

Notice to Members

DECEMBER 30, 2005

INFORMATIONAL

SUGGESTED ROUTING

Executive Representatives

NASD Notice of Meeting and Proxy

Executive Summary

The Annual Meeting of Members of NASD will be held on February 3, 2006 at 10 am in the NASD Visitors Center, 1735 K Street, NW, in Washington, DC. The purpose of the meeting is to conduct the election of Governors to the NASD Board. Members can raise other topics for discussion by properly notifying NASD of these topics.¹ The record date for the Annual Meeting is the close of business on December 29, 2005.

It is important that all members be represented at the Annual Meeting. Members are urged to vote in the election of Board members using one of the methods described below. In order for a proxy to be considered valid, it must be signed by the executive representative of a member firm eligible to vote in the election.

KEY TOPICS

Board Elections

Board of Governors Election

There are four vacancies to be filled at this meeting: two Industry governorships, one of which is required by the NASD By-Laws to be filled by a representative of a regional retail or independent financial planning member firm²; one Non-Industry governorship, which is required by the NASD By-Laws to be filled by a representative of an issuer of investment company shares or an affiliate of such an issuer³; and one Public governorship. Attachment A lists the persons nominated by the NASD National Nominating Committee (NNC) and those persons who, pursuant to Section 10 of Article VII of the NASD By-Laws i) presented the requisite number of petitions in support of their nomination; and ii) have been certified by the Secretary of NASD as satisfying the classification of the governorship to be filled.

The nominees elected will serve for terms specified in Attachment A. Attachment B includes the biographies of the NNC's nominees. Attachment C includes the biographies of the nominees by petition. Attachment D contains the names of the current Board of Governors.

Since this proxy mailing coincides with the year-end holiday season, it is anticipated that a second proxy document will be mailed, followed by telephone reminders during the period between January 6, 2006 and February 2, 2006. This will ensure that sufficient proxies are received to constitute the Annual Meeting quorum requirements of Section 215(c) of Title 8 of the General Corporation Law of the State of Delaware, as well as ensure broad participation in the election by NASD members who are eligible to vote.

Proxy Submission Methods

Members will be able to submit a proxy using either of the following methods:

- ◆ U.S. mail
- ◆ Internet

The enclosed proxy contains detailed instructions on the proxy submission procedures.

Questions/Further Information

Questions regarding this *Notice* may be directed to:

Barbara Z. Sweeney
Senior Vice President and Corporate Secretary
1735 K Street, NW
Washington, DC 20006-1500
(202) 728-8062

ATTACHMENT A

The following persons have been nominated by the National Nominating Committee, or are candidates by virtue of having obtained the requisite number of member signatures (Nominees by Petition), to serve on the NASD Board of Governors for a term of three years or until their successors are duly elected or qualified. Terms of office run from February 3, 2006 to January 2009.

INDUSTRY

For the Industry candidates specified below, members are asked on the proxy to vote for up to two of the candidates listed. In the event that a member casts a vote for more candidates than there are vacancies on the Board, such proxy will not be counted and will be deemed invalid. Please note that at least one of the Industry candidates elected must be a representative of a regional retail or independent financial planning member firm. The candidates eligible for that position are indicated with an asterisk (*).

NAME	TERM
National Nominating Committee Nominees	
David A. DeMuro Managing Director, Director of Global Compliance and Regulation Lehman Brothers, Inc.	2006-2009
John S. Simmers* Chief Executive Officer ING Advisors Network	2006-2009
* Representative of a Regional Retail or Independent Financial Planning Member Firm	
Nominees by Petition	
Richard L. Goble Founder North American Clearing, Inc.	2006-2009
Brian J. Kovack* President Kovack Securities, Inc.	2006-2009

* Representative of a Regional Retail or Independent Financial Planning Member Firm

NON-INDUSTRY

For the Non-Industry candidate specified below, members are asked on the proxy to vote for the candidate listed.

NAME	TERM
National Nominating Committee Nominee	
John J. Brennan Chairman and CEO The Vanguard Group (representative of an issuer of investment company shares)	2006-2009

PUBLIC

For the Public candidates specified below, members are asked on the proxy to vote for one of the candidates listed. In the event that a member casts a vote for more than one candidate (there being only one Public vacancy on the Board), such proxy will not be counted and will be deemed invalid.

NAME	TERM
National Nominating Committee Nominee	
Josh S. Weston Chairman and CEO (retired) Automatic Data Processing, Inc.	2006-2009
Nominee by Petition	
Tyler F. Dedman Rear Admiral (retired) United States Navy	2006-2009

ATTACHMENT B

Profiles of NASD National Nominating Committee Board Nominees

Nominees for Industry Governor

David A. DeMuro David A. DeMuro served as Chair of the National Adjudicatory Council in 2001 and 2002. He was first elected to the NASD Board of Governors for a term beginning January 2003 as an Industry Governor representing a national retail firm. Mr. DeMuro is Managing Director, Director of Global Compliance and Regulation at Lehman Brothers. He joined Lehman Brothers in 1984. Prior to that, he held various positions with the Securities and Exchange Commission in Detroit, Chicago, Los Angeles and Washington, D.C. Mr. DeMuro is a current member of the NASD Membership Committee and the NASD Licensing and Registration Council. He is a member of the Executive Committee of the Securities Industry Association's Compliance and Legal Division and served as Chairman of the Securities Industry/Regulatory Council on Continuing Education. He currently serves on the NYSE's content committee for the Continuing Education Regulatory Element supervisor's program. He is also a member of the Compliance Advisory panels of the NYSE and CBOE, and of the Board of Trustees of the Securities Industry Institute, a joint venture of the Securities Industry Association and the Wharton School of the University of Pennsylvania. He is on the advisory board of The Journal of Investment Compliance, a publication of Institutional Investor, Inc. Mr. DeMuro is also a member of the Board of Trustees of the Theta Xi Fraternity Foundation. He holds a B.A. from the University of Michigan and a J.D. from the University of Notre Dame.

John S. Simmers John S. Simmers is Chief Executive Officer of ING Advisors Network. In 1983, he co-founded Financial Network Investment Corporation, a leading independent broker-dealer firm, where he served as Chief Operating Officer and as a member of its Board of Directors. Mr. Simmers also served as Chief Operating Officer for a national independent broker-dealer firm and in a management capacity for NASD. He is a former President and Director of the California Association of Independent Broker Dealers (CAIBD); a former member of the Investment Adviser and Independent Firm Committees for the Securities Industry Association (SIA); and served on a number of committees for the Financial Planning Association (FPA). For NASD, he was vice co-chairman of the District 2 South Business Conduct Committee as well as a member of numerous regional and national committees. Currently, Mr. Simmers serves on the Board of Directors for the Financial Services Institute (FSI). He is a graduate of the Ohio State University.

Nominee for Non-Industry Governor

John J. Brennan John J. Brennan is Chairman and Chief Executive Officer, and a member of the Board of Directors of each of the mutual funds in the Vanguard Group. Mr. Brennan joined Vanguard in July 1982. He was elected President in 1989, Chief Executive Officer in 1996 and Chairman of the Board in 1998. Prior to his career at Vanguard, Mr. Brennan had been employed at S.C. Johnson & Son in Racine, Wisconsin and the New York Bank of Savings. Mr. Brennan is the past Chairman of the Investment Company Institute and is a Trustee of the United Way of America. He graduated from Dartmouth College in 1976 with an AB degree, and received an MBA from the Harvard Business School in 1980.

Nominee for Public Governor

Josh Weston Josh Weston is the former Chairman and CEO of Automatic Data Processing, Inc. (ADP) and currently is Honorary Chairman of ADP. Mr. Weston has been with ADP in various management positions since 1970. Prior to this, he worked at J. Crew's predecessor. Mr. Weston currently serves on the Boards of Russ Berrie & Co., Inc., Gentiva Health Services and J. Crew. He is also active on numerous pro bono and Advisory Boards. Mr. Weston is a graduate of the City College of New York and the University of New Zealand, where he received a Master's degree in economics while on a Fulbright Scholarship. He holds five Honorary Doctorate degrees.

ATTACHMENT C

Profiles of Board Nominees by Petition

Nominees for Industry Governor

Richard L. Goble

Richard L. Goble is the founder and principal shareholder of North American Clearing, Inc., a clearing firm providing back-office clearing and securities executions to approximately 45 small-to-medium sized broker-dealers. In 1990, he founded, with \$10,000, an Introducing Discount Broker-Dealer, which became a successful online trading firm and an Independent Retail Branch firm.

In 1995, using the money generated from the retail firm, Mr. Goble founded North American Clearing as an equity execution and Correspondent Clearing Firm. North American Clearing is serving broker-dealers in all fifty states and Puerto Rico. From 1992 until the present, Mr. Goble has been leading the way for new and advanced technology for online trading, self-clearing technology for introducing broker-dealers, and accounting software for Independent Retail Branch Offices. Mr. Goble has worked in the securities industry for approximately 20 years.

Mr. Goble is the past President of the Florida Securities Dealers Association and currently sits on the Securities Industry Association Clearing Committee.

Mr. Goble attended The Wharton School in 1999 for the Directors Institute, and in 2000 for the Mergers and Acquisitions Program. He holds a Bachelor of Science Degree from Wright State University.

Brian J. Kovack

Brian J. Kovack is co-Founder and President of Kovack Securities, Inc., a capacity in which he has served since 1998. From 1996 to 1998, Mr. Kovack was a financial planner where he gained expertise in gift, income and estate taxation, and provided advice regarding the tax advantages of limited partnerships, reverse split-dollar and charitable remainder trusts.

Mr. Kovack participated in the NASD Institute-Wharton Certificate Program and earned the Certified Regulatory and Compliance Professional (CRCP) designation in 2004.

He also earned Master of Accounting and Juris Doctor (J.D.) degrees in 2000 from Nova Southeastern University, where he was the founder and first graduate of the joint JD/MACC Program. Mr. Kovack is a Member of the Florida Bar, having been admitted in September 2000.

Mr. Kovack received a Bachelor of Science in Finance from the University of Florida while also playing varsity football earning two Letters, and SEC Academic Honor Roll awards.

Mr. Kovack holds the NASD Series 7, 24, 27, 53, 63 and 65 licenses while also licensed to sell life, health, variable annuities and real estate. He also serves as an NASD Dispute Resolution arbitrator.

Mr. Kovack is a licensed commercial helicopter pilot with the Federal Aviation Administration (FAA) and a licensed 50-ton captain with the United States Coast Guard.

Nominee for Public Governor

Tyler F. Dedman

Tyler F. Dedman is a retired Rear Admiral of the United States Navy. Since 1983, Mr. Dedman has been employed as a licensed insurance investigator and claims adjuster where, in coordination with the Federal Aviation Administration and the National Transportation Safety Board, he investigates aviation accidents and adjusts aviation claims for major aviation insurers. From 1980 to 1982, Mr. Dedman served as Commander, Iberian Atlantic Area where he directed NATO forces. From 1978 to 1980, he served as Superintendent, U.S. Naval Postgraduate School. From 1974 to 1978, Mr. Dedman served as Deputy Chief of Naval Education and Training where he was Deputy to the Commander of all naval training and education. From 1971 to 1974, he served as Assistant VCNO/Director of Naval Administration where he functioned as a Chief of Staff to the Vice Chief of Naval Operations.

Mr. Dedman is past-President of the Association of Naval Aviation, Central Florida. He also served as Chairman of the Editorial Board of the U.S. Naval Institute from 1978 to 1980.

Mr. Dedman completed the Advanced Management Program at the Harvard Business School in 1969 and an MSE from Princeton University in 1957. He also earned a Bachelor of Science in Aero Engineering from the U.S. Naval Postgraduate School and a Bachelor of Science from the U.S. Naval Academy.

ATTACHMENT D

Current Board of Governors

Governors with Terms Expiring in February 2006

INDUSTRY

David A. DeMuro	Managing Director, Director of Global Compliance and Regulation, Lehman Brothers, Inc. (representative of a national retail firm)
M. LaRae Bakerink*	Chief Executive Officer, WBB Securities, LLC
Brian T. Shea ⁴	Chief Operating Officer, Pershing LLC (Chair of the National Adjudicatory Council)

NON-INDUSTRY

John J. Brennan	Chairman and CEO, The Vanguard Group (representative of an issuer of investment company shares)
Eugene M. Isenberg*	Chairman and CEO, Nabors Industries, Inc.

PUBLIC

Kenneth M. Duberstein*	Chairman and CEO, The Duberstein Group, Inc.
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* Not eligible for re-election

Governors with Terms Expiring in January 2007

INDUSTRY

William C. Alsover, Jr.*	Chairman, Centennial Securities Company, Inc. (representative of an NASD member having not more than 150 registered persons)
Judith R. MacDonald ⁵	Managing Director, Rothschild, Inc. (Chair of the National Adjudicatory Council)

PUBLIC

Charles A. Bowsher	Former Comptroller General of the United States
Joel Seligman	President, University of Rochester
Sharon P. Smith*	Visiting Fellow in the ILR School at Cornell University

* Not eligible for re-election

Governors with Terms Expiring in January 2008

INDUSTRY

John W. Bachmann*	Senior Partner, Edward D. Jones & Company
Richard F. Brueckner*	Chief Executive Officer, Pershing LLC (representative of a firm that provides clearing services to other NASD members)
Raymond A. Mason ^{6*}	Chairman and CEO, Legg Mason, Inc.

NON-INDUSTRY

William H. Heyman	Vice Chairman and Chief Investment Officer, The St. Paul Travelers Companies, Inc. (representative of an insurance company)
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PUBLIC

James E. Burton*	Chief Executive Officer, World Gold Council
Sir Brian Corby*	Chairman (retired), Prudential Corporation plc
John Rutherford, Jr.*	Chairman and CEO (retired), Moody's Corporation

* Not eligible for re-election

Endnotes

- 1 Pursuant to Sections 1 and 3(b) of Article XXI of the NASD By-Laws, an NASD member may properly bring any other business before the Annual Meeting by giving timely notice in writing to the Secretary of NASD. In addition, the member must be an NASD member at the time of the delivery of such notice, and the other business must be a proper matter for member action. To be timely, a member's notice must be delivered to the Secretary at NASD's principal executive offices (the address is listed above) within 25 days after the date of this notice. The member's notice must offer a brief description of the other business, any material interest of the member in such business, and the reasons for conducting such business at the Annual Meeting.
- 2 Pursuant to Section 4(a) of Article VII of the NASD By-Laws, Governors elected by the members of NASD must include a representative of a regional retail or independent financial planning member firm. The National Nominating Committee has nominated John S. Simmers to serve on the Board as a representative of an independent financial planning member firm. Brian J. Kovack, a nominee by petition, also qualifies to fill this position.
- 3 Pursuant to Section 4(a) of Article VII of the NASD By-Laws, Governors elected by the members of NASD must include a representative of an issuer of investment company shares or an affiliate of such an issuer.
- 4 The Chair of the National Adjudicatory Council serves a one-year term on the NASD Board. Judith R. MacDonald will succeed Mr. Shea.
- 5 See note 4 (above).
- 6 As a result of the completion of the Legg Mason/Citigroup transaction on December 1, 2005, Mr. Mason no longer occupies the position on the NASD serving as a representative of a regional retail or independent financial planning member firm. Mr. Mason retains his classification as an Industry Governor and will continue to serve on the NASD Board in this capacity until the expiration of his term.

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