives market, the Company and other participants provide pricing information to aggregation services that compile this data and provide this information to subscribers. This information is considered in the determination of fair value for certain OTC derivatives.

For further discussion of the Company's risk management policies and procedures, refer to "Quantitative and Qualitative Disclosures About Market Risk" in Part I, Item 3.

Price transparency of financial instruments recorded at fair value

Financial instruments which are recorded on the Company's condensed consolidated statement of financial condition at fair value have been categorized based upon the transparency of the pricing information available.

The categories of pricing transparency have been broadly segregated as follows:

- *Quoted market prices or observable market parameters.* These financial instruments are valued based upon directly observable market prices or through the use of valuation models and techniques for which the required parameters are directly observable.
- *Reduced or no observable market parameters.* These financial instruments are priced by using management's best estimate of fair value using valuation techniques that are based on significant judgment since observable, market-based data is generally not available.

The following table sets forth a summary of the price transparency of the Company's financial instruments that are carried at fair value as of March 31, 2006 and December 31, 2005:

	As of March 31, 2006		As of December 31, 2005	
	Quoted market prices or observable market parameters	Reduced or no observable market parameters	Quoted market prices or observable market parameters	Reduced or no observable market parameters
	(In millions)	(In millions)	(In millions)	(In millions)
Financial instruments owned				
Cash products ⁽¹⁾	\$101,663	\$ 3,349	\$101,211	\$3,394
Derivatives ⁽²⁾	11,176	2,140	7,658	1,841
Private equity and other long-term investments	1,693	8,559	315	3,326
Total	<u>\$114,532</u>	<u>\$14,048</u>	<u>\$109,184</u>	<u>\$8,561</u>
Financial instruments sold not yet purchased				
Cash products	\$ 36,310	\$ 16	\$ 36,304	\$ 27
Derivatives ⁽²⁾	10,416	619	6,155	521
Total	<u>\$ 46,726</u>	<u>\$ 635</u>	<u>\$ 42,459</u>	<u>\$ 548</u>

⁽¹⁾ Excluded from the table above are \$7,613 million and \$5,835 million as of March 31, 2006 and December 31, 2005, respectively, in cash products which are carried at the lower of cost or fair value primarily consisting of commercial mortgage whole loans and originated residential mortgage whole loans.

⁽²⁾ Based on gross mark-to-market valuations of the Company's derivatives prior to netting of \$6,264 million and \$4,414 million as of March 31, 2006 and December 31, 2005, respectively, under Financial Accounting Standards Board, or FASB, Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts (An Interpretation of Accounting Principles Board Opinion No. 10 and FASB Statement No. 105)."

Financial Instruments

Cash products

The Company's cash products consist of interest-bearing securities, purchased residential mortgage whole loans, equity securities and certain variable prepaid forwards. Interest-bearing securities include debt securities, residential and commercial mortgage-backed and other asset-backed securities and CDOs. Equity securities include common equity shares, preferred stock and convertible bonds.

For debt securities for which market prices are not available, valuations are based on yields reflecting the perceived risk of the issuer and the maturity of the security, recent disposals in the market or other modeling techniques, which involve judgment.

Values of residential and commercial mortgage-backed securities and other asset-backed securities are generally available through quoted market prices, which are often based on market information of the prices at which similarly structured and collateralized securities trade between dealers and to and from customers. Values of residential and commercial mortgage-backed securities and other asset-backed securities for which there are no significant observable market parameters are valued using valuation models incorporating prepayment scenarios and Monte Carlo simulations.

Collateralized debt, bond and loan obligations are split into various structured tranches, and each tranche is valued based upon its individual rating and the underlying collateral supporting the structure. Values are determined using present value of estimated future cash flows valuation techniques that incorporate assumptions that market participants customarily use in their estimates of values including payment speeds, credit losses and discount rates.

Purchased residential mortgage whole loans are valued using pricing factors specific to loan level attributes, such as loan-to-value ratios, current balances and liens.

The majority of our positions in equities are traded on public stock exchanges, for which daily quoted market prices are available. Fair values of preferred shares are determined by their yield and the subordination relative to the issuer's other credit obligations. Convertible bonds are generally valued using direct pricing sources; for a small number of convertible bonds no direct prices are available and valuation is determined using internal and external models, for which the key input parameters include stock price, dividend rates, credit spreads, prepayment rates and equity market volatility.

Derivatives

Positions in derivatives held for trading purposes include both OTC and exchange-traded derivatives. The fair values of exchange-traded derivatives are typically derived from observable exchange prices and/or observable market parameters. Fair values for OTC derivatives are determined on the basis of internally developed proprietary models using various input parameters. The input parameters include those characteristics of the derivative that have a bearing on the economics of the instrument and market parameters.

The determination of the fair value of many derivatives involves only a limited degree of subjectivity because the required input parameters are observable in the marketplace. The pricing of these instruments is referred to as "direct." For other more complex derivatives, subjectivity relating to the determination of input parameters reduces price transparency. The pricing of these instruments is referred to as "indirect." Specific areas of subjectivity include estimating long-dated volatility assumptions on OTC option transactions and recovery rate assumptions for credit derivative transactions. Uncertainty of pricing assumptions and liquidity are also considered as part of the valuation process. In accordance with Emerging Issues Task Force Issue No. 02-3, "Issues Involved in Accounting for Derivatives Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," we do not recognize a dealer profit or loss, (unrealized gain or loss at inception of a derivative transaction), or day one profit/loss, unless the valuation underlying the unrealized gain or loss is evidenced by (a) quoted market prices in an active market, (b) observable prices of other current market transactions or (c) other observable data supporting a valuation technique. The deferred profit or loss is amortized over either the life of the derivative or the period until which observable data is available.

For further information on the fair value of derivatives as of March 31, 2006 and December 31, 2005, see Note 5 of the condensed consolidated financial statements in Part I, Item 1.

Private equity and other long-term investments

Private equity and other long-term investments include direct investments and investments in partnerships that make private equity and related investments in various portfolio companies and funds. Private equity investments and other long-term investments consist of both publicly traded securities and private securities. Publicly traded investments are valued based upon readily available market quotes with appropriate adjustments for liquidity as a result of holding large blocks and/or having trading restrictions. Private securities, which generally have no readily available market or may be otherwise restricted as to resale, are valued taking into account a number of factors, such as the most recent round of financing involving unrelated new investors, earnings multiple analyses using comparable companies or discounted cash flow analysis.

The following table sets forth the fair value of our private equity and other long-term investments by category as of March 31, 2006 and December 31, 2005:

	As of March 31, 2006		As of December 31, 2005	
	Fair value (In millions)	Percent of total	Fair value (In millions)	Percent of total
CS-managed funds (which includes \$9,072 and \$2,562 related to funds consolidated ⁽¹⁾ as of March 31, 2006 and December 31, 2005, respectively)	\$ 9,777	94%	\$3,256	89%
Funds managed by third parties	438	4	359	10
Direct investments	35	1	26	1
Other investments	2	1	—	—
Total	<u>\$10,252</u>	<u>100%</u>	<u>\$3,641</u>	<u>100%</u>

⁽¹⁾ For more information on the consolidated funds as of March 31, 2006 and December 31, 2005, see Notes 3 and 4 of the condensed consolidated financial statements in Part I, Item 1.

CS-managed funds include partnerships and related direct investments for which the Company acts as the fund's advisor and makes investment decisions. CS-managed funds principally invest in private securities and, to a lesser extent, publicly traded securities and fund of fund partnerships. The fair value of investments in CS-managed fund of funds partnerships is based on the valuation received from the underlying fund manager, is reviewed by us and reflected in "Reduced or no observable market parameters" in the table above. The fair value of investments in other CS-managed funds is based on the Company's valuation. Balances reported in CS-managed funds also include amounts relating primarily to the consolidation of private equity funds, which are described in further detail in Notes 3 and 4 of the condensed consolidated financial statements in Part I, Item 1. A substantial portion of the private equity funds consolidated are also reflected in "Reduced or no observable market parameters" in the table above. Funds managed by third parties include investments in funds managed by an external fund manager. The fair value of these funds is based on the valuation received from the general partner of the fund, is reviewed by us and reflected in "Reduced or no observable market parameters" in the table above.

Income Taxes

Deferred Tax Assets

We recognize deferred tax assets and liabilities for the estimated future tax effects of operating loss carry-forwards and temporary differences between the carrying amounts of existing assets and liabilities and their respective tax basis as of the date of the statement of financial condition.

The realization of deferred tax assets on temporary differences is dependent upon the generation of taxable income during the periods in which those temporary differences become deductible. The realization of deferred tax assets on net operating losses is dependent upon the generation of taxable income during the periods prior to their expiration. Periodically, management evaluates whether deferred tax assets can be realized. If management considers it more likely than not that all or a portion of a deferred tax asset will not be realized, a corresponding valuation allowance is established. In evaluating whether deferred tax assets can be realized, management considers: projected future taxable income, the scheduled reversal of deferred tax liabilities and tax planning strategies.

This evaluation requires significant management judgment, primarily with respect to projected taxable income. The estimate of future taxable income can never be predicted with certainty. It is derived from budgets and strategic business plans but is dependent on numerous factors, some of which are beyond our

control. Substantial variance of actual results from estimated future taxable profits, or changes in our estimate of future taxable profits, could lead to changes in deferred tax assets being realizable or considered realizable, and would require a corresponding adjustment to the valuation allowance.

As of March 31, 2006 and December 31, 2005, we had deferred tax assets resulting from temporary differences that could reduce taxable income in future periods. The condensed consolidated statements of financial condition as of March 31, 2006 and December 31, 2005 include deferred tax assets of \$1.6 billion and \$1.8 billion, respectively, and deferred tax liabilities of \$615 million and \$602 million, respectively. Due to uncertainty concerning our ability to generate the necessary amount and mix of state and local taxable income in future periods, we maintained a valuation allowance against our deferred state and local tax assets in the amount of \$28 million and \$35 million as of March 31, 2006 and December 31, 2005, respectively.

Tax Contingencies

Significant judgment is required in determining the effective tax rate and in evaluating certain of our tax positions. We accrue for tax contingencies when, despite our belief that our tax return positions are fully supportable, certain positions could be challenged and our positions may not be fully sustained. Once established, tax contingency accruals are adjusted due to changing facts and circumstances, such as case law, progress of audits or when an event occurs requiring a change to the tax contingency accruals. We regularly assess the likelihood of adverse outcomes to determine the appropriateness of our provision (benefit) for income taxes. Although the outcome of any dispute is uncertain, management believes that it has appropriately accrued for any unfavorable outcome.

Litigation Contingencies

We are involved in a variety of legal, regulatory and arbitration matters in connection with the conduct of our business. It is inherently difficult to predict the outcome of many of these matters, particularly those cases in which the matters are brought on behalf of various classes of claimants, seek damages of unspecified or indeterminate amounts or involve novel legal claims. In presenting our condensed consolidated financial statements, management makes estimates regarding the outcome of these matters and records a reserve and takes a charge to income when losses with respect to such matters are probable and can be reasonably estimated. Charges, other than those taken periodically for cost of defense, are not established for matters when losses cannot be reasonably estimated. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel and other advisors, our defenses and our experience in similar cases or proceedings as well as our assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings. For a discussion of legal proceedings, see “Legal Proceedings” in Part II, Item 1.

RECENT DEVELOPMENTS

Effective January 1, 2006, CSG realigned its organizational structure to its new strategic orientation, which is to focus on banking and hold its insurance business as a financial investment. As a result of this realignment, CSG’s banking business consists of three reporting segments: Investment Banking, Private Banking and Asset Management. We are managed as a subsidiary of Credit Suisse and CSG, and our businesses are a part of each of these banking segments. Therefore, effective January 1, 2006 we began operating and managing our businesses along these same three banking segments.

Our Investment Banking segment consists principally of the businesses that comprised our former Institutional Securities segment, with the addition of the private funds group that was formerly part of our

Wealth & Asset Management segment. Our Private Banking segment consists of the private client services business in the U.S. (other than Volaris) that was formerly part of our Wealth & Asset Management segment. Our Asset Management segment consists of the private equity business and the Volaris business that were formerly part of our Wealth & Asset Management segment.

We manage and report our segments on a pre-tax basis and exclude revenues and expenses primarily related to the consolidation of certain private equity funds which are reported in Elimination & Other. Net income is unaffected by the consolidation of these private equity funds because offsetting minority interests are also recorded in Elimination & Other.

Certain reclassifications have been made to our prior year condensed consolidated financial statements in this Quarterly Report to reflect the operational and management structure in place during 2006.

Consistent with the strategy to grow the commodities business, Credit Suisse announced during the first quarter of 2006 a strategic alliance with Glencore International to build a derivatives and structured products trading business in the oil and petroleum products market.

RESULTS OF OPERATIONS

The following table sets forth a summary of our financial results:

	For the Three Months Ended March 31,	
	2006	2005
	(In millions)	
Total net revenues	\$2,930	\$1,633
Total expenses	<u>1,533</u>	<u>1,242</u>
Income before provision for income taxes, minority interests and cumulative effect of a change in accounting principle	1,397	391
Provision for income taxes	137	66
Minority interests	<u>943</u>	<u>155</u>
Income before cumulative effect of a change in accounting principle	317	170
Cumulative effect of a change in accounting principle, net of income tax expense of \$3 in 2005	<u>—</u>	<u>6</u>
Net income	<u>\$ 317</u>	<u>\$ 176</u>

Substantially all of our financial instruments are marked to market daily and, therefore, the value of such financial instruments and our net revenues are subject to fluctuations based on market movements. In addition, net revenues derived from our less liquid assets may fluctuate significantly depending on the revaluation or sale of these investments in any given period. We also regularly enter into large transactions as part of our proprietary and other trading businesses, and the number and size of such transactions may subject our net revenues to volatility from period to period.

Interest income and expense is accrued at the stated coupon rate for coupon-bearing financial instruments, and for non-coupon-bearing financial instruments, interest income is recognized by accreting the discount over the life of the instrument. For coupon-bearing financial instruments purchased at a discount or premium, the net difference between interest income and expense accrued at the stated coupon rate and interest income and expense determined on an effective yield basis, which could be significant, is included in principal transactions-net instead of net interest and dividends in the condensed consolidated statements of income.

We use derivatives and cash instruments to mitigate the interest rate exposure associated with commercial mortgage whole loans, originated residential mortgage whole loans, resale and repurchase

agreements and long-term borrowings. These derivatives and cash instruments are carried at fair value, while the commercial mortgage whole loans and originated residential mortgage whole loans are carried at the lower of cost or fair value and the resale and repurchase agreements are carried at contract amounts. In addition, we have certain derivatives that economically hedge our long-term borrowings which do not qualify for hedge accounting treatment under SFAS 133 “Accounting for Derivatives Interest and Hedging Activities,” or SFAS 133. As a result, decreases in the value of the derivatives and cash instruments, if any, are not offset by increases in the value of the commercial mortgage whole loans and originated residential whole loans until the loans are sold and increases and decreases in the value of the derivatives and cash instruments, if any, are not offset by decreases and increases in the value of the resale and repurchase agreements until the securities are sold or repurchased. Increases and decreases in the value of the derivatives that economically hedge our long-term borrowings are not offset by decreases and increases in our long-term borrowings. Commercial mortgage whole loans, originated residential mortgage whole loans, resale and repurchase agreements and economically hedged long-term borrowings can be a significant part of our statement of financial condition. Therefore, our net revenues are subject to volatility from period to period.

Our businesses are materially affected by conditions in the financial markets and economic conditions generally, including geopolitical events. Unpredictable or adverse market and economic conditions have adversely affected our past results and may in the future adversely affect our results of operations. See “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2005.

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

The Company recorded net income of \$317 million for the three months ended March 31, 2006 compared to net income of \$176 million for the three months ended March 31, 2005, reflecting a significant increase in net revenues partially offset by higher expenses.

Total net revenues increased \$1.3 billion, or 79%, to \$2.9 billion for the three months ended March 31, 2006, compared to the three months ended March 31, 2005, resulting from a significant increase in principal transactions-net and higher investment banking and advisory revenues and other revenues partially offset by a decrease in net interest and dividend revenues. Commissions were flat compared to the first quarter of 2005. The increase in principal transactions-net was primarily due to higher revenues from the consolidation of certain private equity funds and improved results in trading. Investment banking and advisory fees increased due to higher debt and equity underwriting and advisory fees. Net interest and dividend revenues decreased primarily due to increases in long-term borrowings and higher short-term borrowing costs associated with our trading business.

The Company allocates revenues and expenses to its segments. Any revenues and expenses not allocated appear in Elimination & Other in the notes to its condensed consolidated financial statements. For the three months ended March 31, 2006 and 2005, Elimination & Other primarily included revenues and expenses that result from the consolidation of certain private equity funds. Elimination & Other also included a limited amount of treasury costs associated with the Company’s capitalization not allocated to the Company’s segments. The Company’s consolidation of certain private equity funds resulted in an increase in net revenues of \$948 million and \$157 million, respectively, and an increase in expenses of \$5 million and \$2 million, respectively, for the three months ended March 31, 2006 and 2005. Excluding the increases attributable to the consolidation of certain private equity funds, total net revenues increased 34%. As of March 31, 2006, the Company’s condensed consolidated statements of financial condition reflected assets and liabilities of \$9.6 billion due to the consolidation of certain private equity funds, including \$6.7 billion as required by a recent accounting pronouncement as fully described in Notes 1, 3 and 13 of the condensed consolidated financial statements in Part I, Item 1.

Total expenses increased \$291 million, or 23%, to \$1.5 billion for the three months ended March 31, 2006 compared to the three months ended March 31, 2005 primarily due to higher employee compensation and benefits expenses. Included in employee compensation expense is \$26 million and \$60 million for the three months ended March 31, 2006 and 2005, respectively, related to business activities conducted by Company employees on behalf of CSG affiliates outside of the Company. These expenses were charged to these affiliates and are reflected as a reduction in our other operating expenses. See “—Expenses.”

Results by Segment

The operations of the Investment Banking segment consist of investment banking, which includes debt and equity underwriting and financial advisory services; and trading, which includes our debt and equity sales and trading and other related activities. The Investment Banking segment also includes the results from certain separately managed private equity and distressed assets. The operations of the Asset Management segment primarily consist of the private equity business. The operations of Private Banking segment consist of private client services business in the U.S.

Our segments are managed based on types of products and services offered and their related client bases. We evaluate the performance of our segments based primarily on income (loss) before the provision (benefit) for income taxes, minority interests and cumulative effect of a change in accounting principle.

Revenues are evaluated in the aggregate, including an assessment of trading gains and losses and the related interest income and expense attributable to financing and hedging positions. Therefore, individual revenue categories may not be indicative of the performance of the segment results.

The cost structure of each of our segments is similar and, consequently, the discussion of expenses is presented on an aggregated basis for our segments. The Company allocates to its segments a *pro rata* share of certain centrally managed costs. Leased facilities and equipment costs, employee benefits and certain general overhead expenses are allocated based upon specified amounts, usage criteria or agreed rates. Interest expense is allocated based upon the particular type of asset. The allocation of some costs, such as incentive bonuses, has been estimated. The timing and magnitude of changes in our incentive bonus accrual can have a significant effect on our operating results for a given period.

The Global Treasury department allocated to the Company's segments gains and losses related to certain corporate treasury funding transactions, which allocation is based upon the estimated funding requirements of the segments.

Investment Banking

The Investment Banking segment includes the trading and investment banking businesses and the results from certain separately managed private equity and distressed assets. Trading consists of sales and trading in equity securities, equity-related derivatives, fixed income financial instruments, fixed income-related derivatives and other related activities. Investment banking raises capital and provides financial advice to companies throughout the United States and abroad. Through investment banking, we manage and underwrite offerings of securities, arrange private placements and provide financial advisory and other services.

The following table sets forth certain financial information of the Company's Investment Banking segment:

	For the Three Months Ended March 31,	
	2006	2005
	(In millions)	
Revenues:		
Principal transactions-net	\$ 663	\$ 132
Investment banking and advisory	579	318
Commissions	281	265
Interest and dividends, net of interest expense	286	570
Other	32	12
Total net revenues	1,841	1,297
Total expenses	1,390	1,127
Income ⁽¹⁾	<u>\$ 451</u>	<u>\$ 170</u>

⁽¹⁾ Income before provision for income taxes, minority interests and cumulative effect of a change in accounting principle.

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

The Investment Banking segment recorded income before provision for income taxes, minority interests and the cumulative effect of a change in accounting principle of \$451 million for the three months ended March 31, 2006 compared to \$170 million for the three months ended March 31, 2005. Total net revenues increased \$544 million, or 42%, to \$1.8 billion for the three months ended March 31, 2006, reflecting higher revenues from investment banking and trading partially offset by lower other investment banking revenues.

Trading

In evaluating the performance of its trading activities, the Company aggregates principal transactions-net, commissions and net interest and dividends revenue as net trading revenues. Changes in the composition of trading inventories and hedge positions can cause principal transactions and net interest income to vary from period to period.

The following table sets forth net trading revenues of the Investment Banking segment:

	For the Three Months Ended March 31,	
	2006	2005
	(In millions)	
Equity	\$ 560	\$263
Fixed Income	802	731
Total Trading ⁽¹⁾	<u>\$1,362</u>	<u>\$994</u>

⁽¹⁾ Revenues reflect the allocation of certain net revenues and interest expense from the Global Treasury department to trading. For the three months ended March 31, 2006 and 2005, the amount was \$139 million of income and \$4 million of expenses, respectively. See "—Results by Segment" above.

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Total net trading revenues for the Investment Banking segment increased \$368 million, or 37%, to \$1.4 billion for the three months ended March 31, 2006 compared to the three months ended March 31, 2005, due to a significant increase in equity net trading revenues and an increase in fixed income net trading revenues.

Equity net trading revenues increased \$297 million to \$560 million reflecting higher revenues from proprietary trading and convertibles as a result of rising equity markets and higher volumes. Prime services also continued to perform well with higher revenues. Included in equity net trading revenues for the three months ended March 31, 2006 was a gain of \$42 million on the exchange of our New York Stock Exchange seats for restricted shares and cash.

Fixed income net trading revenues increased 10% to \$802 million, reflecting increases in revenues from proprietary trading, interest rate products and commodities partially offset by lower revenues from structured products. The increase in revenues from interest rate products reflected higher revenues from both exotic and listed derivatives. Commodities contributed to the growth in revenues as we continue to expand this business. The decrease in structured products net trading revenues was due to lower revenues primarily from commercial mortgage-backed and asset-backed products partially offset by higher revenues from residential mortgage-backed products. Included in fixed income trading revenues are commercial and residential mortgage-backed underwriting revenues.

Investment Banking

The following table sets forth the investment banking revenues for the Investment Banking segment:

	For the Three Months Ended March 31,	
	2006	2005
	(In millions)	
Debt underwriting	\$259	\$ 95
Equity underwriting	88	77
Total underwriting	347	172
Advisory and other fees	174	109
Total investment banking	<u>\$521</u>	<u>\$281</u>

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Investment banking revenues increased 85% to \$521 million, reflecting increases in debt and equity underwriting and advisory and other fees. For the three months ended March 31, 2006, debt underwriting revenues increased \$164 million compared to the three months ended March 31, 2005 to \$259 million, primarily due to an increase in underwriting revenues from syndicated loans reflecting the fact that on January 1, 2006, we began to conduct certain syndicated loan activities that were previously conducted by a branch of Credit Suisse outside of our consolidated group. Debt underwriting revenues were also higher reflecting industry-wide increases in asset-backed and investment-grade underwritings. Equity underwriting revenues increased 14% to \$88 million reflecting an increase in common stock new issuance volumes. Advisory and other fees increased 60% to \$174 million reflecting higher fees from mergers and acquisitions. Advisory and other fees include results from our private funds group, which were flat compared to the three months ended March 31, 2005.

Other Investment Banking

Other investment banking revenues primarily consist of the results for certain separately managed private equity and distressed assets and gains and losses on swaps that economically hedge our long-term borrowings that do not qualify for hedge accounting treatment under SFAS 133 "Accounting for Derivatives Interest and Hedging Activities," or SFAS 133.

The following table sets forth other investment banking revenues:

	For the Three Months Ended March 31,	
	2006	2005
	(In millions)	
Separately managed private equity and distressed assets.....	\$ (7)	\$ 18
Other.....	(35)	4
Total other investment banking	<u><u>\$ (42)</u></u>	<u><u>\$ 22</u></u>

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Other investment banking had negative net revenues of \$42 million for the three months ended March 31, 2006 compared to net revenues of \$22 million for the three months ended March 31, 2005, reflecting losses from distressed assets and losses on swaps that economically hedge our long-term borrowings that do not qualify for hedge accounting treatment under SFAS 133.

Asset Management

The Asset Management segment primarily consists of the private equity business. The private equity business makes privately negotiated investments and acts as an investment manager for private equity funds.

The following table sets forth certain financial information of the Company's Asset Management segment:

	For the Three Months Ended March 31,	
	2006	2005
	(In millions)	
Revenues:		
Principal transactions-net	\$ 49	\$ 73
Asset management and other fees.....	40	45
Other.....	<u>2</u>	<u>2</u>
Total net revenues	91	120
Total expenses.....	<u>62</u>	<u>51</u>
Income ⁽¹⁾	<u><u>\$ 29</u></u>	<u><u>\$ 69</u></u>

⁽¹⁾ Income before provision for income taxes, minority interests and cumulative effect of a change in accounting principle.

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Revenue for Asset Management primarily consists of management fees, net investment gains and losses, which include realized and unrealized gains and losses, including carried interest, net interest and other revenues from the private equity business. The Asset Management segment recorded income before provision for income taxes, minority interests and cumulative effect of a change in accounting principle of \$29 million for the three months ended March 31, 2006 compared to \$69 million for the three months ended March 31, 2005. Total net revenues decreased \$29 million, or 24%, to \$91 million, primarily due to lower principal transactions-net and asset management fees from the private equity business.

Private Banking

The Private Banking segment consists of the private client services business in the U.S. Private client services is a financial advisory business serving high-net-worth individuals and corporate investors with a wide range of Credit Suisse and third-party investment management products and services.

The following table sets forth certain financial information of the Company's Private Banking segment:

	For the Three Months Ended March 31,	
	2006	2005
	(In millions)	
Revenues:		
Principal transactions-net	\$12	\$11
Investment banking and advisory	4	3
Asset management and other fees	48	43
Interest and dividends, net of interest expense	2	1
Total net revenues	<u>66</u>	<u>58</u>
Total expenses	<u>75</u>	<u>62</u>
Loss ⁽¹⁾	<u>\$ (9)</u>	<u>\$ (4)</u>

⁽¹⁾ Loss before provision (benefit) for income taxes, minority interests and cumulative effect of a change in accounting principle.

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

The Private Banking segment reported a loss before provision for income taxes, minority interests and cumulative effect of a change in accounting principle of \$9 million for the three months ended March 31, 2006 compared to a loss of \$4 million for the three months ended March 31, 2005, reflecting a modest increase in revenues more than offset by higher expenses. Revenues for Private Banking increased 14% to \$66 million, primarily due to higher asset management fees.

Segment Expenses

The normal operating cost structure of each of our segments is similar and, consequently, the discussion of expenses is presented on an aggregate basis for our segments. For information on expenses that are not allocated to the Company's segments, see "Results of Operations" and Note 13 of the condensed consolidated financial statements in Part I, Item 1.

The following table sets forth employee compensation and benefits expenses, other expenses and total expenses of the Company's segments and does not include expenses from Elimination & Other:

	For the Three Months Ended March 31,	
	2006	2005
	(In millions)	
Employee compensation and benefits	\$1,164	\$ 947
Other expenses	<u>363</u>	<u>293</u>
Total expenses	<u>\$1,527</u>	<u>\$1,240</u>

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Total expenses increased \$287 million, or 23%, to \$1.5 billion for the three months ended March 31, 2006 compared to the three months ended March 31, 2005. The increase was principally due to higher employee compensation and benefits expenses, which increased \$217 million, or 23%, reflecting the higher incentive compensation, base salaries and head count partially offset by lower severance expenses. For more information on share-based compensation expense, see Note 1 to the condensed consolidated financial statements in Part I, Item 1. Included in compensation and benefits expense is \$26 million and \$60 million for the three months ended March 31, 2006 and 2005, respectively, related to business activities conducted by Company employees on behalf of CSG affiliates outside of the Company. These expenses were charged to these affiliates and are reflected as a reduction of our other operating expenses.

Other expenses consist principally of occupancy and equipment rental; brokerage, clearing and exchange fees; communications; professional fees; and all other operating expenses. Other expenses increased \$70 million or 24%, for the three months ended March 31, 2006 compared to the three months ended March 31, 2005, primarily as a result of increases in other operating expenses and professional fees. The increase in other operating expenses reflects a reduction in the expenses charged to affiliates that are reflected as a reduction of our other operating expenses. The decrease in expenses charged to affiliates reflected our commencement of certain syndicated loan activities that were previously conducted by a branch of Credit Suisse outside of our consolidated group. The increase in professional fees reflects higher contractor costs. Excluding the charge to affiliates for compensation expense, other operating expenses increased 10%.

Provision for Taxes

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

The provision for income taxes for the three months ended March 31, 2006 and 2005 was \$137 million and \$66 million, respectively. Excluded from the provision for income taxes for the three months ended March 31, 2005 was an income tax expense of \$3 million related to our adoption of Statement of Financial Accounting Standards, or SFAS, No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," and SFAS No. 123 (Revised 2004), "Share-Based Payment," or SFAS 123R.

The effective tax rate changed from a provision of 16.9% for the three months ended March 31, 2005 to a provision of 9.8% in for the three months ended March 31, 2006. The change in the effective tax rate was due primarily to an increase in non-taxable revenues from certain private equity funds we consolidate.

Share-based Compensation

We adopted SFAS 123R as of January 1, 2005, using the modified prospective method. We had previously adopted the recognition provisions of SFAS 123 effective January 1, 2003. See Note 1 of the condensed consolidated financial statements in Part I, Item 1 for more information.

In connection with our adoption of SFAS 123R, we recorded an after-tax gain of \$6 million in the condensed consolidated statement of income as a cumulative effect of a change in accounting principle to reverse the expense for awards previously recognized on all outstanding unvested awards that are expected to be forfeited. For new grants after January 1, 2005, forfeitures are included in the initial estimate of compensation expense at the grant date.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Management Oversight

We believe that maintaining access to liquidity is fundamental for firms operating in the financial services industry. We have therefore established a comprehensive process for the management and oversight of our capital, liquidity and funding strategies. Credit Suisse's Asset and Risk Management Committee, or CARMC, has primary oversight responsibility for these functional disciplines. This committee, which meets on a quarterly basis, includes the CEOs of CSG and of its divisions, the Chief Financial Officer, the Chief Risk Officer and the Treasurer. CARMC reviews capital and balance sheet development, current and prospective funding, and adherence to internal Treasury risk limits and capital and liquidity targets. The tactical implementation of this strategy is subsequently refined and updated through regular monthly sessions with the Chief Risk Officer, the Chief Financial Officer and the Treasurer and other senior management.

The Global Treasury department is responsible for the day-to-day management of capital, liquidity and funding, as well as relationships with creditor banks and fixed income investors. It also maintains regular contact with rating agencies and regulators on these and other issues. See “Liquidity Risk” in “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2005 for more information.

Liquidity Management Organization

We are an indirect subsidiary of Credit Suisse, a Swiss bank. Consequently, our liquidity management structure operates at two levels, the “Non-Bank Franchise” and the “Bank Franchise.” See “—Balance Sheet and Funding.”

First, at the holding company level, the “Non-Bank Franchise,” where access to parent bank funding is limited, we aim to maintain sufficient liquidity so that in the event that we are unable to access the unsecured capital markets, we have cash and liquid assets sufficient to repay maturing liabilities for a minimum period of one year. When assessing the amount of cash and liquid assets, we take account of the regulatory restrictions that limit the amount of cash that could be distributed upstream by our principal broker-dealer subsidiaries, Credit Suisse Securities (USA) LLC, or CS Securities, and Credit Suisse Capital LLC, or CS Capital, which hold over 81% of our consolidated assets.

Second, our regulated subsidiaries have access to unsecured funding from Credit Suisse, the “Bank Franchise,” as well as secured funding via the repurchase and securities lending markets. Historically, Credit Suisse’s bank deposit base has proven extremely stable and is comprised of a diversified customer base, including retail deposits, as well as wholesale and institutional deposits. In a stressed liquidity environment, our broker-dealers would directly access the secured funding markets to replace unsecured borrowings from Credit Suisse.

Balance Sheet and Funding

The majority of our assets are held in our broker-dealer subsidiaries and comprise a substantial portion of the Bank Franchise. These assets—principally trading inventories in our Investment Banking business—are funded by a combination of collateralized short-term borrowings, which include securities sold under agreements to repurchase and securities loaned, as well as unsecured loans from Credit Suisse, the central funding entity of the Bank Franchise. Significant portions of our assets held in the Bank Franchise are highly liquid, with the majority consisting of securities inventories and collateralized receivables, which fluctuate depending on the levels of proprietary trading and customer business. Collateralized receivables consist primarily of securities purchased under agreements to resell and securities borrowed, both of which are primarily secured by U.S. government and agency securities and marketable corporate debt and equity securities. In addition, we have significant receivables from customers, brokers, dealers and others, which turn over frequently. To meet client needs as a securities dealer, we carry significant levels of trading inventories.

Unsecured funding for the Bank Franchise originates largely from Credit Suisse’s borrowings in the wholesale and institutional deposit markets as well as access to retail deposits. The retail and private bank funding base is primarily comprised of time deposits and deposits callable on demand. While the contractual maturity of these deposits is typically under three months, they have historically shown remarkable stability even under extreme market conditions. Additional funding is also sourced via short-term inter-company borrowings from other CSG entities on both a secured and unsecured basis.

Assets not funded by the Bank Franchise include less liquid assets such as certain mortgage whole loans, distressed securities, high-yield debt securities, asset-backed securities and private equity and other long-term investments. These less liquid assets are principally held in the Non-Bank Franchise. These assets may be relatively illiquid at times, especially during periods of market stress. Mortgage whole loans,

distressed securities, high-yield debt and asset-backed securities are generally financed with a combination of short-term unsecured financing or repurchase agreements, long-term borrowings and stockholder's equity. We typically fund a significant portion of less liquid assets, such as private equity investments, with long-term borrowings that we issue directly to the market, and stockholder's equity.

Short-term funding is generally obtained at rates related to the Federal Funds rate, the London Interbank Offered rate, or LIBOR, or other money market indices, while long-term funding is generally obtained at fixed and floating rates related to U.S. Treasury securities or LIBOR, depending upon prevailing market conditions. We continually aim to broaden our funding base by geography, investor and funding instrument.

We lend funds as needed to our operating subsidiaries and affiliates on both a senior and subordinated basis, the latter typically to meet capital requirements of regulated subsidiaries. We generally try to ensure that loans to our operating subsidiaries and affiliates have maturities equal to or shorter than the maturities of our market borrowings. As such, senior funding to operating subsidiaries and affiliates is typically extended on a demand basis. Alternatively, subordinated financing to regulated subsidiaries is extended on a term basis and we structure our long-term market borrowings with maturities that extend beyond those of our subordinated advances to subsidiaries and affiliates.

Because of changes relating to customer needs, economic and market conditions and proprietary trading and other strategies, our total assets, or the individual components of total assets, may vary significantly from period to period. As of March 31, 2006 and December 31, 2005, our total assets were \$327.4 billion and \$297.8 billion, respectively.

Included below is a discussion of our long-term contractual obligations, off-balance sheet arrangements and less liquid assets.

Liquidity Measurement and Planning

The principal measure we use to monitor our liquidity position at each funding franchise is the "liquidity barometer," which estimates the time period over which the adjusted market value of unencumbered assets (including cash) exceeds the aggregate value of our maturing unsecured liabilities plus a conservative forecast of anticipated contingent commitments. Our objective, as mandated by CARMC, is to ensure that the liquidity barometer for each of the funding franchises is maintained at a sufficient level so as to ensure that, in the event we are unable to access unsecured funding, we will have sufficient liquidity for an extended period. We believe this will enable us to carry out our business plans during extended periods of market stress, while minimizing, to the extent possible, disruptions to our business.

For the Non-Bank Franchise, our objective is to ensure that the liquidity barometer equals or exceeds a time horizon of one year. For the Bank Franchise, our objective is to ensure the liquidity barometer equals or exceeds 120 days. The different time horizons reflect the relative stability of the unsecured funding base of each franchise. In the Non-Bank Franchise, liabilities are measured at their contractual maturities because historically, investors in publicly issued debt securities and commercial paper are highly sensitive to liquidity events such that we believe access to these markets could be quickly diminished. Conversely, the Bank Franchise's retail and institutional deposit base is measured using contractual maturities that have been adjusted to reflect behavioral stability. Historically, this core deposit base has proven extremely stable, even in stressed markets. The conservative parameters we use in establishing the time horizons in the funding franchises assume that assets will not be sold to generate cash, no new unsecured debt can be issued, and funds that are assumed to be trapped because of regulatory restrictions are not available to be distributed upstream in a stressed liquidity environment. For liquidity purposes, the adjusted market value of unencumbered assets includes a conservative reduction from market value, or

“haircut,” reflecting the amount that could be realized by pledging an asset as collateral to a third-party lender in a secured funding transaction.

In the case of the Non-Bank Franchise, contingent commitments include such items as commitments to invest in private equity funds. Certain contingent obligations do not materially impact the liquidity planning at the Company or Non-Bank Franchise, as these are incurred by other affiliated operating entities that are not consolidated by the Company. These items, which are taken into account in our liquidity planning for the Bank Franchise, include:

- credit rating-related collateralization requirements (Credit Suisse’s derivatives business is primarily conducted in Credit Suisse International, a wholly-owned subsidiary of CSG);
- back-up liquidity lines provided to asset-backed commercial paper conduits (back-up liquidity lines are provided by Credit Suisse); and
- committed undrawn credit facilities to clients (Credit Suisse’s corporate lending business is conducted in Credit Suisse).

The Bank Franchise maintains two large secondary sources of liquidity. The first is via a large portfolio of liquid fixed income securities, which is segregated and managed to provide for emergency liquidity needs only. This liquidity portfolio is maintained at a level well beyond regulatory requirements and could provide a significant source of liquidity for an extended period in the event of stressed market conditions. In addition to these assets held directly in Credit Suisse, the Bank Franchise maintains another large source of secondary liquidity through Credit Suisse’s principal broker-dealers and other regulated operating entities. The Bank Franchise has historically been able to access significant liquidity through the secured funding markets (securities sold under agreements to repurchase, securities loaned and other collateralized financing arrangements), even in periods of market stress. We continually monitor overall liquidity by tracking the extent to which unencumbered marketable assets and alternative unsecured funding sources exceed both contractual obligations and anticipated contingent commitments.

As of March 31, 2006, we estimate that the Non-Bank Franchise held cash, other liquidity reserves and marginable assets, net of haircuts, of approximately \$9.4 billion versus estimated maturing obligations and commitments out to one year of \$6.1 billion. Also, as of March 31, 2006, we estimate that the Bank Franchise held cash, other liquidity reserves and marginable assets, net of haircuts, of approximately \$114.6 billion versus estimated maturing obligations, commitments and contingent funding requirements out to 120 days of \$110.2 billion.

Our liquidity planning and management focuses on maintaining a liquidity cushion so that we may continue to conduct business for an extended period in the event of a crisis. Our liquidity contingency plan focuses on the specific actions that we would take in the event of a crisis, including a detailed communication plan for creditors, investors and customers. The plan, which is regularly updated, sets out a three-stage process of the specific actions we would take:

- Stage I—Market disruption
- Stage II—Unsecured markets partially inaccessible
- Stage III—Unsecured markets fully inaccessible

In the event of a liquidity crisis, a meeting of the Liquidity Crisis Committee would be convened by Global Treasury to activate the contingency plan. The Liquidity Crisis Committee’s membership includes senior business line, Global Treasury and finance department management. This committee would meet frequently throughout the crisis to ensure our plans are executed.

Cash Capital

We measure cash capital (long-term funding sources) against long-term unsecured funding requirements on an ongoing basis, and seek to maintain a surplus at all times. Sources of cash capital include the non-current component of the Company's long-term borrowings and stockholder's equity. Uses of cash capital include illiquid assets such as related party receivables (except where the receivable is the short-term investment of our excess cash with Credit Suisse), property, goodwill and intangibles, deferred tax assets, private equity and other long-term investments.

Our cash capital as of March 31, 2006 totaled \$45.2 billion compared with \$42.2 billion as of December 31, 2005. The increase in cash capital of \$3.0 billion was primarily due to an increase in long-term debt. As of March 31, 2006, cash capital was substantially in excess of our cash capital requirements.

Contractual Obligations and Commitments

The following table sets forth future cash payments on our contractual obligations pursuant to long-term borrowings, operating leases and purchase obligations as of March 31, 2006:

	Contractual Obligations Expiration Per Period				Total
	Less than 1 year	1-3 years	4-5 years	Over 5 years	
	(In millions)				
Long-term borrowings	\$3,971	\$11,730	\$7,027	\$13,821	\$36,549
Operating leases	155	289	273	950	1,667
Purchase obligations ⁽¹⁾	43	53	38	13	147
Total contractual obligations	<u>\$4,169</u>	<u>\$12,072</u>	<u>\$7,338</u>	<u>\$14,784</u>	<u>\$38,363</u>

⁽¹⁾ Purchase obligations for goods and services include payments for, among other things, benefits consulting, corporate services outsourcing and computer and telecommunications maintenance agreements. Purchase obligations reflect the minimum contractual obligation under legally enforceable contracts through the termination dates specified in the respective agreements, even if the contract is renewable. Purchase obligations do not reflect termination fees payable upon the Company's termination of the respective contracts.

Our long-term borrowings are unsecured. As of March 31, 2006, the weighted average maturity of our long-term borrowings was approximately 4.9 years. Our lease obligations are primarily for our principal offices in New York City and other locations. The operating lease obligations in the table above do not reflect \$298 million in sublease revenue and \$545 million of executory costs such as insurance, maintenance and taxes. We had no material capital lease obligations as of March 31, 2006.

We have commitments under a variety of arrangements that are not recorded as liabilities in our condensed consolidated statements of financial condition. These commitments are in addition to guarantees and other arrangements discussed in “—Off-Balance Sheet Arrangements.” The following table sets forth certain of our commitments, including the current portion as of March 31, 2006:

	Commitment Expiration Per Period				Total commitments
	Less than 1 year	1-3 years	4-5 years (In millions)	Over 5 years	
Standby resale agreements ⁽¹⁾	\$ 25	\$125	\$ —	\$ —	\$ 150
Private equity ⁽²⁾	88	22	13	268	391
Forward agreements ⁽³⁾	9,274	—	—	—	9,274
Unfunded lending commitments ⁽⁴⁾	590	227	114	276	1,207
Unfunded warehousing commitments ⁽⁵⁾	1,991	—	—	—	1,991
Total commitments.	<u>\$11,968</u>	<u>\$374</u>	<u>\$127</u>	<u>\$544</u>	<u>\$13,013</u>

⁽¹⁾ In the ordinary course of business, we maintain certain standby resale agreement facilities that commit us to enter into securities purchased under agreements to resell with customers at current market rates.

⁽²⁾ As of March 31, 2006 we had commitments to invest up to an additional \$391 million in non-consolidated private equity funds and \$1.1 billion in consolidated private equity funds.

⁽³⁾ Represents commitments to enter into securities purchased under agreements to resell and agreements to borrow securities.

⁽⁴⁾ We enter into commitments to extend credit in connection with certain premium finance, leveraged finance and other activities.

⁽⁵⁾ We enter into commitments to warehouse commercial mortgage whole loans.

For information on these and other material commitments, see Notes 4, 6, 7 and 8 of the condensed consolidated financial statements in Part I, Item 1. For information on commitments under our pension arrangements, see Note 11 of the condensed consolidated financial statements in Part I, Item 1.

Excluded from the table above are certain commitments to originate and purchase mortgage whole loans that qualify as derivatives. These commitments are reflected in derivatives contracts in the condensed consolidated statements of financial condition. For more information on our derivatives contracts, see Note 5 of the condensed consolidated financial statements in Part I, Item 1.

The following table sets forth our commercial paper and other short-term unsecured borrowings:

	March 31, 2006	December 31, 2005
	(In millions)	
Bank loans	\$ 718	\$ 263
Commercial paper	1,150	1,298
Loans from affiliates ⁽¹⁾	<u>15,212</u>	<u>12,093</u>
Total	<u>\$17,080</u>	<u>\$13,654</u>

⁽¹⁾ We have significant financing transactions with Credit Suisse and certain of its subsidiaries and affiliates. See “—Related Party Transactions” and Note 2 of the condensed consolidated financial statements in Part I, Item 1.

Credit Facilities

As of March 31, 2006, CS Securities maintained with third parties five 364-day committed secured revolving credit facilities totaling \$2.2 billion, with one facility for \$500 million maturing in July 2006, one facility for \$200 million maturing in August 2006, one facility for \$500 million maturing in November 2006, one facility for \$500 million maturing in February 2007 and one facility for \$500 million maturing in March 2007. We expect to renew these facilities as they mature. These facilities require CS Securities to pledge unencumbered marketable securities to secure any borrowings. Borrowings under each facility would bear interest at short-term rates related to either the Federal Funds rate or LIBOR and can be used for general corporate purposes. The facilities contain customary covenants that we believe will not impair our ability to obtain funding. As of March 31, 2006, no borrowings were outstanding under any of the facilities. We may from time to time enter into additional secured revolving credit facilities as part of our liquidity management.

Long-term Funding

We issue long-term debt through U.S. and Euromarket medium-term note programs, as well as syndicated and privately placed offerings around the world.

Our currently effective automatic shelf registration statement on file with the SEC, which was established in February 2006, allows us to issue from time to time senior and subordinated debt securities and warrants to purchase such securities.

Under our \$5.0 billion Euro medium-term note program, which was established in July 2001 and allows us to issue notes from time to time, we had as of May 10, 2006 \$1.2 billion available for issuance.

For the three months ended March 31, 2006, we issued \$3.0 billion in senior notes and \$40 million in structured notes and we repaid approximately \$90 million of medium-term notes and \$13 million of structured notes.

Credit Ratings

Our access to the debt capital markets and our borrowing costs depend significantly on our credit ratings. Credit ratings are important to us when competing in certain markets and when seeking to engage in longer-term transactions, including OTC derivatives. Rating agencies take many factors into consideration in determining a company's rating and may raise, lower or withdraw their ratings or publicly announce an intention to raise or lower their ratings at any time. Such factors include earnings performance, business mix, market position, financial strategy, level of capital, risk management policies and practices and management team, and our affiliation with Credit Suisse and CSG, in addition to the broader outlook for the financial services industry.

A reduction in our credit ratings could limit our access to capital markets, increase our borrowing costs, require us to provide additional collateral in connection with OTC derivatives contracts, and allow counterparties to terminate transactions under certain of our trading and collateralized financing contracts. This, in turn, could reduce our liquidity and negatively impact our operating results and financial position. Our liquidity planning takes into consideration those contingent events associated with a reduction in our credit ratings.

Because a significant portion of our OTC derivatives arrangements are with affiliates, the amount of collateral that we would have been required to post pursuant to such contracts in the event of a one-notch downgrade of our senior long-term debt credit rating was not material as of March 31, 2006.

As of May 10, 2006, our ratings and ratings outlooks were as follows:

	<u>Long-Term Debt</u>	<u>Commercial Paper</u>	<u>Outlook</u>
Fitch Ratings	AA-	F-1+	Stable
Moody's Investors Service	Aa3	P-1	Stable
Standard & Poor's	A+	A-1	Positive

Capital Resources

Certain of our businesses are capital intensive. In addition to normal operating requirements, capital is required to cover financing and regulatory capital charges on various asset classes, including but not limited to, securities inventories, private equity investments and investments in fixed assets. Our overall capital needs are regularly reviewed to ensure that our capital base can appropriately support the anticipated needs of our business and the regulatory and other capital requirements of our subsidiaries. Based upon these analyses, we believe that our capitalization is adequate for current operating levels.

Regulated Subsidiaries

Our principal wholly owned subsidiary, CS Securities, is a registered broker-dealer, registered futures commission merchant and member firm of the New York Stock Exchange. Accordingly, CS Securities is subject to the minimum net capital requirements of the SEC and the Commodities Futures Trading Commission, or CFTC. Under the alternative method permitted by SEC Rule 15c3-1, the required net capital may not be less than the greater of 2% of aggregate debit balances arising from customer transactions or 4% of the funds required to be segregated pursuant to the Commodity Exchange Act less the market value of certain commodity options, all as defined. Under CFTC Regulation 1.17, the required minimum net capital requirement is 8% of the total risk margin requirement (as defined) for all positions carried in customer accounts plus 4% of the total risk margin requirement (as defined) for all positions carried in non-customer accounts. As of March 31, 2006, CS Securities' net capital of approximately \$5.2 billion was 64.3% of aggregate debit balances and in excess of the minimum requirement by approximately \$5.0 billion.

Our OTC derivatives dealer subsidiary, CS Capital, is also subject to the uniform net capital rule, but computes its net capital requirements based on value at risk pursuant to Appendix F of Rule 15c3-1. As of March 31, 2006, CS Capital's net capital of \$623 million, after allowing for market and credit risk exposure of \$43 million and \$110 million, respectively, was in excess of the minimum net capital requirement by \$603 million. CS Capital operates pursuant to the (k)(2)(ii) exemptive provisions of Rule 15c3-3 of the Exchange Act and accordingly, all customer transactions are cleared through CS Securities on a fully disclosed basis.

As of March 31, 2006, our subsidiaries complied with all applicable regulatory capital adequacy requirements.

Cash Flows

Our condensed consolidated statements of cash flows classify cash flows into three broad categories: cash flows from operating activities, investing activities and financing activities. These statements should be read in conjunction with "—Related Party Transactions" as well as Note 2 of the condensed consolidated financial statements in Part I, Item 1.

Our cash flows are complex and frequently bear little relation to our net income and net assets, particularly because the Company is an indirect wholly owned subsidiary of CSG, a global financial institution that may choose to allocate cash among its subsidiaries for reasons independent of the Company's activities. As a result, we believe that traditional cash flow analysis is not a particularly useful

method to evaluate our liquidity position as discussed above. Cash flow analysis may, however, assist in highlighting certain macro trends and strategic initiatives in our business.

For the Three Months ended March 31, 2006

Cash and cash equivalents increased \$71 million to \$955 million as of March 31, 2006. Cash used in operating activities was \$6.6 billion. The change in cash used in operating activities reflected a net increase in operating assets relative to operating liabilities of \$7.5 billion, which occurred in the normal course of operations as a result of changes in customer needs, market conditions and proprietary trading and other strategies.

Cash of \$2.5 billion was used in investing activities. The Company provided funding to affiliates, resulting in increases in receivables from parent and affiliates of \$2.4 billion.

Cash provided by financing activities was \$9.1 billion. The changes are due to increases in net collateralized financing arrangements of \$2.8 billion, \$3.0 billion in long-term borrowings and \$3.4 billion in short-term borrowings used primarily to fund normal operating activities and provide funding to affiliates as part of the Company's investing activities, partially offset by \$103 million in maturities of long-term borrowings.

For the Three Months ended March 31, 2005

Cash and cash equivalents decreased \$262 million to \$465 million as of March 31, 2005. Cash used in operating activities was \$855 million and reflected a net increase in operating assets and operating liabilities of \$1.3 billion, which occurred in the normal course of operations as a result of changes in customer needs, market conditions and proprietary trading and other strategies.

Cash of \$1.9 billion was provided by investing activities. The Company provides funding to affiliates. The Company received cash from its affiliates related to this funding, resulting in decreases in receivables from parent and affiliates of \$1.9 billion.

Cash used in financing activities was \$1.3 billion. This was due to increases in net collateralized financing arrangements of \$6.2 billion and decreases of \$5.9 billion in short-term borrowings, reflecting an increase in the use of secured borrowings and repayments of \$1.6 billion in long-term borrowings.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into off-balance sheet arrangements in the ordinary course of business. Off-balance sheet arrangements are transactions, agreements or other contractual arrangements with, or for the benefit of, an entity that is not consolidated with an issuer, and which include guarantees and similar arrangements, retained or contingent interests in assets transferred to an unconsolidated entity, and obligations and liabilities (including contingent obligations and liabilities) for the purpose of providing financing, liquidity, market risk or credit risk support.

We have not entered into any derivatives contracts indexed or linked to the stock of CSG.

Guarantees

In the ordinary course of our business, we provide guarantees and indemnifications that contingently obligate us to make payments to the guaranteed or indemnified party based on changes in an asset, liability or equity security of the guaranteed or indemnified party. We may also be contingently obligated to make payments to a guaranteed party based on another entity's failure to perform, or an indirect guarantee of the indebtedness of others. Guarantees we provide include customary indemnifications to purchasers in conjunction with the sale of assets or businesses; to investors in private equity funds sponsored by the firm

regarding potential obligations of the Company to return amounts previously paid as carried interest to the Company and certain other partners, most of which are current and former employees of the Company; and to investors in our securities and other arrangements to provide “gross up” payments if there is a withholding or deduction because of a tax assessment or other governmental charge. From time to time, we also guarantee the obligations of subsidiaries of CSG that are not our consolidated subsidiaries, and these guarantees are included in the scope of the disclosure requirements of FIN No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,” or FIN 45.

FIN 45 requires disclosure of our maximum potential payment obligations under certain guarantees to the extent that it is possible to estimate them and requires recognition of a liability at inception for the fair value of guaranteed obligations for guarantees issued or amended after December 31, 2002. The recognition of these liabilities did not have a material effect on our financial condition or results of operations. For disclosure of our estimable maximum payment obligations under certain guarantees and related information, see Note 8 of the condensed consolidated financial statements in Part I, Item 1.

Retained or Contingent Interests in Assets Transferred to Unconsolidated Entities

We originate commercial mortgages and originate and purchase residential mortgages and purchase other debt obligations such as automobile loans and student loans and sell these assets directly or through affiliates to special purpose entities that are, in most cases, qualified special purpose entities, or QSPEs. These QSPEs issue securities that are backed by the assets transferred to the QSPEs and pay a return based on the returns on those assets. Investors in these mortgage-backed and asset-backed securities typically have recourse to the assets in the QSPE. The investors and the QSPEs have no recourse to our assets.

These QSPEs are generally sponsored by our subsidiaries. Our principal broker-dealer subsidiary, CS Securities, underwrites and makes markets in these mortgage-backed and asset-backed securities. Under SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125,” or SFAS 140, a QSPE is not required to be consolidated with the transferor if all the SFAS 140 sale criteria are met. Our mortgage-backed and asset-backed securitization activities are generally structured to use QSPEs, and the assets and liabilities transferred to QSPEs are not included in our financial statements except to the extent other SFAS 140 criteria are not met.

As of March 31, 2006, we held encumbered mortgage loans totaling \$8.1 billion related to securitization transactions that did not qualify for sale accounting treatment under paragraph 40b of SFAS 140. Prior to securitization, such encumbered loans were accounted for in financial instruments owned, however due to the transfer of legal title in the form of a pledge in the securitization, these loans have been reclassified to Other assets and deferred amounts in the condensed consolidated statements of financial condition. Cash amounts received in payment upon transfer for such loans are accounted for as secured borrowings and are recorded in Other liabilities in the condensed consolidated statements of financial condition.

We may retain interests in these securitized assets if CS Securities holds the assets in connection with its underwriting or market-making activities. Retained interests in securitized financial assets are included at fair value in the condensed consolidated statements of financial condition. Any changes in the fair value of these retained interests are recognized in the condensed consolidated statements of income. We engage in these securitization activities to meet the needs of clients as part of our fixed income activities, to earn fees and to sell financial assets. These securitization activities do not provide a material source of our liquidity, capital resources or credit risk or market risk support. See Note 3 of the condensed consolidated

financial statements in Part I, Item 1, which includes quantitative information on our securitization activities and retained interests.

Variable Interest Entities

We are involved with various entities in the normal course of business that may be deemed to be variable interest entities, or VIEs, including VIEs that issue CDOs.

We purchase loans and other debt obligations from and on behalf of clients primarily for the purpose of securitization. The loans and other debt obligations are sold by us to affiliates for warehousing prior to being transferred by affiliates, to VIEs that issue CDOs. CDOs are securities backed by the assets transferred to the VIE and pay a return based on the returns on those assets. Investors typically have recourse to the assets in the CDO VIE. The investors and the CDO VIE have no recourse to the Company's assets. CS Securities structures, underwrites and makes a market in these CDOs, and we may have retained interests in these CDOs in connection with CS Securities' underwriting and market-making activities. We engage in these CDO transactions to meet the needs of clients, to earn fees and to sell financial assets. These CDO transactions do not provide a material source of our liquidity, capital resources or credit risk or market risk support.

Financial Accounting Standards Board Interpretation, or FIN, No. 46, "Consolidation of Variable Interest Entities," or FIN 46, requires us to consolidate all VIEs for which we are the primary beneficiary which is defined as the entity that will absorb a majority of expected losses, receive a majority of the expected residual returns, or both. In December 2003, the FASB modified FIN 46, through the issuance of FIN 46R, to address various implementation issues that had arisen since the issuance of FIN 46 and to provide companies the option to defer the adoption of FIN 46 for certain VIEs to periods ending after March 15, 2004. As of March 31, 2006 and December 31, 2005, we consolidated CDO VIEs for which we are the primary beneficiary. We also have interests in CDO VIEs that are not required to be consolidated because we are not the primary beneficiary.

We consolidate certain private equity funds that are managed by us. See Notes 1 and 3 of the condensed consolidated financial statements in Part I, Item 1.

RELATED PARTY TRANSACTIONS

CSG, through Credit Suisse Holdings (USA), Inc., or CS Holdings, owns all of our outstanding voting common stock. We are involved in significant financing and other transactions, and have significant related party balances, with Credit Suisse and certain affiliates. We generally enter into these transactions in the ordinary course of business and believe that these transactions are on market terms that could be obtained from unrelated third parties. See "—Derivatives" and Notes 2 and 5 of the condensed consolidated financial statements in Part I, Item 1 for more information.

Certain of our directors, officers and employees and those of our affiliates and their subsidiaries maintain margin accounts with CS Securities and other affiliated broker-dealers in the ordinary course of business. In addition, certain of such directors, officers and employees have investments or commitments to invest in various private equity funds. We make loans to directors and executive officers on the same terms as are generally available to third parties or otherwise pursuant to widely available employee benefit plans. CS Securities and other affiliated broker-dealers, from time to time and in the ordinary course of business, enter into, as principal, transactions involving the purchase or sale of securities from or to such directors, officers and employees and members of their immediate families.

LESS LIQUID ASSETS

Certain of our assets, including private equity and other long-term investments, distressed securities, high-yield debt, mortgage whole loans and other non-investment-grade debt, are not highly liquid or trade in markets that have periods of volatility and illiquidity. The values of most of the more illiquid assets are reported at fair value, and the determination of fair value is based on management's best estimate and depends on varying factors. See "—Critical Accounting Policies and Estimates—Fair Value" for further information on the determination of fair value of these less liquid assets.

Private Equity Activities

Our private equity and other long-term investment activities include direct investments and investments in partnerships that make private equity and related investments in various portfolio companies and funds. These investments are primarily in unlisted or illiquid equity or equity-related securities and are carried at fair value based on a number of factors. As of March 31, 2006 and December 31, 2005, we had investments in private equity and other long-term investments of \$10.3 billion and \$3.6 billion, respectively. As of March 31, 2006, we had commitments to invest up to an additional \$391 million in non-consolidated private equity funds and \$1.1 billion in consolidated private equity funds. The increase in private equity and other long-term investments reflects our consolidation of certain private equity funds. See "—Critical Accounting Policies and Estimates—Fair Value" and Notes 1 and 4 of the condensed consolidated financial statements in Part I, Item 1 for more information.

Corporate Debt, Mortgage Whole Loans and Other Non-Investment-Grade Financial Instruments

We underwrite, trade and hold non-investment-grade financial instruments, which include corporate debt, commercial and residential mortgage whole loans, loan participations, derivatives contracts and certain separately managed distressed financial instruments. Corporate debt includes high-yield debt, distressed debt, commercial and residential mortgage-backed securities, other asset-backed securities and CDOs. Due to credit considerations, liquidity of secondary trading markets and vulnerability to general economic conditions, these financial instruments and loans generally involve greater risk than investment-grade financial instruments. We record corporate debt, derivatives contracts and certain separately managed distressed financial instruments at fair value. We record commercial mortgage whole loans, certain residential mortgage whole loans and loan participations that are held for sale at the lower of cost or fair value. Timing of the securitization of our mortgage whole loan inventory will affect the size of our positions at any given time. The following table sets forth our positions in these instruments as of March 31, 2006 and December 31, 2005:

	March 31, 2006		December 31, 2005	
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
Corporate debt	\$ 3,999	\$897	\$ 3,286	\$917
Mortgage whole loans	19,516	—	17,817	—
Loan participations	20	—	9	—
Derivatives contracts	297	—	321	—
Distressed financial instruments	90	—	113	—
Total	<u>\$23,922</u>	<u>\$897</u>	<u>\$21,546</u>	<u>\$917</u>

DERIVATIVES

We enter into various transactions involving derivatives. We use derivatives contracts for both trading and hedging purposes and to provide products for our clients. These derivatives include options, forwards, futures and swaps. In general, derivatives are contractual agreements that derive their values from the performance of underlying assets, interest or currency exchange rates or a variety of indices. Most of our

derivatives transactions are considered trading positions. See Note 5 of the condensed consolidated financial statements in Part I, Item 1 for more information.

Sources and Maturities of OTC Derivatives

The following table sets forth the distributions, by maturity, of our exposure with respect to OTC derivatives as of March 31, 2006. Fair values were determined on the basis of pricing models and other valuation methods. See “—Critical Accounting Policies and Estimates—Fair Value” in Part I, Item 2 and Notes 5 and 8 of the condensed consolidated financial statements in Part I, Item 1 for more information.

	Assets Maturity Distribution as of March 31, 2006				Total fair value
	Less than 1 year	1-3 years	4-5 years (In millions)	Over 5 years	
Interest rate and credit spread risk	\$2,067	\$1,968	\$245	\$1,067	\$5,347
Foreign exchange risk	29	11	—	—	40
Equity price risk	149	206	5	96	456
Commodity risk	366	344	19	—	729
Total	<u>\$2,611</u>	<u>\$2,529</u>	<u>\$269</u>	<u>\$1,163</u>	<u>\$6,572</u>

	Liabilities Maturity Distribution as of March 31, 2006				Total fair value
	Less than 1 year	1-3 years	4-5 years (In millions)	Over 5 years	
Interest rate and credit spread risk	\$1,953	\$419	\$182	\$702	\$3,256
Foreign exchange risk	7	9	—	—	16
Equity price risk	229	141	19	5	394
Commodity risk	345	347	15	—	707
Total	<u>\$2,534</u>	<u>\$916</u>	<u>\$216</u>	<u>\$707</u>	<u>\$4,373</u>

The following table sets forth as of March 31, 2006 substantially all of our exposure with respect to OTC derivatives, by counterparty credit rating and with affiliates.

Credit Rating ⁽¹⁾	March 31, 2006 (In millions)
AA+/AA	\$ 146
AA-	3,803
A+/A/A-	451
BBB+/BBB/BBB-	210
BB+ or lower	171
Unrated	126
Derivatives with affiliates	1,665
Total	<u>\$6,572</u>

⁽¹⁾ Credit ratings are determined by external rating agencies or by our credit risk management department.

Derivatives With Related Parties

We enter into a substantial number of derivatives transactions with related parties. The following table sets forth derivatives transactions with related parties consisting primarily of interest rate swaps,

credit default swaps, foreign exchange forward contracts, equity forward contracts and total return swaps on equities. The fair values of derivatives contracts outstanding with related parties as of March 31, 2006 and December 31, 2005 were as follows.

	March 31, 2006		December 31, 2005	
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
Interest rate and credit spread risk	\$1,543	\$1,417	\$738	\$443
Foreign exchange risk	29	6	20	5
Equity price risk	25	85	64	41
Commodity risk	68	2	20	—
Total	<u>\$1,665</u>	<u>\$1,510</u>	<u>\$842</u>	<u>\$489</u>

See Notes 2 and 5 of the condensed consolidated financial statements in Part I, Item 1 for more information.

FORWARD LOOKING STATEMENTS

We have made in this Quarterly Report on Form 10-Q, including, without limitation, in “Legal Proceedings” in Part II, Item 1, and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part I, Item 2, and from time to time may otherwise make in our public filings and press releases, forward-looking statements concerning our operations, economic performance and financial condition, as well as our future plans and strategic objectives. Such forward-looking statements are subject to various risks and uncertainties, and we claim the protection afforded by the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those anticipated herein or in any such other filings, releases or statements because of a number of factors, including without limitation, those detailed in “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2005, those discussed elsewhere herein, and in other public filings and press releases. These forward-looking statements are not historical facts but instead represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and beyond our control. Forward-looking statements are typically identified by the use of future or conditional verbs such as “will,” “should,” “would” or “could,” and by words or phrases such as “believe,” “expect,” “intend,” “estimate” and similar expressions. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results may differ, possibly materially, from the results indicated in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements except as otherwise required by applicable law.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

RISK MANAGEMENT AND VALUE AT RISK

For a description of the Company’s risk management policies and procedures and value-at-risk, or VAR, model, including such model’s assumptions and limitations, see “Quantitative and Qualitative Disclosure About Market Risk” in Part II, Item 7A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2005.

Market Risk Exposure

We measure market risk exposure by using complementary risk measurement techniques, including VAR and sensitivity analysis. VAR is used for our trading portfolio, which includes those financial instruments treated as part of our “trading book” for Bank for International Settlements regulatory capital purposes. Sensitivity analysis is used for our non-trading portfolio, which primarily includes commercial mortgage loans, private equity investments, derivatives that hedge the Company’s long-term borrowings and certain commodity positions. This classification of assets as trading and non-trading is done for purposes of analyzing our market risk exposure, not for financial statement purposes.

Trading Portfolios

The Company-wide trading portfolio VAR was approximately \$29 million, \$39 million and \$40 million as of March 31, 2006, December 31, 2005 and March 31, 2005, respectively. The reduction in VAR as of March 31, 2006 compared to December 31, 2005 was primarily due to a decrease in mortgage exposures and the implementation of a revised VAR methodology for certain residential mortgage products in early 2006. The effect of each of these was to reduce the interest rate and credit spread VAR and hence the total VAR. The revised VAR methodology categorizes residential mortgage positions into a series of key risk types to improve the measurement of mortgage-related sensitivities. If the revised methodology had been in place during 2005, the Company’s total VAR would have been approximately \$37 million and \$28 million as of December 31, 2005 and March 31, 2005, respectively.

Due to the benefit of diversification, the Company-wide VAR is less than the sum of the individual components. The four main components of market risk, expressed in terms of theoretical fair values, had the following VAR:

	<u>Company’s Market Risk Exposures in Trading Portfolios</u>		
	<u>As of</u>	<u>As of</u>	<u>As of</u>
	<u>March 31, 2006</u>	<u>December 31, 2005</u>	<u>March 31, 2005</u>
		(In millions)	
99%, one-day VAR			
Interest rate and credit spread	\$ 20	\$ 34	\$ 34
Equity	19	20	19
Foreign exchange rate	1	—	2
Commodity	4	6	1
Diversification benefit	(15)	(21)	(16)
Total	<u>\$ 29</u>	<u>\$ 39</u>	<u>\$ 40</u>

The table below presents minimum, maximum and average VAR by market risk component. Minimum, maximum and average VAR for the three months ended March 31, 2005 do not reflect the revised VAR methodology for certain residential mortgage products introduced in early 2006.

	Company's Market Risk Exposures in Trading Portfolios					
	Three Months Ended			Three Months Ended		
	Minimum	Maximum	Average	Minimum	Maximum	Average
	March 31, 2006					
	March 31, 2005					
	(In millions)					
99%, one-day VAR						
Interest rate and credit spread	\$19	\$35	\$ 23	\$33	\$52	\$ 42
Equity	16	26	19	13	21	17
Foreign exchange rate	—	1	—	—	4	1
Commodity	4	11	6	—	3	1
Diversification benefit	— ⁽¹⁾	— ⁽¹⁾	(18)	— ⁽¹⁾	— ⁽¹⁾	(16)
Total	<u>\$25</u>	<u>\$42</u>	<u>\$ 30</u>	<u>\$36</u>	<u>\$55</u>	<u>\$ 45</u>

⁽¹⁾ As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit.

For details of the Company's average, maximum and minimum VAR for 2005, see "Quantitative and Qualitative Disclosure About Market Risk" in Part II, Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

The average, maximum and minimum daily trading revenue for the three months ended March 31, 2006 and 2005 are shown below:

	Three Months Ended	Three Months Ended
	March 31, 2006	March 31, 2005
	(In millions)	
Daily trading revenue		
Average	\$20	\$ 15
Maximum	63	64
Minimum	\$ (9)	\$ (12)

For details of the Company's average, maximum and minimum daily trading revenue for 2005, see "Quantitative and Qualitative Disclosure About Market Risk" in Part II, Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Non-trading Portfolios

The equity risk on non-trading positions, which is primarily comprised of private equity investments, is measured using sensitivity analysis that estimates the potential change in the recorded value of the investments resulting from a 10% decline in the equity markets of developed nations and a 20% decline in the equity markets of emerging market nations. The estimated impact of equity risk on our non-trading financial instruments portfolio would be a decrease in the value of the non-trading portfolio of approximately \$118 million and \$108 million as of March 31, 2006 and December 31, 2005, respectively. The estimated impact of equity risk is net of the minority interests in certain consolidated private equity funds.

The interest rate risk on non-trading positions, which is primarily comprised of commercial mortgage loans and derivatives that hedge the Company's long-term borrowings, is measured using sensitivity analysis that estimates the potential change in the value of the non-trading portfolio resulting from a

50 basis point decline in the interest rates of developed nations and a 200 basis point decline in the interest rates of emerging market nations. The estimated impact of interest rate risk on the value of the non-trading portfolio would be a decrease of approximately \$41 million and \$21 million as of March 31, 2006 and December 31, 2005, respectively. The losses under this interest rate scenario arise primarily from the Company's long-term borrowings and related hedges.

We do not have material foreign exchange risk or commodity price risk in our non-trading portfolio.

Item 4: Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, or Exchange Act, as of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial and Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon and as of the date of the evaluation, our Chief Executive Officer and Chief Financial and Accounting Officer concluded that the design and operation of these disclosure controls and procedures were effective in all material respects to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required. There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2006 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1: Legal Proceedings

Certain significant legal proceedings and matters have been previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. The following is an update of such proceedings.

In re Issuer Plaintiff Initial Public Offering Fee Antitrust Litigation

In a decision, dated April 18, 2006, the U.S. District Court for the Southern District of New York denied the motion for class certification brought by the plaintiff in the *In re Issuer Plaintiff Initial Public Offering Fee Antitrust Litigation*.

Litigation Relating to IPO Allocation

On March 8, 2006, CS Securities and the other defendants in the *In re Initial Public Offering Antitrust Litigation* filed a petition for writ of certiorari to the United States Supreme Court seeking review of the decision by the U.S. Court of Appeals for the Second Circuit, dated September 28, 2005, that vacated the district court's dismissal of the matter and remanded the case to the district court for further proceedings.

Adelphia Communications Corporation Litigation

On March 15, 2006, the U.S. District Court for the Southern District of New York certified an interlocutory appeal of the district court's August 30 and September 1, 2005 decisions denying motions to dismiss in two of the actions by institutional investors on the ground that the plaintiffs in those cases lacked standing. On April 6, 2006, the defendants filed a petition with the U.S. Court of Appeals for the Second Circuit asking the appellate court to accept the interlocutory appeal.

Enron-related Litigation and Inquiries

On or about April 21, 2006, CS Securities and certain affiliates entered into a settlement covered by existing reserves in the matter brought by The Variable Annuity Life Insurance Company and others in the U.S. District Court for the Southern District of Texas.

On May 9, 2006, Credit Suisse announced that it entered into an agreement in principle with the bankruptcy estate of Enron Corporation and its affiliates to resolve claims asserted by Enron against all named Credit Suisse entities in the "megaclaim" litigation pending in the U.S. Bankruptcy Court for the Southern District of New York. Under the settlement, Credit Suisse entities will pay \$90 million and Enron will allow \$92 million in bankruptcy claims that Credit Suisse no longer holds. The remainder of Credit Suisse's claims in the Enron bankruptcy will be equitably subordinated. The settlement payment is covered by existing reserves and is subject to execution of definitive documentation and court approval. The settlement does not cover separate litigation by Enron in U.S. Bankruptcy Court to recover certain payments in connection with equity forward and swap transactions or other Enron-related litigation.

Other

The Company has provided reserves for litigation, claims and proceedings involving the Company in accordance with SFAS No. 5, "Accounting for Contingencies." The Company recorded in the second quarter of 2005 a \$750 million litigation charge to increase the reserve for private litigation involving Enron, certain IPO allocation practices, research analyst independence and other related litigation. This charge, coupled with the charge recorded in 2002, brings the Company's reserves for these private litigation matters to \$1.1 billion after the application of settlements entered into through March 31, 2006.

We are involved in a number of judicial, regulatory and arbitration proceedings (including those described above) concerning matters arising in connection with the conduct of our businesses. Some of these actions have been brought on behalf of various classes of claimants and seek damages of material and/or indeterminate amounts. We believe, based on currently available information and advice of counsel, that the results of such proceedings, in the aggregate, will not have a material adverse effect on our financial condition but might be material to operating results for any particular period, depending, in part, upon the operating results for such period. The Company intends to defend itself vigorously in these matters, litigating or settling when determined by management to be in the best interests of the Company.

It is inherently difficult to predict the outcome of many of these matters. In presenting the condensed consolidated financial statements, management makes estimates regarding the outcome of these matters and records a reserve and takes a charge to income when losses with respect to such matters are probable and can be reasonably estimated. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, the Company's defenses and its experience in similar cases or proceedings as well as its assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings. Further litigation charges or releases of litigation reserves may be necessary in the future as developments in such cases or proceedings warrant.

Item 1A: Risk Factors

There are no material changes from the risk factors set forth in Part I, Item 1A, in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Items 2, 3 and 4:

Pursuant to General Instruction H of Form 10-Q, the information required by Items 2, 3 and 4 is omitted.

Item 6: Exhibits

(a) Exhibits

12	Statement re computation of ratio of earnings to fixed charges
15	Letter re unaudited interim financial information
31.1	Rule 13a-14(a) certification of Chief Executive Officer
31.2	Rule 13a-14(a) certification of Chief Financial and Accounting Officer
32	Section 1350 certifications

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CREDIT SUISSE (USA), INC.

May 11, 2006

By: /s/ DAVID C. FISHER
Chief Financial and Accounting Officer
(On behalf of the Registrant and as Principal
Financial Officer)

INDEX TO EXHIBITS

Exhibit Number	Description
12	Computation of ratio of earnings to fixed charges
15	Letter re unaudited interim financial information
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31.2	Rule 13a-14(a) certification of Chief Financial and Accounting Officer
32	Section 1350 certifications

CREDIT SUISSE (USA), INC. AND SUBSIDIARIES
STATEMENT RE COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Unaudited)
(In millions, except for ratio)

	For the Three Months Ended March 31, 2006	For the Year Ended December 31,				
		2005	2004	2003	2002	2001
Earnings:						
Income (loss) before provision for income taxes ⁽¹⁾	\$1,397	\$ 1,141	\$1,826	\$ 569	\$ (481)	\$ (464)
Add: Fixed Charges						
Interest expense (gross)	3,788	10,996	5,731	4,447	5,436	9,923
Interest factor in rents	<u>40</u>	<u>168</u>	<u>161</u>	<u>159</u>	<u>167</u>	<u>187</u>
Total fixed charges from continuing operations	<u>3,828</u>	<u>11,164</u>	<u>5,892</u>	<u>4,606</u>	<u>5,603</u>	<u>10,110</u>
Subtract: Minority interests ⁽²⁾	943	959	642	—	—	—
Earnings before fixed charges and provision for income taxes	<u>\$4,282</u>	<u>\$11,346</u>	<u>\$7,076</u>	<u>\$5,175</u>	<u>\$5,122</u>	<u>\$ 9,646</u>
Ratio of earnings to fixed charges	1.12	1.02	1.20	1.12	0.91 ⁽³⁾	0.95 ⁽⁴⁾

⁽¹⁾ Income (loss) from continuing operations before provision (benefit) for income taxes, minority interests, discontinued operations and cumulative effect of change in accounting principle.

⁽²⁾ Related to the Company's consolidation of certain private equity funds.

⁽³⁾ The dollar amount of the deficiency in the ratio of earnings to fixed charges was \$481 million for the year ended December 31, 2002.

⁽⁴⁾ The dollar amount of the deficiency in the ratio of earnings to fixed charges was \$464 million for the year ended December 31, 2001.

May 11, 2006

The Board of Directors
Credit Suisse (USA), Inc.
New York, New York

Re: Registration statements No. 333-131970, 333-116241, 333-86720, 333-71850, 333-62422, 333-07657,
333-34149, 333-53499, 333-73405 and 333-30928

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated May 11, 2006 related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the "Act"), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP
New York, New York

Rule 13a-14(a) Certification of Chief Executive Officer

I, Brady W. Dougan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Credit Suisse (USA), Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2006

/s/ BRADY W. DOUGAN

Name: Brady W. Dougan

Title: *President and Chief Executive Officer*

Rule 13a-14(a) Certification of Chief Financial and Accounting Officer

I, David C. Fisher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Credit Suisse (USA), Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2006

/s/ DAVID C. FISHER

Name: David C. Fisher

Title: *Chief Financial and Accounting Officer*

Section 1350 Certifications
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Credit Suisse (USA), Inc. (the "Company") does hereby certify, to such officer's knowledge, that:

1. the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 11, 2006

/s/ BRADY W. DOUGAN

Name: Brady W. Dougan

Title: *President and Chief Executive Officer*

May 11, 2006

/s/ DAVID C. FISHER

Name: David C. Fisher

Title: *Chief Financial and Accounting Officer*