Financial Industry Regulatory Authority

FINRA 2009
Annual Financial Report

Contents

Management Report on Financial Operations

OVERVIEW

The Financial Industry Regulatory Authority, Inc.® (FINRA®) is the largest independent regulator of securities firms doing business with the public in the United States. As of December 31, 2009, FINRA oversaw nearly 4,700 brokerage firms, almost 167,000 branch offices and approximately 633,000 registered securities representatives. Created on July 30, 2007, through the consolidation of the National Association of Securities Dealers, Inc. (NASD®) and the member regulation, enforcement and arbitration functions of the New York Stock Exchange (NYSE), FINRA is dedicated to investor protection and market integrity through effective and efficient regulation and complementary compliance and technology-based services.

With 2,800 employees, FINRA augments and deepens the reach of the federal securities laws with detailed and enforceable ethical rules and a host of comprehensive regulatory oversight programs. FINRA regulates the population of both firms and individuals in the industry; regulates securities markets and provides market information; adopts and enforces rules to protect investors and the financial markets; examines broker-dealers for compliance with its own rules as well as federal securities laws and rules of the Municipal Securities Rulemaking Board; informs and educates the investing public; provides industry utilities and administers the largest dispute resolution forum for investors and registered firms.

This Management Report should be read in connection with the consolidated financial statements and accompanying notes included elsewhere in this Annual Financial Report. The 2009 consolidated financial statements reflect the activities of FINRA and its consolidated subsidiaries, collectively referred to as "we," "our," "us," "FINRA" or the "Company" throughout this Management Report. FINRA's primary consolidated subsidiaries are FINRA Regulation, Inc. (FINRA REG), FINRA Dispute Resolution, Inc. (FINRA DR) and the FINRA Investor Education Foundation® (the Foundation), as of and for the years ended December 31, 2009, 2008 and 2007.

RESULTS OF OPERATIONS

The Company's consolidated net income (loss) for 2009, 2008 and 2007, was $48.6 million, $(696.3) million and $(27.0) million. Included in the consolidated net income (loss) for the years ended December 31, 2009, and 2008 was the impact of NYSE integration costs for a full year versus only five months for the year ended December 31, 2007.

The Company's consolidated net income of $48.6 million for 2009 was driven primarily by investment-related gains from our trading and available-for-sale investments, equity earnings from our other investments, and mark-to-market holding gains on our trading portfolio as a result of investment market recovery during 2009 coupled with our change in investment strategy during 2009, as discussed below.

In April 2009, based on a comprehensive Investment Committee review of FINRA's investment policy, strategy and risk tolerance, the Board of Governors (Board) decided to shift FINRA's investment assets to a lower volatility strategy with the objective of a lower risk portfolio. A new policy and detailed transition plan were put in place, and investment managers and consultants were engaged to assist with the new strategy. We will continue to maintain a broadly diversified investment portfolio, representing a wide range of assets and asset classes, in order to attain acceptable levels of risk and return. Further discussion regarding the performance of our investment portfolio follows in this report.

Management Report on Financial Operations (continued)

The following table sets forth our actual consolidated results of operations for the three years ended December 31, 2009, and unaudited pro forma information for 2007, which reflects NYSE's member regulation operations for the full year.

	Years ended December 31,			
	2009 Actual	2008 Actual	2007 Pro Forma (Unaudited)	2007 Actual
	(in millions)			
Revenues				
Regulatory fees	$ 387.9	$ 453.4	$ 416.3	$ 345.0
User fees	148.3	157.4	180.3	170.1
Dispute resolution fees	56.7	42.3	43.8	42.5
Transparency services fees	47.6	44.7	55.8	55.8
Contract services fees	57.1	72.0	63.0	62.7
Other	10.4	9.2	4.7	4.5
Total operating revenues	708.0	779.0	763.9	680.6
Fines	47.6	25.9	47.6	47.6
Activity assessment	341.4	154.8	281.6	281.6
Total revenues	1,097.0	959.7	1,093.1	1,009.8
Activity assessment cost of revenues	(341.4)	(155.2)	(285.1)	(285.1)
Net revenues	755.6	804.5	808.0	724.7
Expenses				
Compensation and benefits	493.9	541.7	499.1	446.1
Professional and contract services	183.3	214.4	210.3	199.2
Computer operations and data communications	27.4	30.5	32.0	30.8
Depreciation and amortization	49.5	50.9	45.6	40.6
Occupancy	57.2	56.1	57.4	40.2
General and administrative	65.4	71.8	59.4	55.3
Total expenses	876.7	965.4	903.8	812.2
Interest and dividend income	32.0	56.6	77.2	77.2
Operating loss	(89.1)	(104.3)	(18.6)	(10.3)
Special payment to firms in connection with the consolidation of NASD and the member regulation operations of NYSE	—	—	(178.3)	(178.3)
Net investment gains (losses)	37.3	(479.2)	113.8	113.8
Equity earnings (losses) from other investments	86.6	(144.9)	42.1	42.1
Other	13.8	32.1	5.7	5.7
Net income (loss)	**$ 48.6**	**$(696.3)**	**$ (35.3)**	**$ (27.0)**

The 2009 and 2008 Actual consolidated results of operations reflect a full year of NYSE member regulation operations while the 2007 Actual reflects five months of NYSE member regulation operations. The 2007 pro forma (unaudited) consolidated results of operations reflect a full year of NYSE member regulation operations to provide comparable year-over-year revenues and expenses for 2009, 2008 and 2007.

The unaudited 2007 pro forma consolidated statement of operations is not intended to represent or be indicative of the consolidated results of operations that would have been reported had the consolidation of NASD's and NYSE's member regulation operations been completed as of the date presented and should not be construed as representative of the future consolidated results of operations of the consolidated entity.

Management Report on Financial Operations (continued)

Actual 2009 net revenues of $755.6 million decreased by $48.9 million compared to 2008 net revenues of $804.5 million. The decrease is due to lower assessments based on the gross revenue of firms (Gross Income Assessment or GIA), consistent with the declines in industry revenues, offset by increases in the Trading Activity Fee (TAF) and dispute resolution fees. Actual 2009 expenses of $876.7 million decreased by $88.7 million from total 2008 expenses of $965.4 million. This decrease was primarily driven by a $47.8 million decrease in compensation and benefits expense following the implementation of a Board-approved Voluntary Retirement Program (VRP) in 2008, and a $31.1 million decrease in professional and contract services attributable to reductions in software development and consulting costs.

Results of Operations, 2009 versus 2008

Revenues

Operating revenues were $708.0 million in 2009, compared with $779.0 million in 2008 — a decrease of $71.0 million, or 9.1 percent, due to lower regulatory, user and contract services fees, offset by higher dispute resolution fees.

Regulatory fees fund our regulatory activities, including the supervision and regulation of firms through examination, policy making, rulemaking and enforcement activities. Regulatory fees include the transaction-based TAF and GIA. Regulatory fees were $387.9 million in 2009, compared with $453.4 million in 2008 — a decrease of $65.5 million, or 14.4 percent, due primarily to a $91.5 million decrease in the GIA. The TAF increased by $25.9 million primarily due to an increase in trading activity volumes from 2008 to 2009. Additionally, we issued rebates to firms of $5.9 million in both 2009 and 2008. We recorded these rebates as a reduction of regulatory fees.

User fees include initial and annual registration fees, fees for qualification examinations, fees associated with FINRA-sponsored educational programs and conferences, processing of membership applications and charges related to the review of advertisements and corporate financing filings. User fees totaled $148.3 million in 2009, compared with $157.4 million in 2008 — a decrease of $9.1 million, or 5.8 percent, due primarily to an $8.1 million decrease in testing fees, which stemmed from decreased exam volumes.

Dispute resolution fees represent fees earned during the arbitration and mediation processes. Dispute resolution fees totaled $56.7 million in 2009, compared with $42.3 million in 2008 — an increase of $14.4 million, or 34 percent. Driving this increase was an increase in the number of new cases filed, from 4,982 in 2008 to 7,137 in 2009, an increase of 43.3 percent.

Transparency services fees represent amounts charged for services offered through our Trade Reporting and Compliance Engine® (TRACE®), our Alternative Display Facility (ADF®), the Over-the-Counter Bulletin Board (OTCBB™) and the OTC Reporting Facility™ (ORF™). Transparency services fees totaled $47.6 million in 2009, compared with $44.7 million in 2008 — an increase of $2.9 million, or 6.5 percent, due to increased trading in corporate debt.

Contract services fees represent amounts charged for regulatory services provided primarily to the NASDAQ OMX Group, Inc. (NASDAQ OMX), NYSE Amex LLC (NYSE Amex), the Trade Reporting Facilities (TRFs), and other exchanges for services including surveillance, monitoring, technology development, legal and enforcement activities. Contract services fees also include fees for the mortgage licensing system FINRA developed and deployed to the State Regulatory Registry, LLC (SRR). Contract services fees were $57.1 million in 2009, compared with $72.0 million in 2008 — a decrease of $14.9 million, or 20.7 percent, due mainly to a decrease in the market regulation fees of NYSE Amex.

Other revenues were relatively flat in 2009 compared to 2008, with revenues of $10.4 million in 2009, compared with $9.2 million in 2008. Other revenues represent the recognition of deferred contribution revenue attributable to the Foundation's use of funds received from the Global Research Analyst Settlement (the GRA Settlement). FINRA recognizes the related revenue as the Foundation makes grant payments and incurs expenses against GRA Settlement funds pursuant to guidelines under the Securities and Exchange Commission's (SEC's) investor education plan. Grant payments and expenses incurred in 2009 and 2008 were $7.4 million and $6.2 million.

Fines represent amounts levied as sanctions for rule violations. We do not view fines as part of our operating revenues. Fine revenues totaled $47.6 million in 2009 and $25.9 million in 2008 — an increase of $21.7 million, or 83.8 percent. The number of fines increased from 577 in 2008 to 644 in 2009, and the average fine increased from approximately $44,900 in 2008 to approximately $73,900 in 2009.

Activity assessment revenues represent amounts billed to firms to cover our obligation to the SEC under Section 31 of the Securities Exchange Act of 1934. Activity assessment cost of revenues represents the amounts owed and remitted to the SEC under this obligation. Activity assessment revenues were $341.4 million in 2009, compared to $154.8 million in 2008 — an increase of $186.6 million, or 120.5 percent. Activity assessment cost of revenues was $341.4 million in 2009, compared to $155.2 million in 2008 — an increase of $186.2 million, or 120.0 percent. A rate increase in the second quarter of 2009, partially offset by a decrease in the dollar volume of contracts traded, drove the increase in both activity assessment revenues and activity assessment cost of revenues.

Expenses

Total expenses were $876.7 million in 2009, compared to $965.4 million in 2008 — a decrease of $88.7 million, or 9.2 percent. This decrease was primarily driven by reductions in compensation and benefits expense and professional and contract services.

Compensation and benefits decreased to $493.9 million in 2009 from $541.7 million in 2008 — a decrease of $47.8 million, or 8.8 percent, primarily attributable to reduced headcount as a result of VRP-related retirements. Salary expense, retirement plan expense and payroll taxes decreased by $27.8 million, $13.8 million and $2.4 million as a result of headcount reductions due to the VRP. The remaining decrease in compensation expense is due to decreased medical claims and recruitment costs.

Professional and contract services decreased to $183.3 million in 2009 from $214.4 million in 2008 — a decrease of $31.1 million or 14.5 percent, due primarily to decreases in application development for technology-related initiatives and application maintenance, as well as reductions in business consulting costs. A decrease of $8.6 million in application development charges from last year was driven primarily by substantial completion of work related to the integration of former NASD and NYSE technology platforms in 2008. Application maintenance and production services expenses decreased $11.9 million from 2008 as a result of negotiated rate reductions and a reduction in the number of users requiring support services. Consulting services expenses decreased $11.2 million as a result of the completion of various prior-year projects.

All other operating expenses (computer operations and data communications, depreciation and amortization, occupancy and general and administrative) decreased to $199.5 million in 2009 from $209.3 million in 2008 — a decrease of $9.8 million, or 4.7 percent. This change was primarily driven by FINRA's strong cost containment efforts, including a $12.7 million decrease in travel-related expenses, a $3.1 million decrease in costs for software licenses and maintenance, and a $2.4 million decrease in publications and printing-related expenses. This decrease was offset by an increase in bad debt expense of $6.2 million and an increase in property tax expense of $2.0 million.

Interest and Dividend Income

Interest and dividend income primarily reflects income earned on FINRA's operating cash accounts and investments. Interest and dividend income was $32.0 million in 2009, compared with $56.6 million in 2008 — a decrease of $24.6 million or 43.5 percent. The decline was mainly driven by a decrease in the asset base on which dividends are earned. This was due to a change in FINRA's investment strategy from a portfolio consisting of various product types to a more fixed income oriented portfolio. As a result of the strategy change, there were no dividend producing equity investments in our portfolio in the second half of 2009.

Investment Gains (Losses)

Net investment gains (losses) in the consolidated statements of operations represent net realized gains and losses on sales of available-for-sale and trading securities, mark-to-market holding gains and losses on our trading portfolio, and other-than-temporary impairments of our available-for-sale securities and other investments. Net investment gains were $37.3 million in 2009, compared with net investment losses of $479.2 million in 2008. The gains in 2009 were driven primarily by the recovery of the securities markets. We recorded impairment charges for other-than-temporary declines of $44.8 million in 2009 related to our private investments, as it is deemed probable as of December 31, 2009, that all of our direct investments in private equity funds, committed to under the legacy investment portfolio policy, will be sold at an amount different from the net asset value of our ownership interest in partners' capital. If we are successful in the sale of our private investments, we could reduce our future funding commitments by as much as $135.8 million. The large losses in 2008 were due to impairment charges for other-than-temporary declines of $273.2 million and $35.4 million related to our available-for-sale investments and investments in limited partnerships, as a result of the market downturn during 2008. Also driving the large losses in 2008 were net realized losses on sales of our available-for-sale investments of $60.8 million and holding losses related to our trading portfolio of $71.2 million. The remainder of the 2008 loss relates primarily to net realized losses on sales of our trading securities.

Equity Earnings (Losses) from Other Investments

Equity earnings (losses) from other investments represent our share in the earnings and losses from our ownership interests in hedge funds, funds of hedge funds and limited partnerships accounted for under the equity method. Equity earnings were $86.6 million in 2009, compared with equity losses of $144.9 million in 2008. The losses in 2008 were driven by the market downturn. Our weighted ownership interest in the net assets of all equity method investees was 4.4 percent at December 31, 2009.

Other Income

In 2009, other income primarily consisted of FINRA's share of unexpended GRA Settlement research funds, which are unrelated to the Foundation's restricted educational GRA Settlement funds. These unexpended funds, in the amount of $8.2 million, were originally set aside as part of the GRA Settlement to support independent research over a five-year period. A portion of the GRA Settlement research funds not distributed at the end of the five-year period are to be paid to FINRA to support its regulation and enforcement programs.

Other income in 2009 also includes $5.6 million of income tax benefit, which reflects the benefit of $16.6 million in remaining loss carryforwards as it is anticipated that these loss carryforwards will be used to offset taxable income primarily from mortgage licensing and exam services over the next two to three years. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized.

In 2008, other income consisted of fees that were previously collected by firms but not remitted to us as part of the SEC self-reporting process. We provided a six-month amnesty period during which these accumulated funds could be remitted, beginning December 11, 2007, and ending June 11, 2008.

Management Report on Financial Operations (continued)

Results of Operations, 2008 versus 2007

Revenues

Operating revenues were $779.0 million in 2008, compared with $680.6 million in 2007 — an increase of $98.4 million, or 14.5 percent, due to higher regulatory, contract services and other revenues, offset by lower user and transparency services fees. Of this increase, $60.1 million related to an increase in the GIA resulting from the consolidation of NASD and the member regulation operations of NYSE.

Regulatory fees were $453.4 million in 2008, compared with $345.0 million in 2007 — an increase of $108.4 million, or 31.4 percent, due primarily to a $70.0 million increase in the GIA. Of this $70.0 million increase, $60.1 million relates to the transfer of NYSE's Gross Focus Fee to FINRA effective July 30, 2007. The TAF increased by $37.3 million due to an increase in trading activity volumes from 2007 to 2008. Additionally, we issued rebates to firms of $5.9 million and $6.1 million in 2008 and 2007.

User fees totaled $157.4 million in 2008, compared with $170.1 million in 2007 — a decrease of $12.7 million, or 7.5 percent, due to a decrease in the Central Registration Depository (CRD®) system registration and annual fees, decreased branch office fees and decreased volumes in corporate financing filings. CRD and branch office fees decreased due to the elimination of duplicative registration fees for NYSE firms for branch offices and registered representatives.

Dispute resolution fees remained consistent with the prior year totaling $42.3 million in 2008 and $42.5 million in 2007.

Transparency services fees were $44.7 million in 2008 compared with $55.8 million in 2007 — a decrease of $11.1 million, or 19.9 percent, primarily due to decreased OTC and ADF volumes driving a decrease in trade reporting fees and market data revenues.

Contract services fees were $72.0 million in 2008, compared with $62.7 million in 2007 — an increase of $9.3 million, or 14.8 percent, due mainly to an increase in mortgage licensing system fees charged to SRR and TRF regulatory charges.

Other revenues were $9.2 million in 2008, compared with $4.5 million in 2007 — an increase of $4.7 million, primarily due to the recognition of deferred contribution revenue attributable to the Foundation's use of funds received from the GRA Settlement, increasing from $2.0 million in 2007 to $6.2 million in 2008.

Fine revenues totaled $25.9 million in 2008 and $47.6 million in 2007 — a decrease of $21.7 million, or 45.6 percent, due to a decrease in the number of fines levied.

Activity assessment revenues were $154.8 million in 2008, compared to $281.6 million in 2007 — a decrease of $126.8 million, or 45.0 percent. Activity assessment cost of revenues was $155.2 million in 2008, compared to $285.1 million in 2007 — a decrease of $129.9 million, or 45.6 percent. Rate reductions in the first and second quarters of 2008, partially offset by an increase in the dollar volume of contracts traded, drove the decrease in both activity assessment revenues and activity assessment cost of revenues.

Expenses

Total expenses were $965.4 million in 2008, compared to $812.2 million in 2007 — an increase of $153.2 million, or 18.9 percent, of which $77.2 million related to NYSE operations consolidated in 2007.

Compensation and benefits increased to $541.7 million in 2008 from $446.1 million in 2007 — an increase of $95.6 million, or 21.4 percent, primarily attributable to the inclusion of NYSE employees in 2008 operating results for the entire year versus only five months in 2007. The addition of these employees led to increased compensation and benefit costs of $31.1 million. In addition, on September 29, 2008, FINRA announced the implementation of the Board-approved VRP. Severance and other benefit costs related to the VRP totaled $30.3 million. The remaining increase in compensation expense was due to annual merit and promotion compensation increases, as well as increased retiree medical and savings plan and employee insurance benefit costs, offset by a Board-approved decrease in incentive compensation in response to the market downturn during 2008.

Professional and contract services increased to $214.4 million in 2008 from $199.2 million in 2007 — an increase of $15.2 million or 7.6 percent, due primarily to increases in application development for technology-related initiatives and application maintenance. An increase of $13.8 million in application development charges over 2007 was driven primarily by work to complete the integration of former NASD and NYSE technology platforms. Application maintenance and production services expenses increased $4.8 million over 2007. Application maintenance increases were the result of projects moving from development to in-service status, such as the Firm Gateway, Member Data Repository, and Reporting and Business Intelligence applications, as well as support of the NYSE member regulation legacy applications. Other technology costs increased $3.2 million as a result of continuing technology-related services provided by NYSE and helpdesk and support services provided by Hewlett-Packard (HP) Enterprise Services. These increases were offset by a decrease of $6.5 million in legal expenses due to decreased spending for NYSE consolidation-related legal services.

All other operating expenses (computer operations and data communications, depreciation and amortization, occupancy and general and administrative) increased to $209.3 million in 2008 from $166.9 million in 2007 — an increase of $42.4 million, or 25.4 percent. This change was primarily driven by an increase of $15.7 million in occupancy, security and facilities administration charges related to FINRA personnel working in buildings subleased from NYSE as a result of the consolidation of NASD and the member regulation operations of NYSE. Depreciation and amortization increased $10.3 million due primarily to asset additions during the year and software and intangible assets acquired as a result of the consolidation of NASD and the member regulation operations of NYSE. The consolidation-related occupancy and intangible asset charges were included in 2008 operating results for the entire year versus only five months in 2007. Bad debt expense increased $10.3 million, driven by an increase in reserves for fines and arbitration activities.

Interest and Dividend Income

Interest and dividend income was $56.6 million in 2008, compared with $77.2 million in 2007 — a decrease of $20.6 million or 26.7 percent. The decline was driven by decreases in interest rates and dividends declared, as well as a decrease in the asset base on which interest is earned. The decrease in the asset base was due to a decline in the market performance of our investment portfolio during 2008.

Special Payment to Firms

On August 1, 2007, after the consolidation of NASD and the member regulation operations of NYSE, FINRA paid each registered firm $35,000 ($178.3 million in total) to reflect the anticipated benefits and cost-savings of the consolidation.

Investment (Losses) Gains

Net investment losses were $479.2 million in 2008, compared with net investment gains of $113.8 million in 2007, due to impairment charges for other-than-temporary declines of $273.2 million and $35.4 million related to our available-for-sale investments and investments in limited partnerships, as a result of the market downturn during 2008. Also driving the change were net realized losses related to our available-for-sale investments of $60.8 million and holding losses related to our trading portfolio of $71.2 million in 2008. The remainder of the change relates primarily to net realized losses on our trading portfolio during 2008.

Equity (Losses) Earnings from Other Investments

Equity losses were $144.9 million in 2008, compared with equity earnings of $42.1 million in 2007. The losses in 2008 were driven by the market downturn during 2008. Our weighted ownership interest in the net assets of all equity method investees was 1.7 percent at December 31, 2008.

Other Income

Other income primarily consists of fees that were previously collected by firms but not remitted to us as part of the SEC self-reporting process. We provided a six-month amnesty period during which these accumulated funds could be remitted, beginning December 11, 2007, and ending June 11, 2008.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is the ongoing ability to fund asset growth and business operations and meet contractual obligations through unrestricted access to funding at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient working capital to meet business needs and accommodate fluctuations in asset and liability levels due to changes in business operations or unanticipated events. We primarily rely on operating cash flows, which include returns on our investment portfolio, to fund current and future operations.

FINRA's investment portfolio (the Fund) is governed by a policy based on the degree of risk deemed appropriate for FINRA assets by the Board as applied to its investment objectives. The FINRA Investment Committee (Investment Committee), whose members have extensive background and experience in the investment community, provides overall guidance and advice in determining the appropriate policy and allocation for these investments. As of December 31, 2009, the Fund remains highly liquid, with 54 percent available in 30 days or less.

See the separate Investment Committee Report on page 24 of the 2009 Annual Financial Report for further discussion of liquidity and capital resources.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT RISK

Market risk represents the risk of changes in value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates, equity prices and other factors. As of December 31, 2009, investments in the Company's consolidated financial statements consisted of: (i) global government (including state and local) securities; (ii) corporate securities; (iii) mutual and commingled funds; (iv) other investments (hedge funds and private investments); and (v) other financial instruments or structures.

Our primary market risk relates to our investment portfolio. Our investments are impacted by fluctuations in the securities markets, as well as interest rate and credit risk related to the fixed income portfolio.

We capture changes in the market value of our trading investments and changes in the net asset value of our equity method investments in the consolidated statements of operations. Temporary changes in the market value of available-for-sale investments are recorded through unrealized gain (loss) in other comprehensive income.

FINRA management believes that other-than-temporary fluctuations in market indices could have a significant impact on our available-for-sale investment portfolio, earnings and cash flows. We review our available-for-sale investment portfolio for other-than-temporary declines on an annual basis. Based on these reviews, we record impairment charges for other-than-temporary declines on our available-for-sale investments. No impairment charges related to our available-for-sale investments were recorded in 2009. We recorded impairment charges for other-than-temporary declines of $273.2 million in 2008 related to our available-for-sale investments as a result of the market downturn. Impairment charges in 2007 were not material.

We consider and evaluate year-end fair value estimates for the impairment assessment on our private investments. In reviewing this information, we evaluate current financial statements and subsequently verify valuations from annual audited statements obtained from each fund. We also review valuation procedures used by the funds. Net asset value is used as a practical expedient to measure fair value, unless it is probable that an investment will be sold for an amount other than net asset value. In these cases, fair value is measured based on recent observable transaction information for similar investments, the consideration of non-binding bids from potential buyers and other relevant information. As of December 31, 2009, it is deemed probable that all of our investments in private equity funds, committed to under the legacy investment portfolio policy, will be sold at an amount different from the net asset value of our ownership interest in partners' capital. Therefore, the fair values of these investments have been estimated using recent transaction information for similar investments, non-binding bids received from potential buyers where available, valuation methods which require significant assumptions, inputs that we believe a market participant would use in pricing the investments, and third-party valuations. As a result, we recorded impairment charges for other-than-temporary declines of $44.8 million, $35.4 million and $2.0 million in 2009, 2008 and 2007 related to our private investments.

As specified in the investment policy established in April 2009, we maintain a broadly diversified investment portfolio, representing a wide range of assets and asset classes, in order to attain acceptable levels of risk and return. During 2009, we entered into a limited partnership agreement with HighVista II Limited Partnership, a broadly diversified multi-asset fund managed by HighVista Strategies LLC, that represents approximately 35 percent of our total invested assets, excluding cash, as of December 31, 2009. As of December 31, 2009, our active trading portfolio is a fixed income portfolio managed by Wellington Management Company, LLP.

FINRA is exposed to credit risk from third parties, including NASDAQ OMX, NYSE Euronext and FINRA-regulated firms. These parties may default on obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons.

CASH FLOWS

FINRA prepares its statement of cash flows using the indirect method, whereby net income (loss) is reconciled to cash flows from operations by adjusting for those items that do not result in actual cash receipts or payments during the period. These reconciling items include depreciation, unrealized gains (losses) on the investment portfolios and bad debt expense. Net income (loss) is further adjusted for changes in the consolidated balance sheet for working capital from the beginning to the end of the period to arrive at the cash inflows and payments related to items such as accounts receivable, prepaid expenses, accounts payable and deferred revenue. See the table below for a summary of cash flows:

	Years Ended December 31,		
	2009	2008	2007
		(in millions)	
Operating	$(156.2)	$(182.4)	$ 544.5
Investing	311.7	(34.3)	(321.6)
Financing	(7.5)	(14.9)	10.8
Total	$ 148.0	$(231.6)	$ 233.7

FINRA used $156.2 million of cash from operating activities in 2009. This was primarily used to purchase securities that would be sold in the near term. Other factors affecting the cash flow were an increase in accounts receivable coupled with payments of previously accrued expenses. FINRA had a net cash inflow from investing activities of $311.7 million due primarily to redemptions of available-for-sale and other investments (hedge funds) partially offset by purchases of other investments. Net cash used in financing activities was $7.5 million related to the recognition of deferred contribution revenue as a result of the Foundation's disbursement of GRA Settlement funds.

FINRA used $182.4 million of cash from operating activities in 2008 to fund the purchase of securities to be sold in the near term. Net cash used in investing activities was $34.3 million in 2008, primarily used to fund purchases of available-for-sale securities and property and equipment, offset by net redemptions of other investments (hedge funds) and proceeds from the payment of the revolving credit facility receivable between FINRA and NYSE Amex. Net cash used by financing activities was $14.9 million in 2008, primarily representing the distribution of funds held in escrow related to a FINRA enforcement case and recognition of deferred contribution revenue as a result of the Foundation's disbursement of GRA Settlement funds.

Management Report on Financial Operations (continued)

FINRA generated cash inflows from operating activities of $544.5 million in 2007, driven by the sale of securities in our trading portfolio during the first quarter of 2007, offset by non-cash investment gains. Net cash used in investing activities was $321.6 million in 2007, consisting primarily of net purchases of available-for-sale securities and other investments, as well as payments related to the consolidation of NASD and the member regulation operations of NYSE. Net cash provided by financing activities was $10.8 million in 2007, representing contributions to the Foundation from external parties.

Overall, cash and cash equivalents, trading investments and available-for-sale investments totaled $970.1 million as of December 31, 2009, and $1,077.6 million as of December 31, 2008. The decrease of $107.5 million or 10 percent was driven primarily by sales and redemptions of available-for-sale investments, the proceeds of which were used to purchase trading securities and other investments.

FINRA's working capital was $764.8 million as of December 31, 2009, and $846.1 million as of December 31, 2008. We believe that the liquidity provided by existing cash and cash equivalents, investments and cash generated from operations will provide sufficient capital to meet current and future operating requirements.

CONTRACTUAL OBLIGATIONS AND CONTINGENT COMMITMENTS

FINRA has contractual obligations to make future payments for limited partnership investments, minimum rental commitments under non-cancelable operating leases and other obligations. The following table summarizes those contractual obligations:

	Total	Less than 1 Year	1–3 Years	3–5 Years	More than 5 Years
		(in millions)			
Commitments to investments in limited partnerships	$135.8	$ 39.6	$ 68.3	$27.9	$ —
Minimum rental commitments under non-cancelable operating leases	212.7	30.2	54.2	38.2	90.1
Commitments related to facility operations and security in New York, NY	54.8	20.7	34.1	—	—
Information and technology services agreement	51.0	18.0	33.0	—	—
Total	$454.3	$108.5	$189.6	$66.1	$90.1

Commitments to investments in limited partnerships represent the expected funding of our total commitment to 29 investments in limited partnerships. We are currently looking to liquidate our investments in these limited partnerships. The majority of the non-cancelable operating leases contain escalation clauses based on increases in property taxes and building operating costs. Commitments related to operations in New York include facilities and security costs for FINRA personnel working in buildings subleased from NYSE due to the consolidation of NASD and the member regulation operations of NYSE. Information and technology services agreement commitments relate to our minimum annual spending requirements under an agreement with HP Enterprise Services. Under that agreement, which expires on December 31, 2012, HP Enterprise Services provides us with application development and maintenance services.

EXECUTIVE COMPENSATION

Introduction

FINRA's compensation philosophy is a pay-for-performance model seeking to achieve pay levels in line with the competitive market while meeting the objectives of attracting, developing and retaining high performing individuals who are capable of achieving our mission and to provide rewards commensurate with individual contributions and FINRA's overall performance.

Management Report on Financial Operations (continued)

The Management Compensation Committee (the Committee), comprised of public members of the Board, is responsible for approving salary levels and incentive compensation targets for top-level executives. The Committee also determines the incentive compensation awards based on actual performance. In determining salary and incentive compensation, management and the Committee consider operational, strategic and financial factors in addition to individual performance. The salary and incentive compensation recommendations for the CEO are reviewed and approved by the Board annually.

In 2009, as in past years, the Committee engaged Mercer, Inc. (Mercer), a third party compensation consultant, to prepare a compensation study, which included analysis of current compensation levels and benchmarking, using information from a comparable segment of the market for key executives.

Benchmarking

Defining the relevant employment market for competitive compensation benchmarking purposes is a significant challenge for us due to the scarcity of natural comparators, the uniqueness of functions performed, the need for specialized expertise in financial services and securities law and a constantly changing environment under heightened scrutiny.

As a general policy, FINRA has determined that its competitive compensation positioning should be considered against a broad section of financial services/capital market companies, as this sector of firms is the most likely group for recruiting talent as well as those that recruit talent away from the Company. We also benchmark against general industry positions and law departments for jobs that are not unique to the financial services industry. FINRA acknowledges that it will not provide fully competitive opportunities, particularly in the equity/long-term incentive area, when compared to certain banking/securities firms.

In determining a benchmarking strategy for key executives, financial services organizations (broker-dealers, investment banks, Federal Reserve banks, commercial banks, insurance companies, exchanges and regulators) were determined to be the most relevant groups for comparison purposes. The Committee and Mercer engaged in substantial research and consideration of the functions and operations of several potential comparators as well as general competitive conditions. Ultimately, the Committee approved a benchmarking process that focused on the following sources:

- Public comparison group comprised of smaller financial services organizations engaged in brokerage or other related banking activities. The median revenue of companies included in this group approximates FINRA's annual revenue.
- Public exchanges and regulators.
- Financial services industry survey data.

The Committee will routinely review the aforementioned data in determining annual salary and incentive compensation.

Management Report on Financial Operations (continued)

Summary Compensation Table

The following table presents actual 2009 compensation data and 2010 base salaries established as of February 2010 (amounts are in dollars).

Name and principal position	Year	Salary (2)	Incentive Compensation (3)	Other Awards (4)	Supplemental Retirement Benefits (5)	Total
Richard Ketchum (1)	2010	1,000,000	—	—	—	1,000,000
Chairman and Chief Executive Officer	2009	792,308	1,250,000	—	200,000	2,242,308
Stephen Luparello	2010	600,000	—	—	—	600,000
Vice Chairman	2009	576,069	650,000	—	30,472	1,256,541
Todd Diganci	2010	500,000	—	—	—	500,000
EVP and Chief Financial Officer	2009	518,692	660,000	—	—	1,178,692
James Donovan	2010	500,000	—	—	—	500,000
SEVP, Technology and Strategy	2009	519,231	360,000	—	96,003	975,234
Linda Fienberg	2010	459,700	—	—	—	459,700
President, Dispute Resolution	2009	475,613	417,800	—	—	893,413
Howard Schloss	2010	432,000	—	—	—	432,000
EVP, Corporate Communications	2009	448,615	385,000	—	143,460	977,075
Marc Menchel	2010	400,700	—	—	—	400,700
EVP, General Counsel - Regulation	2009	416,111	418,000	—	206,757	1,040,868
Martin Colburn	2010	400,050	—	—	—	400,050
EVP and Chief Technology Officer	2009	415,436	404,043	—	113,492	932,971
Grace Vogel	2010	370,000	—	—	—	370,000
EVP, Member Regulation	2009	384,231	500,000	150,300	88,530	1,123,061
Steven Joachim	2010	370,000	—	—	—	370,000
EVP, Transparency Services	2009	382,808	378,200	—	221,531	982,539

(1) Mr. Ketchum's salary for 2009 reflects partial year compensation, as he joined FINRA in March 2009.

(2) Salary is paid bi-weekly, one week in arrears. Most 2009 salaries appear greater than 2010 base levels as 2009 contained 27 pay periods rather than the usual 26.

(3) Amounts reflected in the 2009 rows were paid in February 2010. Although incentive compensation is paid after the close of the calendar year, it is presented above in the year it was earned to more accurately present total compensation for the given year, including performance-related earnings.

(4) Ms. Vogel received a $150,300 Regulatory Cash Award. 2009 was the third and final year of this contractually obligatory award stemming from her tenure at NYSE Regulation, Inc. prior to the merger with NASD.

(5) Mr. Ketchum, Ms. Vogel and Mr. Donovan participate in FINRA's supplemental defined contribution retirement plan. The remaining listed executives are participants in the supplemental defined benefit retirement plan, which is now closed to new participants. Retirement benefits represent earnings/accruals in supplemental executive plans based on actuarial calculations performed after year-end close and do not include benefits readily available to all employees. In 2009, there was no increase in the actuarial value of the Supplemental Defined Benefit Plan for Mr. Diganci and Ms. Fienberg.

Components of Compensation

Direct Compensation

- Base salaries consist of banded structures to provide for appropriate flexibility in hiring and retention. Actual salaries are based on job content, individual performance and relevant experience levels and may fall above or below competitive levels.

- Incentive compensation is an additional "at risk" compensation that is performance based and determined in relation to individual achievements and FINRA's overall performance. The size of the actual award varies based on goal achievement, performance, grade level and degree of responsibility within the organization. If awarded, it is paid as a lump sum in the following year.
- Other Awards are typically discretionary in nature and based on a specific performance event. In the case of the Regulatory Cash Award described above in footnote 4, this award was contractually carried forward and paid based on the individual's prior service to NYSE Regulation, Inc.

Indirect Compensation

- Supplemental retirement benefits are provided for top executives and are either defined benefit or defined contribution based on their start date. These plans are non-qualified and are based on salary and a portion of incentive compensation as well as years of service.
- Employee and family health, life and other insurance, pension and 401(k) deferral and matching programs, health club subsidies and other benefits are available to all employees. Amounts associated with these benefits are excluded from the table above.

The compensation figures presented in the table above will vary from amounts reported in FINRA's Form 990 tax returns due to normal differences between accrual and tax basis reporting. For example, the amounts disclosed here reflect incentive compensation in the year that it was earned (accrual basis) rather than the year paid (tax basis) in order to more accurately present the total compensation for the given year, including performance-related earnings. As noted, the table above excludes certain benefits that are generally available to all FINRA employees.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP). We are required to adopt accounting principles and make estimates and judgments to develop amounts reported in the financial statements and accompanying notes.

We periodically review the application of our accounting policies and evaluate the appropriateness of the estimates that are required to prepare the financial statements. We believe our estimates and judgments are reasonable; however, actual results and the timing of recognition of such amounts could differ from those estimates.

Our significant accounting policies are described in Note 2, "Summary of Significant Accounting Policies," to the consolidated financial statements. The following provides information about our critical accounting policies, which are defined as those reflective of significant judgments and uncertainties that could result in materially different results under different assumptions and conditions. At the consolidated level, we have determined that the critical accounting policies are those that cover investments, fair value measurements, revenue recognition, and pension and other postretirement benefits.

INVESTMENTS

Debt and Marketable Equity Securities

At the time of purchase, we classify individual securities as trading, available-for-sale or held-to-maturity based on the type of security and our intent and ability to hold these securities. We re-evaluate such designations annually. We have designated our investments in debt and marketable equity securities as either trading or available-for-sale. Trading securities are carried at fair value, with changes in fair value recorded as a component of net investment gains (losses) in the consolidated statements of operations. We record available-for-sale securities at fair value and recognize temporary changes in fair value as an unrealized gain (loss), which is presented as a separate component of equity in the consolidated balance sheets.

Fair value is determined based on quoted market prices, when available, or on estimates provided by external pricing sources or dealers who make markets in such securities. Realized gains and losses on sales of securities are included in earnings using the average cost method. Investments receivable or payable relate to security trades and other investment purchases or redemptions executed prior to the balance sheet date, but not yet settled, as we follow trade date accounting.

Other Investments

We have investments in hedge funds that we account for under the equity method. We are also a limited partner in a number of private investment funds. We account for private investments under the cost or equity method based on our relative ownership interest in the partnership. In assessing potential impairment, net asset value is used as a practical expedient to measure fair value, unless it is probable that an investment will be sold for an amount other than net asset value. In these cases, fair value is measured based on recent observable transaction information for similar investments and the consideration of non-binding bids from potential buyers. We assess fair value estimates from fund managers to determine year-end fair values for investments in private investments and hedge funds and verify those values through the subsequent review of audited financial information, additional due diligence procedures, and follow-up discussions with the fund managers.

Investment Impairment

FINRA periodically monitors and evaluates the realizability of its available-for-sale and cost method investments. When assessing realizability, including other-than-temporary declines in value, we consider such factors as:

- the extent of the decline in value;
- the duration of unrealized losses;
- the potential for recovery in the near term; and
- the probability that we will sell a cost method investment at an amount different from the net asset value of our ownership interest.

We also review the financial statements of our cost and equity method investments for potential indicators of impairment. If events and circumstances indicate that a decline in the value of these assets has occurred and is deemed other-than-temporary, the carrying value of the investment is reduced to its fair value and the impairment is charged to earnings.

FAIR VALUE MEASUREMENTS

FINRA measures fair value according to a three-level hierarchy (*i.e.*, Level 1, 2 and 3 inputs, as defined below). The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Additionally, we provide enhanced disclosure regarding instruments in the Level 3 category (which have inputs to the valuation techniques that are unobservable and require significant management judgment), including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities.

Accordingly, we classify and disclose assets and liabilities measured and reported at fair value in one of the following categories:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access as of the reporting date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, through corroboration with observable data.

Level 3 Unobservable inputs, such as internally developed pricing models for the asset or liability due to little or no market activity for the asset or liability.

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. In measuring fair value, FINRA obtains information from its custodian and investment fund managers who use various valuation approaches, including the use of counterparty pricing services and external or third-party pricing sources. In assessing potential impairment for cost method investments, net asset value is used as a practical expedient to measure fair value, unless it is probable that an investment will be sold for an amount other than net asset value. In these cases, fair value is measured based on recent observable transaction information for similar investments and considering non-binding bids from potential buyers.

REVENUE RECOGNITION AND COST OF REVENUE

Regulatory Fees

Regulatory fees represent fees to fund our regulatory activities, including the supervision and regulation of firms through examination, policy making, rulemaking and enforcement activities. Regulatory fees are recorded net of any rebates to firms. Regulatory fees include the TAF, GIA, Personnel Assessment (PA) and Branch Office Assessment (BOA). The TAF is calculated on the sell side of all transactions by firms in all covered securities, regardless of where the trade is executed, and is assessed directly on the firm responsible for clearing the transaction. The TAF is self-reported to us by firms, and the revenue is recognized in the month the transactions occur. As the TAF is a self-reported revenue stream, subsequent adjustments by firms may occur and are recognized as an adjustment to revenue in the period the adjustment becomes known to us. The GIA and PA represent annual fees charged to firms and representatives. The BOA has an initial fee component in addition to annual fees. The initial fee is recognized over the estimated business relationship period and the annual fee over the related annual period.

User Fees

User fees consist of fees charged for initial and annual registrations, qualification examinations, FINRA-sponsored educational programs and conferences, reviews of advertisements and corporate filings (corporate financing fees). Registration fees include both an initial and annual fee charged on all registered representatives and investment advisers. The initial fee is recognized over the estimated business relationship period and the annual fee over the related annual period. Qualification fees consist of examination and continuing education fees. Qualification fees are recognized as examinations or continuing education programs are administered. FINRA-sponsored meeting and conference fees include fees paid by financial services industry participants for participating in our educational programs. We recognize these fees when the program or conference takes place. Advertising fees represent fees charged for the review of firms' communications to ensure that they are fair, balanced and not misleading. Advertising fees are recognized as revenue when we complete the review. Corporate financing fees consist of fees charged by us for reviewing proposed public offerings; thus, we recognize these fees when we complete our review.

Dispute Resolution Fees

Dispute resolution fees consist of fees earned during the arbitration and mediation processes. Certain arbitration fees, such as initial, counterclaim, cross claim and other filing fees, and surcharge fees relate to the entire period covered by an arbitration case, and as such are recognized as revenue over the average life of an arbitration case. Mediation filing fees are recognized over the average life of a mediation case. All other arbitration- and mediation-related fees, such as pre-hearing and hearing processing fees, adjournment fees, hearing session fees and mediation session fees, which are event driven, are recognized as the service is provided. Dispute resolution fees also include arbitrator and mediator application and training fees. These fees are recognized when the associated service is provided.

Transparency Services Fees

Transparency services fees are charged for the use of TRACE and the ADF. In addition, fees are charged for services related to quoting of certain OTC Equities on the OTCBB and trade reporting of OTC Equities through the ORF. TRACE fees include market data fees as well as fees charged on secondary market transactions in eligible fixed income securities reported to FINRA. ADF fees include market data fees as well as fees for posting quotes. OTCBB is a regulated quotation service in which fees are charged for a variety of services related to the display of real-time quotes in OTC Equity securities that are eligible for quotation on the OTCBB. In addition, fees are earned for the sale of market data from the OTCBB and the ORF. We recognize transparency services fees as the transactions occur and when the market data is sold.

Contract Services Fees

Contract services fees represent amounts charged for regulatory services provided primarily to NASDAQ OMX, NYSE Amex, the TRFs, and other exchanges for services including surveillance, monitoring, technology development, and legal and enforcement activities. Contract services fees also include fees for the mortgage licensing system FINRA developed and deployed to the SRR. We recognize this revenue as the services are provided.

Fines

Fines represent sanctions for rule violations. We recognize fines upon issuance of a written consent or litigation decision.

The process that we have in place regarding the use of fines is designed to guard against potential conflicts in the organization's collection and use of fine monies. Our fine guidelines provide that:

1) all fine monies are accounted for separately;
2) fine monies collected or anticipated are not included in operating revenues and play no role in developing the operating budget;
3) fine monies are not used to fund employee compensation;
4) the use of fine monies is limited to capital expenditures and regulatory projects; and
5) capital expenditures and regulatory projects for which we plan to and have used fine monies, such as the integration of NYSE member regulation, enforcement and arbitration technology applications into the FINRA technology platform, are reported to the Board.

Activity Assessment

FINRA, as a self-regulatory organization (SRO), pays certain fees and assessments to the SEC pursuant to Section 31 of the Securities Exchange Act of 1934. These fees are designed to recover costs incurred by the government for the supervision and regulation of securities markets and securities professionals, and are calculated based on the aggregate dollar amount of sales of covered securities transacted by or through any firm other than on a national securities exchange. Such covered transactions are reported to us through the ADF, the TRFs and the ORF. We remit these SEC fees to the U.S. Treasury semiannually, in March and September.

We recover the cost of the Section 31 fees and assessments through an activity assessment billed to clearing and self-clearing firms based on the aggregate dollar amount of sales of covered securities transacted by or through any firm other than on a national securities exchange. The assessments billed to securities firms are recognized when the transactions are reported. FINRA, as the primary obligor to the SEC, reports the activity assessment on a gross basis within revenues. We report the amounts due to the SEC as an activity assessment cost of revenue.

We rely on third-party providers and securities firms to report activity in a complete, accurate and timely manner for purposes of determining the activity assessment revenues and cost of revenues. As a result, subsequent adjustments may occur. We recognize any resulting activity assessment adjustments in the period they become known to us.

PENSION AND OTHER POSTRETIREMENT BENEFITS

FINRA provides two non-contributory defined benefit pension plans for the benefit of eligible employees. The non-contributory defined benefit plans consist of a qualified Employees Retirement Plan (ERP) and a non-qualified Supplemental Executive Retirement Plan (SERP). The SERP is closed with respect to new participants. We also provide an employer-funded defined contribution Retiree Medical Account Plan (RMA Plan) to assist our employees and retirees with the cost of health care expenses during retirement. Under the RMA Plan, Retiree Medical Accounts are created for eligible employees and retirees and fixed annual credits are applied to those accounts for each year of FINRA service beginning at age 40. In calculating the expense and liability related to all of the abovementioned plans, we use several statistical and other factors, which attempt to anticipate future events. Key factors include assumptions about the expected rates of return on plan assets and the discount rate as determined by FINRA, within certain guidelines, as well as assumptions regarding future salary increases, mortality, turnover, retirement ages and the medical expense trend rate. We consider market conditions, including changes in investment returns and interest rates, in making these assumptions. The discount rate used in the calculations is developed considering both a hypothetical bond portfolio and specific bond matching approach. We determine the long-term rate of return based on analysis of historical and projected returns as prepared by our actuary and external investment consultant. FINRA's Pension Plan Committee reviews both the expected long-term rate of return and the discount rate assumptions, which were 7.75 percent and 5.75 percent as of December 31, 2009.

The actuarial assumptions that we use in determining pension and other benefits may differ materially from actual results due to changing market and economic conditions, as well as early withdrawals by terminating plan participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may materially affect our financial position or results of operations. A 25 basis point increase (decrease) in the discount rate assumption as of December 31, 2009, would cause the projected benefit obligation for pension benefits to decrease (increase) by approximately $15.5 million. A 25 basis point increase (decrease) in the discount rate assumption as of December 31, 2008, would have caused the 2009 pension benefits expense to decrease (increase) by approximately $1.4 million. A 25 basis point increase (decrease) in the discount rate assumption would not have a material impact on the projected benefit obligation or expenses related to other benefits.

RECENT ACCOUNTING PRONOUNCEMENTS

On June 3, 2009, the Financial Accounting Standards Board (FASB) voted to approve the *FASB Accounting Standards Codification* (the Codification or ASC) as the single source of authoritative nongovernmental U.S. GAAP. Launched on July 1, 2009, the Codification restructures the thousands of U.S. GAAP pronouncements into roughly 90 accounting topics, and it does not change U.S. GAAP. It also includes relevant SEC guidance in separate sections in the Codification following the same topical structure. We prepared the attached financial report for 2009 in accordance with the Codification.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement 109* (FIN 48). FIN 48 is codified in FASB ASC Topic 740, *Income Taxes*. Among other things, the standard provides guidance to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold which income tax positions must achieve before being recognized in the financial statements. In addition, the standard requires expanded annual disclosures, including a rollforward of the beginning and ending aggregate unrecognized tax benefits, as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized tax benefit will significantly increase or decrease within 12 months. ASC 740 was effective for nonpublic enterprises, such as FINRA, on January 1, 2009. The adoption of such standard did not have a material impact on our consolidated results of operations and financial position.

In December 2008, the FASB issued FASB Staff Position (FSP) 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which requires additional disclosures about assets held in an employer's defined benefit pension or other postretirement benefit plan. FSP 132(R)-1 is codified in FASB ASC Topic 715, *Compensation — Retirement Benefits*. The standard replaces the requirement to disclose the percentage of the fair value of total plan assets with a requirement to disclose the fair value of each major asset category and for companies to consider providing additional disclosures about major asset categories based on the disclosure objectives in the standard. Also, the standard requires disclosure of the level within the fair value hierarchy in which each major category of plan assets falls, using the guidance in fair value measurements. Furthermore, the standard requires companies to reconcile the beginning and ending balances of plan assets with fair values measured using significant unobservable inputs (Level 3 in the hierarchy). ASC 715 was effective for FINRA on January 1, 2009, and we have provided the required additional disclosures in the Notes to the Consolidated Financial Statements. *See* Note 9, "Employee Benefits."

On September 30, 2009, the FASB issued Accounting Standards Update (ASU) No. 2009–12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The ASU amends Topic 820 by providing additional guidance on measuring the fair value of certain alternative investments. Under the ASU, entities are permitted, as a practical expedient, to estimate the fair value of investments within its scope using the net asset value (NAV) per share of the investment as of the reporting entities' measurement dates. However, the use of the practical expedient is not permitted for investments that have a readily determinable fair value, or if it is probable as of the measurement date that the entity will sell the investment (or a portion of the investment) for an amount other than NAV. The ASU also requires additional disclosures to allow better understanding of the nature and risks of the reporting entity's alternative investments. The additional disclosures are required for all investments within the scope of the ASU regardless of whether the practical expedient is applied. The ASU was effective for FINRA on December 31, 2009. We have adopted the provisions of the ASU and have provided the required additional disclosures in the Notes to the Consolidated Financial Statements. *See* Note 6, "Fair Value Measurements."

In October 2009, the FASB issued ASU No. 2009–13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements — a consensus of the Emerging Issues Task Force*, as a result of the final consensus reached on EITF Issue No. 08–1, *Revenue Arrangements with Multiple Deliverables*. The ASU addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. The ASU amends the existing revenue recognition guidance to allow more multi-element arrangements to be separated. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, and replaces the term "fair value" in the revenue allocation guidance with "selling price" to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant. The ASU will also eliminate the residual method of allocation and require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. Further, the ASU will significantly expand the disclosures related to a vendor's multiple-deliverable revenue arrangements. The ASU is effective for FINRA on January 1, 2011, and early adoption is permitted. We are currently assessing the potential impact that the ASU will have on our consolidated results of operations and financial position and whether we will adopt the provisions of the ASU early.

On January 21, 2010, the FASB issued ASU No. 2010–06, *Improving Disclosures about Fair Value Measurements*, to amend ASC Topic 820, *Fair Value Measurements and Disclosures*. The ASU requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements should be presented separately. The ASU is effective for FINRA on December 31, 2009, except for the requirement to separately disclose purchases, sales, issuances, and settlements in the Level 3 rollforward, which becomes effective for FINRA on December 31, 2010. We have adopted the December 31, 2009, provisions of the ASU and have provided the required additional disclosures in the Notes to the Consolidated Financial Statements. *See* Note 6, "Fair Value Measurements."

Management Report on Internal Control Over Financial Reporting

FINRA management is responsible for the preparation and integrity of the consolidated financial statements appearing in our annual report. The consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) and include amounts based on management's estimates and judgments. FINRA management is also responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Internal control over financial reporting is a process designed by management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP.

FINRA maintains a system of internal control that is designed to provide reasonable assurance as to the fair and reliable preparation and presentation of the consolidated financial statements, as well as to safeguard assets from unauthorized use or disposition that could have a material effect on the financial statements. FINRA's internal control over financial reporting includes written policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of FINRA's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of FINRA are being made only in accordance with authorizations of FINRA's management and governors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of FINRA's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements due to error or fraud, including the possibility of the circumvention or overriding of controls. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of the Chairman and Chief Executive Officer and Chief Financial Officer, FINRA's management assessed the effectiveness of FINRA's internal control over financial reporting as of December 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. This evaluation included reviews of the documentation of controls, evaluations of the design effectiveness of controls, tests of the operating effectiveness of controls and a conclusion on management's evaluation. Based on this assessment, we assert that FINRA maintained effective internal control over financial reporting as of December 31, 2009.

FINRA's financial statements included in this annual report have been audited by Ernst & Young LLP, an independent registered public accounting firm. Ernst and Young LLP has also issued an attestation report on FINRA's internal control over financial reporting as of December 31, 2009.

September 30, 2010

Richard G. Ketchum
Chairman and Chief Executive Officer

Todd T. Diganci
Executive Vice President and Chief Financial Officer

Certification of 2009 Annual Financial Report

We, Richard G. Ketchum and Todd T. Diganci, certify that:

1. We have reviewed this annual financial report of the Financial Industry Regulatory Authority, Inc. (FINRA);
2. The purpose of this report is principally to set forth management's report on financial operations with respect to FINRA during the year ended December 31, 2009, together with the consolidated financial statements of FINRA as of December 31, 2009, and 2008, and for the years ended December 31, 2009, 2008 and 2007. This report is not intended to comply with the substantive or form requirements for periodic reports under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated there under required of issuers of securities subject to the periodic reporting requirements under Sections 12, 13 and 15;
3. Based on our knowledge, this report does not contain any untrue statement of a material fact or omit statement of 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;
4. Based on our knowledge, the financial statements and financial information set forth under the caption "Management Report on Financial Operations" fairly present in all material respects the financial condition, results of operations and cash flows of FINRA as of, and for, the periods presented in this report;
5. FINRA has established disclosure controls and procedures to ensure that material information relating to FINRA, 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;
6. FINRA has established internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
7. FINRA has carried out its evaluation of the effectiveness of the design and operation of FINRA's disclosure controls and procedures as of December 31, 2009. Based upon that evaluation, we have concluded that the disclosure controls and procedures are effective;
8. We have disclosed, based on FINRA's most recent evaluation of internal control over financial reporting, to FINRA's auditors and the Audit Committee of FINRA's Board of Governors:
   a) Any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect FINRA'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 FINRA's internal control over financial reporting.

September 30, 2010

Richard G. Ketchum
Chairman and Chief Executive Officer

Todd T. Diganci
Executive Vice President and Chief Financial Officer

Audit Committee Report

In accordance with its written Charter adopted by the Board of Governors, the Audit Committee of the Board of Governors assists the Board of Governors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of FINRA. Each member of the Audit Committee is an independent director as defined by SEC Rule 10A-3 under The Securities Exchange Act of 1934, Listing Standards Relating to Audit Committees. In addition, the Audit Committee and Board of Governors have determined that James E. Burton and Charles A. Bowsher are audit committee financial experts, as defined by the SEC. The Charter gives the Audit Committee responsibility for monitoring the independence of the independent auditor and recommending the appointment of the independent auditor for approval by the Board of Governors, and makes clear that the independent auditor is accountable to the Audit Committee and the Board of Governors, as representatives of the members and the public. In addition, the Charter and the By-laws of FINRA make the Chief Audit Executive directly responsible to the Audit Committee. In all respects, the Charter complies with standards applicable to publicly-owned companies. (The Charter for the FINRA Audit Committee is available at the following URL: *www.finra.org/AboutFINRA/Leadership/Committees/index.htm*.)

During 2009, the Audit Committee met five times, with the Audit Committee members having a 100 percent attendance rate.

In discharging its oversight responsibility, the Audit Committee reviewed the assessments of audit risk and the audit plans of both the independent and internal auditors. The Audit Committee also had discussions with management, the internal auditors, and the independent auditor related to the quality and adequacy of FINRA's internal controls and the internal audit organization, responsibilities, budget and staffing.

The Audit Committee obtained a written statement from the independent auditor, Ernst & Young LLP (E&Y), describing all relationships with FINRA. The Audit Committee discussed those relationships and satisfied itself that none of the relationships were incompatible with the auditor's independence. The Audit Committee has reviewed and approved all services performed by E&Y for FINRA and the associated fees, before initiation of each engagement. We have summarized such services and fees in the following table:

Independent Registered Public Accountant (IRPA) Fees

	FINRA (1)	
	2009	2008
Audit services (2)	$ 868,000	$ 851,000
Audit-related services (3)	371,000	349,950
Tax services (4)	152,500	80,000
Total	$1,391,500	$1,280,950

(1) FINRA based its fees reported for 2009 on fees approved by FINRA's Audit Committee as of December 31, 2009. The 2009 audit services, audit-related services, and tax services include estimates to complete the current work in process. FINRA has updated the 2008 fees from the prior year's report to reflect final amounts paid for the 2008 approved services.

(2) For 2009 and 2008, audit services represent the year-end financial statement audit and the attestation on internal control under Section 404 of the Sarbanes-Oxley Act of 2002.

(3) Audit-related services in 2009 and 2008 reflect fees associated with the special-purpose audit of the Investment Advisers Registration Depository, agreed-upon procedures over the Central Registration Depository, and the audit of the FINRA Investor Education Foundation and the Company's employee benefit plans. In 2009, audit-related services also included a review of the investment portfolio transition and a review of the Market Regulation expansion initiative. In 2008, audit-related services also included a review of the implementation of MATRICS, accounting advisory services related to the Voluntary Retirement Program and agreed-upon procedures over the Continuing Education Program.

(4) Tax services represent fees related to tax return preparation services in connection with the 2009 and 2008 Form 990s and related Form 990-Ts, as well as tax compliance, advice and planning.

Audit Committee Report (continued)

The Audit Committee discussed and reviewed with the independent auditor all communications required by Statement on Auditing Standard No. 114, *The Auditor's Communication with Those Charged with Governance*. Further, the Committee has reviewed and discussed with management and with E&Y, with and without management present, the audited financial statements as of December 31, 2009; management's assessment of the effectiveness of FINRA's internal control over financial reporting; and E&Y's report on the financial statements and on FINRA's internal control over financial reporting. Based on those discussions, the Audit Committee recommended to the Board of Governors that FINRA's audited financial statements and related reports on internal control be included in the Annual Report for the year ended December 31, 2009.

Members of the Audit Committee:

James E. Burton, Chair
Charles A. Bowsher
John F. X. Dolan
W. Dennis Ferguson
Kurt P. Stocker

September 30, 2010

Investment Committee Report

Year Ended December 31, 2009

The FINRA investment portfolio is a fund principally created from the proceeds of the sale of FINRA's interests in The NASDAQ Stock Market. The purpose of the portfolio is to support FINRA's operations and fulfill its mission of protecting investors and maintaining market integrity by providing FINRA with supplemental financial resources to allow it to implement long-range plans. FINRA's investment policy is set forth to strive to preserve principal, in real terms, while seeking to earn a long-term rate of return commensurate with the degree of risk deemed appropriate for FINRA assets by the Board of Governors. Distributions from the portfolio are determined annually by the FINRA Board of Governors as part of the operating budget. In addition to the annual distribution to support operations, other strategic and non-recurring distributions may arise subject to prior approval by the Board of Governors.

This last year was characterized by a general recovery in the global economy and investment markets. FINRA was able to take advantage of the positive market environment to gradually transition to its new investment policy, approved by the Board of Governors in April 2009, and discussed further below. FINRA's investments advanced 14.5 percent in calendar year 2009, excluding impairment charges of $44.8 million which will likely impact 2010 returns when the investments, committed to under the legacy investment portfolio policy, are sold. At the end of the year, FINRA's investment portfolio totaled approximately $1.6 billion. The chart below shows cumulative investment returns for the period 2004 – 2009 for FINRA and for several common market benchmarks. FINRA's cumulative investment return of 2.8 percent exceeded that of treasury bills and the S&P 500 Index over this time period. Portfolio liquidity remains strong, with $861 million or 54 percent available in 30 days or less as of December 31, 2009.

	Investment Returns						
	2004	2005	2006	2007	2008	2009	Cumulative '04-'09
FINRA (1)	7.2%	7.4%	12.9%	8.5%	(26.9)%	14.5%	2. 8%
S&P500	10.9%	4.9%	15.8%	5.5%	(37.0)%	26.5%	2.1%
Barclays US Aggregate	4.3%	2.4%	4.3%	7.0%	5.2%	5.9%	4.9%
Citigroup Treasury Bill-3 Month	1.2%	3.0%	4.8%	4.7%	1.8%	0.2%	2.6%

(1) Total return percentages exclude accounting impairment charges per standard industry calculations, which for 2009 are $44.8 million. Total impairment charges will be reflected in the Income Statement in accordance with GAAP.

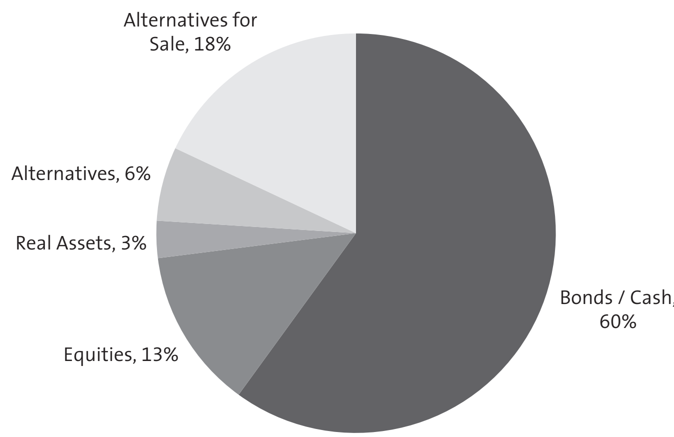
The FINRA Board of Governors is responsible for FINRA's investments and approved the charter that guides the FINRA Investment Committee. The Investment Committee, which is comprised of members of the Board of Governors and other investment professionals, advises the Board of Governors and provides guidance in determining the appropriate policy, guidelines and allocation for FINRA's investments. The FINRA Investments Office is responsible for management of the investments within the framework of the investment policy. FINRA engages investment consultants to support the Investments Office as needed. The Investment Committee met seven times during 2009.

In April 2009, based on a comprehensive Investment Committee review of FINRA's investment policy, strategy and risk tolerance, the Board of Governors decided to shift FINRA's investment assets to a lower volatility strategy with the objective of a lower risk portfolio. A new policy and detailed transition plan were put in place, and investment managers and consultants were engaged to assist with the new strategy. With the new policy, FINRA continues to maintain a broadly diversified investment portfolio, representing a wide range of assets and asset classes, in order to attain acceptable levels of risk and return. The Investment Committee reviews the policy annually and recommends changes subject to approval by the Board of Governors.

Investment Committee Report (continued)

The chart below shows portfolio exposures as of December 31, 2009. Actual market exposures are 60 percent bonds/cash and 13 percent equities. Alternatives for Sale of 18 percent consist of legacy funds pending liquidation. Alternatives, at 6 percent, consist of non-correlated exposures.

Exposures as of December 31, 2009



FINRA has an Investments Conflicts of Interest policy that establishes the standards governing the separation of investment activities and decisions from FINRA's regulatory operations. As stated in the policy, FINRA's investment strategy limits the direct ownership of investment assets to debt securities, treasury futures, and shares in a private investment fund not affiliated with a broker-dealer. All investment decisions within the portfolio are made by third party providers, and with respect to internal activities, the oversight and management of the portfolio is performed by the Investment Committee and limited to essential staff only defined as the CEO, Vice Chairman, CFO, Investments Office, General Counsel, Corporate Secretary and Internal Audit. With those exceptions, no individual in any examination or enforcement arm of the organization has any knowledge of the securities within our investment portfolio or of the investment firm managing those securities.

Members of the Investment Committee:

John J. Brennan, Chair
James E. Burton
William H. Heyman
Scott C. Malpass
Richard S. Pechter
Richard C. Romano

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Board of Governors

Financial Industry Regulatory Authority, Inc.

We have audited the Financial Industry Regulatory Authority, Inc.'s (FINRA) internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). FINRA's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and governors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, FINRA maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of FINRA as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2009, and our report dated September 30, 2010 expressed an unqualified opinion thereon.

Ernst + Young LLP

McLean, Virginia
September 30, 2010

Report of Independent Registered Public Accounting Firm

Board of Governors

Financial Industry Regulatory Authority, Inc.

We have audited the accompanying consolidated balance sheets of the Financial Industry Regulatory Authority, Inc. (FINRA) as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FINRA at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FINRA's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 30, 2010 expressed an unqualified opinion thereon.

Ernst + Young LLP

McLean, Virginia
September 30, 2010

FINRA Consolidated Balance Sheets

(In millions)

	December 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 233.0	$ 85.0
Investments:		
Trading, at fair value	668.4	581.7
Available-for-sale, at fair value	40.5	387.6
Foundation available-for-sale, at fair value	28.2	23.3
Receivables, net	121.8	95.2
Investments receivable	81.4	27.8
Other current assets	31.6	34.0
Total current assets	1,204.9	1,234.6
Property and equipment:		
Land, buildings and improvements	106.4	105.9
Data processing equipment and software	212.6	206.7
Furniture, equipment and leasehold improvements	94.7	102.8
	413.7	415.4
Less accumulated depreciation and amortization	(275.4)	(258.3)
Total property and equipment, net	138.3	157.1
Goodwill and other intangible assets, net	33.8	40.1
Other investments	644.7	499.3
Other assets	50.6	59.0
Total assets	$2,072.3	$1,990.1

See accompanying notes.

FINRA Consolidated Balance Sheets (continued)

(In millions)

	December 31,	
	2009	2008
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 35.5	$ 35.3
Accrued personnel and benefit costs	116.9	151.7
Deferred revenue	53.3	57.8
Deferred contribution income	9.5	9.5
Deposits and renewals	66.9	68.4
Investments payable	—	3.0
Other current liabilities	8.4	20.0
SEC fee payable	149.6	42.8
Total current liabilities	440.1	388.5
Accrued pension and other postretirement benefit costs	178.2	154.9
Deferred revenue	15.7	16.8
Deferred contribution income	34.3	41.6
Other liabilities	36.0	43.4
Total liabilities	704.3	645.2
Equity	1,503.7	1,455.1
Unrealized gain (loss) on available-for-sale investments	14.4	(0.1)
Net unrecognized employee benefit plan amounts	(150.1)	(110.1)
Total equity	1,368.0	1,344.9
Total liabilities and equity	$2,072.3	$1,990.1

See accompanying notes.

FINRA Consolidated Statements of Operations

(In millions)

	Years Ended December 31,		
	2009	2008	2007
Revenues			
Operating revenues			
Regulatory fees, net of firm rebates of $5.9 in 2009 and 2008 and $6.1 in 2007	$ 387.9	$ 453.4	$ 345.0
User fees	148.3	157.4	170.1
Dispute resolution fees	56.7	42.3	42.5
Transparency services fees	47.6	44.7	55.8
Contract services fees	57.1	72.0	62.7
Other	10.4	9.2	4.5
Total operating revenues	708.0	779.0	680.6
Fines	47.6	25.9	47.6
Activity assessment	341.4	154.8	281.6
Total revenues	1,097.0	959.7	1,009.8
Activity assessment cost of revenues	(341.4)	(155.2)	(285.1)
Net revenues	755.6	804.5	724.7
Expenses			
Compensation and benefits	493.9	541.7	446.1
Professional and contract services	183.3	214.4	199.2
Computer operations and data communications	27.4	30.5	30.8
Depreciation and amortization	49.5	50.9	40.6
Occupancy	57.2	56.1	40.2
General and administrative	65.4	71.8	55.3
Total expenses	876.7	965.4	812.2
Interest and dividend income	32.0	56.6	77.2
Operating loss	(89.1)	(104.3)	(10.3)
Other income (expense)			
Special payment to firms in connection with the consolidation of NASD and the member regulation operations of NYSE	—	—	(178.3)
Net investment gains (losses)	37.3	(479.2)	113.8
Equity earnings (losses) from other investments	86.6	(144.9)	42.1
Other	13.8	32.1	5.7
Net income (loss)	$ 48.6	$(696.3)	$ (27.0)

See accompanying notes.

FINRA Consolidated Statements of Changes in Equity

(In millions)

	Equity	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2007	$2,178.4	$ 6.6	$2,185.0
Net loss	(27.0)	—	(27.0)
Unrealized loss on available-for-sale investments	—	(37.0)	(37.0)
Employee benefit plan adjustments	—	(4.9)	(4.9)
Comprehensive loss			(68.9)
Balance, December 31, 2007	2,151.4	(35.3)	2,116.1
Net loss	(696.3)	—	(696.3)
Unrealized loss on available-for-sale investments	—	(51.1)	(51.1)
Employee benefit plan adjustments	—	(23.8)	(23.8)
Comprehensive loss			(771.2)
Balance, December 31, 2008	1,455.1	(110.2)	1,344.9
Net income	48.6	—	48.6
Unrealized gain on available-for-sale investments	—	14.5	14.5
Employee benefit plan adjustments	—	(40.0)	(40.0)
Comprehensive income			23.1
Balance, December 31, 2009	$1,503.7	$(135.7)	$1,368.0

See accompanying notes.

FINRA Consolidated Statements of Cash Flows

(In millions)

	Years Ended December 31,		
	2009	2008	2007
Reconciliation of net income to cash provided by operating activities			
Net income (loss)	$ 48.6	$(696.3)	$ (27.0)
Adjustments to reconcile net income (loss) to cash (used in) provided by operating activities:			
Depreciation and amortization	49.5	50.9	40.6
Net investment (gains) losses	(37.3)	479.2	(113.8)
Undistributed (earnings) and equity in losses from other investments	(86.6)	144.9	(39.6)
Bad debt expense (recovery)	10.9	4.7	(5.6)
Other net non-cash income items	(14.0)	(7.4)	(1.5)
Net change in operating assets and liabilities, net of acquisitions and dispositions:			
Receivables, net	(37.5)	43.9	(20.1)
Net (purchases) sales of trading securities	(126.0)	(130.4)	719.9
Other current assets	2.9	(5.4)	(5.3)
Other assets	11.3	15.6	(17.6)
Accounts payable and accrued expenses	(0.2)	(8.7)	3.5
Accrued personnel and benefit costs	(34.8)	13.0	30.9
Deferred revenue	(5.6)	(6.2)	(4.5)
Deferred contribution income	(7.4)	(5.4)	1.7
Deposits and renewals	(1.5)	6.1	7.7
SEC fee payable	106.8	(65.9)	(48.5)
Other current liabilities	(11.5)	4.2	1.4
Accrued pension and other postretirement costs	(16.8)	(22.5)	21.2
Other liabilities	(7.0)	3.3	1.1
Net cash (used in) provided by operating activities	$(156.2)	$(182.4)	$ 544.5

See accompanying notes.

FINRA Consolidated Statements of Cash Flows (continued)

(In millions)

	Years Ended December 31,		
	2009	2008	2007
Cash flow from investing activities			
Proceeds from redemptions of available-for-sale investments	$ 507.5	$ 181.0	$ 321.3
Purchases of available-for-sale investments	(38.6)	(204.8)	(388.3)
Purchases of other investments	(480.1)	(128.0)	(388.9)
Return of capital and proceeds from redemptions from other investments	342.7	130.4	215.3
Purchase of NYSE member regulation operations	—	(0.2)	(48.4)
Proceeds from the payment of the revolving credit facility	—	29.5	—
Purchases of property and equipment	(19.8)	(44.2)	(32.6)
Proceeds from sales of property and equipment	—	2.0	—
Net cash provided by (used in) investing activities	311.7	(34.3)	(321.6)
Cash flow from financing activities			
Change in donor-restricted and other restricted cash	(6.9)	(14.4)	11.1
Other	(0.6)	(0.5)	(0.3)
Net cash (used in) provided by financing activities	(7.5)	(14.9)	10.8
Increase (decrease) in cash and cash equivalents	148.0	(231.6)	233.7
Cash and cash equivalents at beginning of year	85.0	316.6	82.9
Cash and cash equivalents at end of year	$ 233.0	$ 85.0	$ 316.6

See accompanying notes.

FINRA 2009 Notes to Consolidated Financial Statements

1. ORGANIZATION AND NATURE OF OPERATIONS

References to the terms "we," "our," "us," "FINRA" or the "Company" used throughout these Notes to the Consolidated Financial Statements refer to the Financial Industry Regulatory Authority, Inc. (FINRA), a Delaware corporation, and its wholly owned subsidiaries. FINRA wholly owns the following significant subsidiaries: FINRA Regulation, Inc. (FINRA REG), FINRA Dispute Resolution, Inc. (FINRA DR) and FINRA Investor Education Foundation (the Foundation).

We are the largest independent regulator of securities firms doing business with the public in the United States. Through our subsidiary FINRA REG, we regulate the activities of the U.S. securities industry and perform market regulation under contract for The Nasdaq Stock Market, LLC (NASDAQ LLC), NYSE Amex LLC (NYSE Amex), the International Securities Exchange and the Chicago Climate Exchange. We also regulate and operate the over-the-counter (OTC) securities markets. FINRA REG carries out our regulatory functions, including onsite examinations of securities firms, continuous automated surveillance of markets operated by NASDAQ LLC and NYSE Amex, and disciplinary actions against firms and registered representatives. FINRA DR provides arbitration and mediation services to assist in the resolution of monetary and business disputes between and among investors, securities firms and registered representatives. FINRA DR also provides dispute resolution services for several exchanges through contracted agreements, thereby offering consistent procedures and the uniformity of a single forum for the resolution of securities-industry related disputes. The Foundation is a tax-exempt membership corporation incorporated in the State of Delaware with FINRA as the sole member. The Foundation provides investors with high-quality, easily accessible information and tools to better understand the markets and the basic principles of saving and investing. The Foundation funds innovative research and educational projects aimed at segments of the investing public who could benefit from additional resources.

On July 30, 2007, the National Association of Securities Dealers, Inc. (NASD) and the member regulation, enforcement and arbitration functions of the New York Stock Exchange (NYSE) consolidated to form FINRA. Throughout these Notes to Consolidated Financial Statements, FINRA will be used in reference to operations both prior and subsequent to the July 30, 2007, consolidation of personnel and functions from NASD and NYSE. *See* Note 3, "Consolidation of NASD and the Member Regulation Operations of NYSE" for additional information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and include the accounts of FINRA and its wholly-owned subsidiaries. We have eliminated all significant intercompany balances and transactions in consolidation.

USE OF ESTIMATES

The preparation of these consolidated financial statements requires management to make estimates and assumptions, including estimates of fair value and other-than-temporary impairment on investments, valuation of investments and assumptions related to our benefits plans, that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

SEGMENTS

We operate in two primary business units, FINRA and the Foundation. The Foundation does not meet the quantitative thresholds for separate disclosure as a reportable segment. FINRA's chief operating decision maker is our Chairman and Chief Executive Officer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include demand cash, cash held in banks and all non-restricted, highly liquid investments with original maturities of 90 days or less when acquired. At December 31, 2009, there were no fixed income securities included in cash equivalents. At December 31, 2008, the Company's cash equivalents included $7.7 million of fixed-income securities with an original maturity of less than 90 days when acquired.

INVESTMENTS

Debt and Marketable Equity Securities

At the time of purchase, we classify individual securities as trading, available-for-sale or held-to-maturity based on the type of security and our intent and ability to hold these securities. We re-evaluate such designations annually. We have designated our investments in debt and marketable equity securities as either trading or available-for-sale. Trading securities are carried at fair value, with changes in fair value recorded as a component of net investment gains (losses) in the consolidated statements of operations. We record available-for-sale securities at fair value and recognize temporary changes in fair value as an unrealized gain (loss) as a separate component of equity in the consolidated balance sheets.

Fair value is determined based on quoted market prices, when available, or on estimates provided by external pricing sources or dealers who make markets in such securities. Realized gains and losses on sales of securities are included in earnings using the average-cost method. Investment receivables or payables relate to security trades and other investment purchases or redemptions executed prior to the balance sheet date, but not yet settled, as we follow trade date accounting.

Other Investments

FINRA has investments in hedge funds which we have elected to account for under the equity method. We are also a limited partner in a number of private investment funds. We account for private investments under the cost or equity method based on our relative ownership interest in the partnership. We retain the specialized accounting for hedge funds and private investment funds accounted for under the equity method.

Other-Than-Temporary Impairment

FINRA periodically monitors and evaluates the realizability of its available-for-sale and cost-method investments. When assessing realizability, including other-than-temporary declines in value, we consider such factors as the extent of the decline in value, the duration of unrealized losses, the potential for recovery in the near term, and the probability that we will sell a cost-method investment at an amount different from the net asset value of our ownership interest. We also review the financial statements of our cost and equity method investments for potential indicators of impairment. If events and circumstances indicate that a decline in the value of these assets has occurred and is deemed other-than-temporary, the carrying value of the investment is reduced to its fair value and the impairment is charged to earnings.

FAIR VALUE MEASUREMENTS

U.S. GAAP defines fair value as an "exit price" in an orderly transaction and as a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. U.S. GAAP establishes a hierarchy for inputs (*i.e.*, Level 1, 2 and 3 inputs, as defined) used in measuring fair value that maximizes the use of observable inputs, and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

best information available in the circumstances. Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of inputs within the fair value hierarchy are defined as follows:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access as of the reporting date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, through corroboration with observable data.
Level 3	Unobservable inputs, such as internally developed pricing models for the asset or liability due to little or no market activity for the asset or liability.

Additionally, U.S. GAAP requires enhanced disclosure regarding instruments in the Level 3 category (which have inputs to the valuation techniques that are unobservable and require significant management judgment), including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. Furthermore, U.S. GAAP requires certain disclosures about the valuation techniques (*i.e.*, market approach, income approach, cost approach) used to measure fair value on a recurring basis. In estimating fair value, FINRA obtains valuations from its custodian and investment fund managers who use various valuation approaches, including the use of counterparty pricing services and external or third-party pricing sources. In assessing potential impairment for cost-method investments, net asset value is used as a practical expedient to measure fair value, unless it is probable that an investment will be sold for an amount other than net asset value. In these cases, fair value is measured based on recent observable transaction information for similar investments, consideration of non-binding bids from potential buyers and third-party valuations. *See* Note 6, "Fair Value Measurements," for further detail.

RECEIVABLES, NET

The Company's receivables are primarily concentrated with FINRA registered firms, associated persons, NYSE, the NASDAQ OMX Group, Inc. (NASDAQ OMX), NYSE Amex and other exchanges. The financial statements present receivables net of reserves for uncollectible accounts of $13.9 million and $9.7 million as of December 31, 2009, and 2008. We calculate reserves based on the age, source of the underlying receivable and past collections. We maintain the reserve for bad debts at a level that management believes to be sufficient to absorb estimated losses inherent in our accounts receivable portfolio. The reserve balance as of December 31, 2009, and 2008, primarily consists of reserves related to fines, regulatory services and arbitration activities. The reserve is increased by the provision for bad debts, which is charged against operating results and decreased by the amount of charge-offs, net of recoveries. We base the amount charged against operating results on several factors, including a periodic assessment of the collectability of each account. In circumstances where a specific firm's inability to meet its financial obligations is known (*i.e.*, bankruptcy filings), we record a specific provision for bad debts to reduce the receivable to the amount we reasonably believe will be collected.

PROPERTY AND EQUIPMENT

FINRA records property and equipment at cost less accumulated depreciation. We expense repairs and maintenance costs as incurred. We calculate depreciation and amortization using the straight-line method over estimated useful lives ranging from 10 years to 40 years for buildings and improvements, two years to five years for data processing equipment and software, and five years to 10 years for furniture and equipment. We amortize leasehold improvements using the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

straight-line method over the lesser of the useful life of the improvement or the term of the applicable lease. Depreciation and amortization expense for property and equipment, including amortization of capitalized software costs, totaled $38.6 million, $40.3 million and $33.6 million for 2009, 2008 and 2007.

SOFTWARE COSTS

FINRA capitalizes internal computer software development costs incurred during the application development stage. Computer software costs incurred prior to or subsequent to the application development stage are charged to expense as incurred. We capitalize significant purchased application software and operational software programs that are an integral part of computer hardware and amortize them using the straight-line method over their estimated useful life, generally three years. We expense all other purchased software as incurred.

The financial statements reflect unamortized, capitalized software development costs of $32.2 million and $36.9 million as of December 31, 2009, and 2008, within data processing equipment and software in the consolidated balance sheets. Net additions to capitalized software were $9.9 million and $21.9 million in 2009 and 2008. Amortization of capitalized internal computer software costs totaled $17.6 million, $19.7 million and $15.0 million for 2009, 2008 and 2007, and is included in depreciation and amortization in the consolidated statements of operations.

GOODWILL AND INTANGIBLE ASSETS

FINRA's goodwill of $15.0 million as of December 31, 2009, and 2008, represents the excess of consideration paid for the acquired member regulation operations of NYSE over the fair value of the net assets acquired. The acquisition of these assets provided FINRA with access to the membership of NYSE Regulation, Inc. (NYSE Regulation), as well as NYSE copyrights and proprietary software. The goodwill balance incorporates final estimates of contingencies during the allocation period, which ended in 2008. Our acquired intangible assets apart from goodwill as a result of the consolidation of NASD and the member regulation operations of NYSE were recognized at fair value as of the date acquired. We evaluate goodwill for impairment annually at December 31. Based on our annual evaluation, we did not recognize any impairments of goodwill as of December 31, 2009, or 2008. Intangible assets with finite lives are amortized over their useful lives and tested for impairment when events or circumstances warrant. Intangible assets related to the consolidation of NASD and the member regulation operations of NYSE totaled $16.4 million, net of accumulated amortization of $14.1 million as of December 31, 2009, and $22.2 million, net of accumulated amortization of $8.3 million as of December 31, 2008. We also have intangible assets related to software licenses that are not related to the NYSE transaction in the amount of $2.4 million, net of accumulated amortization of $1.8 million as of December 31, 2009, and $2.9 million, net of accumulated amortization of $0.8 million as of December 31, 2008. *See* Note 3, "Consolidation of NASD and the Member Regulation Operations of NYSE" for additional information.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long-lived assets for impairment annually. In the event facts and circumstances indicate that long-lived assets or other assets may be impaired, we perform an evaluation of recoverability, which first compares the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write-down is required. If the evaluation indicates impairment, we would then prepare a discounted cash flow analysis to determine fair value and the amount of the impairment. In 2009 and 2008, there were no indicators of long-lived asset impairment, and no write-downs were recorded.

OTHER ASSETS

Included in other current assets and other long-term assets in the consolidated balance sheets are funds from the Global Research Analyst Settlement (the GRA Settlement), including the interest earned on these funds. The GRA Settlement

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

funds are included in other assets because their use is restricted to the Foundation. The Foundation invests the GRA Settlement funds in a U.S. Treasury money market fund in accordance with the terms of the GRA Settlement, which stipulates that funds received must be invested in money market funds or securities with maturities of less than six months and backed by the full faith and credit of the federal government. The current and long-term portions of the GRA Settlement funds as of December 31, 2009, were $9.5 million and $34.9 million. The current and long-term portions of the GRA Settlement funds as of December 31, 2008, were $9.5 million and $41.8 million. *See* Note 2, *"Deferred Contribution Income"* for more information related to the GRA Settlement.

DEFERRED REVENUE

Deferred revenue represents cash received and billed receivables for which we have not yet provided the related services. Included in deferred revenue is the unearned portion of registration fees, arbitration fees and application fees. We recognize revenue from the upfront initial components of these fees on a straight-line basis over estimated customer relationship periods, determined based on historical experience, ranging from 14 months to 11 years. The estimated service period for arbitration fees, registration fees, and firm application fees is 14 months, four years and 11 years.

DEFERRED CONTRIBUTION INCOME

On September 2, 2005, the Federal District Court for the Southern District of New York (the Court) issued an order (the Order) approving the Securities and Exchange Commission's (SEC's) new investor education plan, whereby all funds collected in connection with the GRA Settlement, less expenses previously approved by the Court, would be remitted to the Foundation. Pursuant to the final judgments against each of the defendants under the GRA Settlement, the Foundation received a total of $55.0 million.

As mentioned in Note 1, the Foundation is a consolidated subsidiary of FINRA. At the consolidated level, FINRA has recorded the amounts the Foundation received in relation to the Order, including interest and dividends earned on these funds, as deferred contribution income in the consolidated balance sheets, and recognizes the related revenue, net of interest and dividends earned on the funds, as the Foundation makes grant payments and incurs expenses pursuant to the guidelines in the Order. In 2009, 2008 and 2007, FINRA recognized revenue as the Foundation incurred grant payments and expenses against the GRA Settlement funds of $7.4 million, $6.2 million and $2.0 million.

Per the Order, to the extent that any of the GRA Settlement funds are not used by the Foundation within 10 years of the date of the Order, FINRA may be required to return any unused funds to the SEC. Additionally, in the event of a proposed dissolution of the Foundation, the SEC shall file an application with the Court setting forth a plan for the disposition of any remaining GRA Settlement funds in the Foundation.

DEPOSIT AND RENEWAL LIABILITIES

FINRA's deposit and renewal liabilities primarily represent deposits into our Central Registration Depository (CRD) system. FINRA-registered firms use these deposits to pay for services, including registration fees charged by states and other self-regulatory organizations (SROs).

OTHER LIABILITIES

FINRA's other liabilities include amounts associated with the Investment Advisers Registration Depository (IARD™) Program.

FINRA REG administers the IARD program. IARD is an electronic filing system for investment advisers regulated by the SEC under the Investment Advisers Act of 1940, and by the states, represented by the North American Securities Administrators Association. The IARD system collects and maintains the registration and disclosure information for investment advisers and their associated persons. As administrator of the IARD program, FINRA REG collects all fees and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

incurs expenses, and tracks and reports them to the SEC on a quarterly basis. FINRA records fees that it has collected but not earned yet as deferred revenue in the consolidated balance sheets.

In accordance with the Memorandum of Understanding (MOU) with the SEC, a new contract which was entered into on July 23, 2009, the SEC will determine the distribution of the cumulative cash basis surplus attributable to filings by SEC-registered investment advisers upon termination of the MOU for the benefit of IARD filers. FINRA recorded a reserve, which represents the cumulative cash basis surplus, in deferred revenue and other liabilities in the consolidated balance sheets as detailed below. FINRA REG has applied the same principles of the MOU with the SEC to the cumulative surplus attributable to filings by state-registered investment advisers.

As of December 31, 2009, and 2008, FINRA recorded the cumulative cash basis surplus for the IARD program in its consolidated financial statements as follows:

	As of December 31,	
	2009	2008
	(in millions)	
Current deferred revenue	$ 0.4	$ 0.4
Non-current deferred revenue	1.0	1.5
Other long-term liabilities	23.8	29.5
Total	$25.2	$31.4

REVENUE RECOGNITION AND COST OF REVENUE

Regulatory Fees

FINRA uses regulatory fees to fund regulatory activities, including the supervision and regulation of firms through examination, policy making, rulemaking and enforcement activities. Regulatory fees are recorded net of any firm rebates. Regulatory fees include the Trading Activity Fee (TAF), Gross Income Assessment (GIA), Personnel Assessment (PA) and Branch Office Assessment (BOA). The TAF is calculated on the sell side of all transactions by firms in all covered securities regardless of where the trade is executed and is assessed directly on the firm responsible for clearing the transaction. Firms self-report the TAF to us, and we recognize the income in the month the transactions occur. As the TAF is a self-reported revenue stream for us, subsequent adjustments by clearing firms may occur. We recognize these adjustments as revenue adjustments in the period they become known to us. The GIA and PA represent annual fees charged to firms and representatives. The BOA has an initial fee component in addition to annual fees. The initial fee component is recognized over the estimated business relationship period, while annual fees are recognized ratably over the annual period to which they relate.

User Fees

User fees are charged for initial and annual registrations, qualification examinations, FINRA-sponsored educational programs and conferences, reviews of advertisements and corporate filings (corporate financing fees). Registration fees include both an initial and annual fee charged on all registered representatives and investment advisers. We recognize the initial fee over the estimated business relationship period and the annual fee over the related annual period. Qualification fees consist of examination and continuing education fees. We recognize qualification fees as examinations or continuing education programs are administered. FINRA-sponsored meeting and conference fees include fees paid by financial services industry participants for participating in our educational programs. We recognize these fees when the program or conference takes place. Advertising fees represent fees charged for the review of firms' communications to ensure that they are fair, balanced and not misleading. We recognize advertising fees as revenue when the review is completed. Corporate financing fees consist of amounts charged by us to review proposed public offerings. We recognize corporate financing fees when the review is completed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dispute Resolution Fees

FINRA DR earns fees during the arbitration and mediation processes. Certain arbitration fees, such as initial, counterclaim, cross claim and other filing fees, and surcharge fees relate to the entire period covered by an arbitration case, and as such are recognized as revenue over the average life of an arbitration case. Mediation filing fees are recognized over the average life of a mediation case. All other arbitration- and mediation-related fees, such as pre-hearing and hearing processing fees, adjournment fees, hearing session fees and mediation session fees, which are event driven, are recognized as the service is provided. Dispute resolution fees also include arbitrator and mediator application and training fees that are recognized as the service is provided.

Transparency Services Fees

Transparency services fees are charged for the use of the Trade Reporting and Compliance Engine (TRACE) and Alternative Display Facility (ADF). In addition, fees are charged for services related to quoting of certain OTC Equities on the OTC Bulletin Board (OTCBB) and trade reporting of OTC Equities through the OTC Reporting Facility (ORF). TRACE fees include market data fees as well as fees charged on secondary market transactions in eligible fixed income securities reported to us. ADF fees include market data fees as well as fees for posting quotes. OTCBB is a regulated quotation service in which fees are charged for a variety of services related to the display of real-time quotes in OTC equity securities that are eligible for quotation on the OTCBB. In addition, fees are earned for the sale of market data from the OTCBB and the ORF. We recognize transparency services fees as the transactions occur or when the market data is sold.

Contract Services Fees

Contract services fees represent amounts charged for regulatory services provided primarily to NASDAQ OMX, NYSE Amex, the Trade Reporting Facilities (TRFs), and other exchanges for services including surveillance, monitoring, technology development, and legal and enforcement activities. Contract services fees also include fees for the mortgage licensing system FINRA developed and deployed to the State Regulatory Registry, LLC (SRR). We recognize contract services fees as the services are provided.

Interest and Dividend Income

FINRA recognizes interest income from cash, trading investments, available-for-sale investments and private investments as it is earned. Dividend income is recognized on the ex-dividend date.

Fines

Fines represent sanctions for rule violations, which FINRA recognizes upon issuance of a written consent or litigation decision. We do not view fines as part of our operating revenues. We established guidelines for the use of fines, which provide that:

1) all fine monies are accounted for separately;
2) fine monies collected or anticipated are not included in operating revenues and play no role in developing the operating budget;
3) fine monies are not used to fund employee compensation;
4) the use of fine monies is limited to capital expenditures and regulatory projects; and
5) capital expenditures and regulatory projects for which we plan to and have used fine monies, such as the integration of NYSE member regulation, enforcement and arbitration technology applications into the FINRA technology platform, are reported to our Board of Governors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Activity Assessment Revenues and Cost of Revenues

FINRA, as an SRO, pays certain fees and assessments to the SEC pursuant to Section 31 of the Securities Exchange Act of 1934. These fees are designed to recover costs incurred by the government for the supervision and regulation of securities markets and securities professionals, and are calculated based on the aggregate dollar amount of sales of covered securities transacted by or through any firm other than on a national securities exchange. Such covered transactions are reported to us through the ADF, the TRFs and the ORF. We remit these SEC fees to the U.S. Treasury semiannually, in March and September.

We recover the cost of the Section 31 fees and assessments through an activity assessment billed to clearing and self-clearing firms based on the aggregate dollar amount of sales of covered securities transacted by or through any firm other than on a national securities exchange. The assessments billed to securities firms are recognized when the transactions are reported. We report the activity assessment on a gross basis within revenues. Amounts due to the SEC are reported as a cost of revenue. We report amounts pending remittance to the SEC in SEC fee payable in the accompanying consolidated balance sheets.

We rely on third-party providers and securities firms to report activity in a complete, accurate and timely manner for purposes of determining the activity assessment revenues and cost of revenues. As a result, subsequent adjustments may occur. We recognize any resulting activity assessment adjustments in the period they become known to us.

In connection with a review that we performed to ensure that firms were properly self-reporting transactions in accordance with Schedule A of FINRA's By-Laws for the periods of 1997 through 2004, we determined that certain transactions were not properly self-reported to us. During 2007, we notified the SEC of our final findings related to the improperly reported transactions and the matter was settled during the third quarter of 2008.

Other Income

FINRA received a share of additional unexpended GRA Settlement research funds, which are unrelated to the Foundation's restricted GRA Settlement educational funds. These unexpended funds were originally set aside as part of the GRA Settlement to support independent research over a five-year period. A portion of the GRA Settlement research funds not distributed at the end of the five-year period are to be paid to FINRA to support its regulation and enforcement programs. These unexpended independent research funds are included in other income in the consolidated statements of operations in 2009.

We also provided a six-month amnesty period during which other SEC fees that were previously collected by firms, but not remitted to us as part of the SEC self-reporting process, could be remitted beginning December 11, 2007, and ending June 11, 2008. These accumulated funds are included in other income in the consolidated statements of operations in 2008 and 2007.

ADVERTISING COSTS

We expense advertising costs, which include media and production costs, in the period in which the costs are incurred. Advertising costs totaled $9.5 million, $6.7 million and $2.9 million for 2009, 2008 and 2007, and are included in general and administrative expense in the consolidated statements of operations.

PENSION AND OTHER POSTRETIREMENT BENEFITS

FINRA provides two non-contributory defined benefit pension plans for the benefit of eligible employees. The non-contributory defined benefit plans consist of a qualified Employees Retirement Plan (ERP) and a non-qualified Supplemental Executive Retirement Plan (SERP). We also provide an employer-funded defined contribution Retiree Medical

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Account Plan (RMA Plan) to assist our employees and retirees with the cost of health care expenses during retirement. Under the RMA Plan, Retiree Medical Accounts are created for eligible employees and retirees, and fixed annual credits are applied to those accounts for each year of FINRA service beginning at age 40. In calculating the expense and liability related to all of the abovementioned plans, we use several statistical and other factors, which attempt to anticipate future events. Key factors include assumptions about the expected rates of return on plan assets and the discount rate as determined by FINRA, within certain guidelines, as well as assumptions regarding future salary increases, mortality, turnover, retirement ages and the medical expense trend rate. We consider market conditions, including changes in investment returns and interest rates, in making these assumptions. The discount rate used in the calculations is developed considering both a hypothetical bond portfolio and specific bond matching approach. We determine the long-term rate of return based on analysis of historical and projected returns as prepared by our actuary and external investment consultant. FINRA's Pension Plan Committee reviews both the expected long-term rate of return and the discount rate assumptions.

INCOME TAXES

FINRA, FINRA REG and FINRA DR are tax-exempt organizations under the Internal Revenue Code (IRC) Section 501(c)(6). The Foundation is a tax-exempt organization under IRC Section 501(c)(4). The remaining consolidated subsidiaries of FINRA are taxable entities. We determine deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (*i.e.*, temporary differences). We measure these assets and liabilities at the enacted rates that we expect will be in effect when we will realize these differences. If necessary, we establish a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized.

CONCENTRATION OF RISK

Financial instruments that potentially subject us to concentrations of risk consist of cash and cash equivalents, trading investments, other investments and accounts receivable. We do not require collateral on these financial instruments.

We maintain cash and cash equivalents in excess of federally insured limits, principally with financial institutions located in the U.S. Risk on accounts receivable is reduced by the large number of entities comprising our firm base and through ongoing evaluation of collectability of amounts owed to us. We use outside investment managers to manage our investment portfolio and a custody agent, a publicly traded company headquartered in New York, to hold our trading securities.

As part of the investment policy established in April 2009, we maintain a broadly diversified investment portfolio, representing a wide range of assets and asset classes, in order to attain acceptable levels of risk and return. Our investment portfolio consists of investments in debt and marketable equity securities, hedge funds and private investments. During 2009, we entered into a limited partnership agreement such that one investment fund represents approximately 35 percent of our total invested assets, excluding cash, as of December 31, 2009.

We are dependent on a supplier that provides many of our infrastructure-related information technology services. To the extent this supplier is not able to perform, it could have an adverse effect on our business.

We transact business with multiple firms, with no individual firm providing in excess of 10 percent of total revenues.

RECENT ACCOUNTING PRONOUNCEMENTS

On June 3, 2009, the Financial Accounting Standards Board (FASB) voted to approve the *FASB Accounting Standards Codification* (the Codification or ASC) as the single source of authoritative nongovernmental U.S. GAAP. Launched on July 1, 2009, the Codification restructures the thousands of U.S. GAAP pronouncements into roughly 90 accounting topics, and it does not change U.S. GAAP. It also includes relevant SEC guidance in separate sections in the Codification following the same topical structure. We prepared the attached financial report for 2009 in accordance with the Codification.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement 109* (FIN 48). FIN 48 is codified in FASB ASC Topic 740, *Income Taxes*. Among other things, the standard provides guidance to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold which income tax positions must achieve before being recognized in the financial statements. In addition, the standard requires expanded annual disclosures, including a rollforward of the beginning and ending aggregate unrecognized tax benefits, as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized tax benefit will significantly increase or decrease within 12 months. ASC 740 was effective for nonpublic enterprises, such as FINRA, on January 1, 2009. The adoption of such standard did not have a material impact on our consolidated results of operations and financial position.

In December 2008, the FASB issued FASB Staff Position (FSP) 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets,* which requires additional disclosures about assets held in an employer's defined benefit pension or other postretirement benefit plan. FSP 132(R)-1 is codified in FASB ASC Topic 715, *Compensation — Retirement Benefits.* The standard replaces the requirement to disclose the percentage of the fair value of total plan assets with a requirement to disclose the fair value of each major asset category and for companies to consider providing additional disclosures about major asset categories based on the disclosure objectives in the standard. Also, the standard requires disclosure of the level within the fair value hierarchy in which each major category of plan assets falls, using the guidance in fair value measurements. Furthermore, the standard requires companies to reconcile the beginning and ending balances of plan assets with fair values measured using significant unobservable inputs (Level 3 in the hierarchy). ASC 715 was effective for FINRA on January 1, 2009, and we have provided the required additional disclosures in the Notes to the Consolidated Financial Statements. *See* Note 9, "Employee Benefits."

On September 30, 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-12, *Fair Value Measurements and Disclosures (Topic* 820*): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The ASU amends Topic 820 by providing additional guidance on measuring the fair value of certain alternative investments. Under the ASU, entities are permitted, as a practical expedient, to estimate the fair value of investments within its scope using the net asset value (NAV) per share of the investment as of the reporting entities' measurement dates. However, the use of the practical expedient is not permitted for investments that have a readily determinable fair value, or if it is probable as of the measurement date that the entity will sell the investment (or a portion of the investment) for an amount other than NAV. The ASU also requires additional disclosures to allow better understanding of the nature and risks of the reporting entity's alternative investments. The additional disclosures are required for all investments within the scope of the ASU regardless of whether the practical expedient is applied. The ASU was effective for FINRA on December 31, 2009. We have adopted the provisions of the ASU and have provided the required additional disclosures in the Notes to the Consolidated Financial Statements. *See* Note 6, "Fair Value Measurements."

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic* 605*): Multiple-Deliverable Revenue Arrangements — a consensus of the Emerging Issues Task Force,* as a result of the final consensus reached on EITF Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables*. The ASU addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. The ASU amends the existing revenue recognition guidance to allow more multi-element arrangements to be separated. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, and replaces the term "fair value" in the revenue allocation guidance with "selling price" to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant. The ASU will also eliminate the residual method of allocation and require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. Further, the ASU will significantly expand the disclosures related to a vendor's multiple-deliverable revenue arrangements. The ASU is effective for FINRA on January 1, 2011, and early adoption is permitted. We

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

are currently assessing the potential impact that the ASU will have on our consolidated results of operations and financial position and whether we will adopt the provisions of the ASU early.

On January 21, 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements,* to amend ASC Topic 820, *Fair Value Measurements and Disclosures*. The ASU requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements should be presented separately. The ASU is effective for FINRA on December 31, 2009, except for the requirement to separately disclose purchases, sales, issuances, and settlements in the Level 3 rollforward, which becomes effective for FINRA on December 31, 2010. We have adopted the December 31, 2009 provisions of the ASU and have provided the required additional disclosures in the Notes to the Consolidated Financial Statements. *See* Note 6, "Fair Value Measurements."

3. CONSOLIDATION OF NASD AND THE MEMBER REGULATION OPERATIONS OF NYSE

On July 30, 2007, NASD combined with the member regulation operations of NYSE to form FINRA, the largest non-governmental regulator for all securities firms doing business with the public in the United States. In accordance with the related Asset Purchase Agreement, NYSE transferred to NASD approximately 440 employees and related expenses and revenues from NYSE's: (i) member firm regulation (including testing, continuing education and registration); (ii) risk assessment; (iii) arbitration; and (iv) enforcement (except for the portion relating to cases with respect to market surveillance and NYSE trading rules) operations. The results of the consolidation of NASD and the member regulation operations of NYSE are included in our statements of operations starting with the July 30, 2007, consolidation date.

NASD and NYSE also entered into the following agreements as a result of the consolidation: (i) a Security and Facilities Services Agreement (SFSA), whereby we agreed to sublet certain NYSE-leased premises, and NYSE agreed to provide us with certain security and facilities services, such as leased premises inspection; (ii) a Transition Services Agreement, whereby NYSE agreed to provide us with certain information technology services; and (iii) two Regulatory Services Agreements, whereby we agreed to provide both NYSE and NYSE Arca, an indirectly wholly-owned subsidiary of NYSE, with certain regulatory services.

The transaction was accounted for as a business combination using the purchase method of accounting with FINRA as the acquirer. Accordingly, we allocated the total consideration paid to the estimated fair values of the tangible and intangible assets acquired and liabilities assumed on the acquisition date (July 30, 2007). The excess of the consideration paid over the fair value of the assets we acquired and the liabilities we assumed was recorded as goodwill.

We paid $48.6 million in cash related to the consolidation, including $6.0 million of direct transaction costs that we incurred. We acquired assets totaling $6.2 million, consisting of capitalized software, furniture and fixtures and information technology equipment. Additionally, we identified separate intangible assets arising from the transaction totaling $30.5 million, consisting of our access to NYSE Group Membership Lists ($10.3 million), transferred copyrights ($6.5 million) and an executory contract-related intangible asset ($13.7 million). The executory contract-related intangible asset in the amount of $13.7 million relates to the SFSA and represents the difference between the net present value of the payment stream at cost versus fair value. This asset is being amortized over the five-year life of the contract. We also assumed certain liabilities in connection with the transaction totaling $3.1 million.

3. CONSOLIDATION OF NASD AND THE MEMBER REGULATION OPERATIONS OF NYSE (CONTINUED)

The following table summarizes the calculation of the resulting goodwill balance (dollars in millions):

Total cash consideration paid		$ 48.6
Less:	Fair value of acquired assets	(6.2)
	Fair value of intangible assets	(30.5)
Add:	Assumed liabilities	3.1
Goodwill		$ 15.0

A detail of the separately identified intangibles we acquired is as follows (dollars in millions):

		2009			2008		
Description	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Membership lists	11 years	$10.3	$ (2.3)	$ 8.0	$10.3	$(1.3)	$ 9.0
Copyrights	3 years	6.5	(5.2)	1.3	6.5	(3.1)	3.4
Executory contract-related	5 years	13.7	(6.6)	7.1	13.7	(3.9)	9.8
Total		$30.5	$(14.1)	$16.4	$30.5	$(8.3)	$22.2

As of December 31, 2009, estimated amortization expense for each of the next five years is as follows: 2010, $4.9 million; 2011, $3.7 million; 2012, $2.5 million; 2013, $0.9 million; and 2014, $0.9 million.

After assuming the member regulation operations of NYSE, on August 1, 2007, we made a $178.3 million special payment to registered firms, which was recorded as other expense in the consolidated statement of operations.

4. DEFERRED REVENUE

First year registration and application fees consist of two elements: an upfront initial fee and an annual fee. We segregate the initial and annual components of this fee using the residual value approach, and defer and amortize the initial fee element for firms over an estimated customer relationship period of 11 years. The initial fee element for individual representatives is amortized over an estimated customer relationship period of four years. Certain arbitration fees such as initial counterclaim, cross claim and other filing fees, and surcharge fees relate to the entire period covered by an arbitration case. We defer and amortize these fees over the average life of an arbitration case, or 14 months. Registration and application fees are included within user fees, and arbitration fees are included within dispute resolution fees in the consolidated statements of operations.

The following is a summary of amounts that we included in current and non-current deferred revenue as of December 31, 2009, and the years over which we will recognize those amounts:

	Registration	Arbitration	Annual	Total
		(in millions)		
Year ending December 31,				
2010	$10.2	$8.2	$34.9	$53.3
2011	7.3	—	—	7.3
2012	4.4	—	—	4.4
2013	1.8	—	—	1.8
2014 and thereafter	2.2	—	—	2.2
	$25.9	$8.2	$34.9	$69.0

4. DEFERRED REVENUE (CONTINUED)

The following is a summary of activity in our current and non-current deferred revenue for the years ended December 31, 2009, and 2008, for all revenue arrangements. The additions reflect the fees charged during the period, while the amortization reflects the revenues recognized during the period based on the accounting methodology described above:

	Registration	Arbitration	Annual	Total
		(in millions)		
Balance as of January 1, 2009	$ 27.1	$ 11.7	$ 35.8	$ 74.6
Additions	10.5	15.1	254.3	279.9
Amortization	(11.7)	(18.6)	(255.2)	(285.5)
Balance as of December 31, 2009	$ 25.9	$ 8.2	$ 34.9	$ 69.0

	Registration	Arbitration	Annual	Total
		(in millions)		
Balance as of January 1, 2008	$ 27.4	$ 10.1	$ 43.3	$ 80.8
Additions	11.2	21.9	347.9	381.0
Amortization	(11.5)	(20.3)	(355.4)	(387.2)
Balance as of December 31, 2008	$ 27.1	$ 11.7	$ 35.8	$ 74.6

5. INVESTMENTS

FINRA manages a diverse investment portfolio consisting of: (i) global government (including state and local) securities; (ii) corporate securities; (iii) mutual and commingled funds; (iv) other investments (hedge funds and private investments); and (v) other financial instruments or structures. We classify our marketable investments as trading or available-for-sale based on their nature and our intent and ability to hold these securities.

Our investment policy is set forth to strive to preserve principal, in real terms, while seeking to maximize returns within acceptable levels of risk as deemed appropriate for FINRA assets by the FINRA Board of Governors. We execute our investment strategy through separately-managed accounts (SMAs) and direct investments. During 2009, we had SMAs with investment managers that had the authority to buy and sell investments within FINRA-determined, pre-established multiple parameters. As of December 31, 2009, our active trading portfolio is managed through only one SMA by one investment manager.

FINRA's investment portfolio consisted of the following as of:

	December 31,	
	2009	2008
	(in millions)	
Trading investments	$ 668.4	$ 581.7
Available-for-sale investments: FINRA	40.5	387.6
Available-for-sale investments: Foundation	28.2	23.3
Other investments:		
Equity method investments	543.5	360.4
Cost method investments	101.2	138.9
Total other investments	644.7	499.3
Grand total	$1,381.8	$1,491.9

5. INVESTMENTS (CONTINUED)

Trading Investments

The total mark-to-market holding gain (loss) on trading securities held at December 31, 2009, and 2008, was $33.5 million and $(71.2) million.

Available-for-Sale Investments

As of December 31, 2009, FINRA's available-for-sale investments (excluding those of the Foundation) consisted of the following:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
		(in millions)		
Mutual/commingled funds	$27.6	$12.9	$(—)	$40.5

As of December 31, 2008, FINRA's available-for-sale investments (excluding those of the Foundation) consisted of the following:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
		(in millions)		
Mutual/commingled/exchange-traded funds	$387.6	$—	$(—)	$387.6

For 2009, 2008 and 2007, gross investment gains and losses recognized from our investments in mutual and commingled funds, including amounts reclassified from unrealized gains and losses in accumulated other comprehensive income, are as follows:

	2009	2008	2007
		(in millions)	
Gross investment gains recognized	$30.9	$18.7	$95.9
Gross investment losses recognized	2.6	79.5	$ 1.3
Amounts reclassified from unrealized gains and losses in accumulated other comprehensive income	—	$ 1.0	$47.3

As of December 31, 2009, the Foundation had investments in mutual funds with a cost of $26.6 million and a fair market value of $28.2 million. As of December 31, 2008, the Foundation had investments in mutual funds with a cost of $23.4 million and a fair market value of $23.3 million. The Foundation's investments are available for use by the Foundation to fund future research and investor educational projects.

Other-Than-Temporary Declines in Fair Market Value

In 2009, we did not record any impairment charges related to our mutual and commingled funds. All of our mutual and commingled funds were in an unrealized gain position as of December 31, 2009. In 2008, FINRA recorded impairment charges of $272.8 million related to 17 mutual and commingled funds. The Foundation recorded impairment charges of $0.4 million related to one mutual fund. In 2007, FINRA did not record any impairment charges related to its mutual and commingled funds. The Foundation recorded approximately $0.1 million in impairment related to one mutual fund. Impairment charges relate to other-than-temporary declines in the fair value of available-for-sale investments and are reflected in net investment gains (losses) in the consolidated statements of operations.

5. INVESTMENTS (CONTINUED)

Temporary Declines in Fair Market Value

As of December 31, 2009, FINRA and the Foundation had no mutual or commingled funds with aggregate unrealized losses. As of December 31, 2008, the Foundation had one mutual fund with a fair market value of $11.8 million and aggregate unrealized losses of $0.1 million for one month or less.

Other Investments

As of December 31, 2009, FINRA had investments accounted for under the equity method of accounting of $543.5 million, comprised of $491.8 million in two limited partnerships and $51.7 million in hedge funds. The Company also had investments accounted for under the cost method of accounting of $101.2 million as of December 31, 2009, $100.9 million of investments in 28 limited partnerships and $0.3 million of other cost-based investments. These investments are included in other investments in the consolidated balance sheets. We had total outstanding commitments of $135.8 million to 29 partnerships as of December 31, 2009. We had an ownership interest in equity method investments with total net assets of $12.4 billion and total earnings from operations of $2.7 billion as of and for the year ended December 31, 2009. Our weighted ownership interest in all equity method investees was 4.4 percent at December 31, 2009.

In 2009, we recognized equity earnings related to hedge funds of $39.1 million and equity earnings related to five limited partnerships of $47.5 million. We recorded impairment charges of $44.8 million related to our investment in 27 limited partnerships in 2009.

As of December 31, 2008, we had investments accounted for under the equity method of accounting of $360.4 million, comprised of $86.0 million in four limited partnerships and $274.4 million in hedge funds. We also had investments accounted for under the cost method of accounting of $138.9 million as of December 31, 2008, $138.6 million of investments in 29 limited partnerships and $0.3 million of other cost-based investments. These investments were included in other investments in the consolidated balance sheets. We had total outstanding commitments of $166.1 million to 29 partnerships as of December 31, 2008. We had an ownership interest in equity method investments with total net assets of $21.4 billion and total net losses from operations of $10.2 billion as of and for the year ended December 31, 2008. Our weighted ownership interest in all equity method investees was 1.7 percent at December 31, 2008.

In 2008, we recognized equity losses related to hedge funds of $90.5 million and equity losses related to four limited partnerships of $54.4 million. We recorded impairment charges of $35.4 million related to our investment in seven limited partnerships in 2008.

In 2007, we recognized equity earnings related to hedge funds of $39.6 million and equity earnings from a limited partnership of $2.5 million. We recorded impairment charges of $2.0 million related to our investment in one limited partnership in 2007.

6. FAIR VALUE MEASUREMENTS

The Company considers cash and cash equivalents, trading, available-for-sale and cost method investments, receivables, investments receivable and investments payable to be its financial instruments. The carrying amounts reported in the consolidated balance sheets for these financial instruments equal or closely approximate fair value.

Our assessment of the level of input that is significant to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset. *See* Note 2, "*Fair Value Measurements,*" for a discussion of our accounting policies regarding this hierarchy.

6. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents information about our assets that are measured at fair value on a recurring basis as of December 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

		Fair Value Measurements at 12/31/09 Measured Using		
Description	Total carrying amount in balance sheet 12/31/09	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(in millions)		
Assets:				
Trading securities				
Fixed income				
Banking	$202.8	$ —	$202.8	$—
Industrial	110.9	—	110.9	—
Consumer – non-cyclical	88.6	—	88.6	—
Communication	86.0	—	86.0	—
Life insurance	54.8	—	54.8	—
Utility	45.1	—	45.1	—
Finance companies	42.1	—	42.1	—
Government	15.0	—	15.0	—
Other financial institutions	13.9	—	13.9	—
Other securities	9.2	9.2	—	—
Available-for-sale securities				
Mutual funds	44.7	44.7	—	—
Commingled funds	24.0	—	24.0	—
Total Assets	$737.1	$53.9	$683.2	$—

6. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents information about our financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2008, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

		Fair Value Measurements at 12/31/08 Measured Using		
Description	Total carrying amount in balance sheet 12/31/08	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(in millions)		
Assets:				
Trading securities (1)	$ 581.7	$225.9	$355.8	$—
Available-for-sale securities (1)	410.9	258.5	152.4	—
Derivative assets	8.0	—	8.0	—
Total Assets	$1,000.6	$484.4	$516.2	$—
Liabilities:				
Derivative liabilities	$ 11.1	$ —	$ 11.1	$—
Total Liabilities	$ 11.1	$ —	$ 11.1	$—

(1) Trading and available-for-sale securities were not broken out by security type as of December 31, 2008, as the expanded fair value and disclosure requirements under ASC 820, *Fair Value Measurements and Disclosures*, are applied prospectively.

Changes in fair value of trading securities are recorded as a component of net investment gains (losses) in the consolidated statements of operations. Temporary changes in the fair value of available-for-sale securities are recognized as an unrealized gain (loss) as a separate component of equity in the consolidated balance sheets.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and the general classification of these instruments pursuant to the fair value hierarchy.

Trading Investments:

FINRA's trading investment portfolio includes investments in various marketable securities, including debt securities. We rely on pricing inputs from our custodian and investment fund managers for valuing the investment securities held in SMAs. Accordingly, we have established certain valuation procedures to support the consistency, timeliness and reliability of the valuation data provided.

The types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources include most government agency securities, investment-grade corporate bonds, less liquid listed equities, and state and municipal bonds. Accordingly, the valuation of these securities is categorized in Level 1 or 2 of the fair value hierarchy.

Available-for-Sale Investments:

FINRA's available-for-sale investment portfolio, which includes investments in mutual and commingled funds, is valued based on quoted market prices for either identical or comparable securities in active markets and is classified within Level 1 or 2 of the fair value hierarchy.

6. FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a nonrecurring basis:

The following table presents information about FINRA's financial assets and liabilities that are measured at fair value on a nonrecurring basis as of December 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

		Fair Value Measurements at 12/31/2009 Measured Using			
Description	Total carrying amount in balance sheet 12/31/2009	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total gains (losses)
		(in millions)			
Assets:					
Other investments	$96.0	$—	$—	$96.0	$(44.8)
Total Assets	$96.0	$—	$—	$96.0	$(44.8)

Other investments:

FINRA's other investments include 26 limited partnerships accounted for under the cost method with a carrying amount of $131.1 million, which were written down to their estimated fair value of $90.2 million. FINRA's other investments also include one limited partnership accounted for under the equity method with a carrying amount of $9.7 million, which was written down to its estimated fair value of $5.8 million. The estimation of fair value is further discussed below. As a result, impairment charges of $44.8 million were included in net investment gains (losses) for the year ended December 31, 2009.

The following table presents information about the fair value of these investments in limited partnerships as of December 31, 2009:

	Fair Value	Unfunded Commitments
	(in millions)	
Other investments:		
Private equity funds		
Buyout	$10.9	$ 11.5
Distressed	12.0	3.9
Fund of funds	10.0	20.5
Secondary	27.3	12.6
Venture	1.3	6.2
Private real assets		
Energy	21.6	37.2
Infrastructure	12.9	26.5
Real estate	—	15.8
Total	$96.0	$134.2

All of the above categories include investments in private equity funds. These investments, by nature, are nonredeemable, and therefore cannot be redeemed with the funds. Instead, the nature of the investments in these categories is that distributions are received through the liquidation of the underlying assets of the fund as determined by the general partner. If these investments were held, it is estimated that the underlying assets of the funds would be liquidated over

6. FAIR VALUE MEASUREMENTS (CONTINUED)

the next one to 11 years. As of December 31, 2009, it is deemed probable that 27 of our direct investments in private equity funds will be sold at an amount different from the net asset value of our ownership interest in partners' capital. Therefore, the fair values of these investments have been estimated using recent transaction information for similar investments, non-binding bids received from potential buyers where available, valuation methods which require significant assumptions, inputs that we believe a market participant would use in pricing the investments, and third-party valuations. Before the sale of the investment can be completed, the investee fund's management must approve of the buyer. For private equity funds not being sold, we estimated the fair value based on most recent available information provided by the investees, adjusted by amounts necessary to reflect the fair value of the investments at measurement date.

In total, we have direct investments in 28 limited partnerships accounted for under the cost method with a carrying amount of $141.7 million and an estimated fair value of $101.5 million based on either the calculated fair value, as discussed above, or net asset values.

7. FINRA CREDIT FACILITY

FINRA maintained an unsecured line of credit agreement and had the option to borrow up to $100.0 million at the one-month LIBOR plus a market rate credit risk spread as determined by the bank on the date of any loan requested by FINRA. The line of credit agreement contained both financial and non-financial covenants. As of December 31, 2009, and 2008, no amounts were outstanding under this line of credit. The line of credit agreement expired on December 31, 2009.

8. INCOME TAXES

FINRA, FINRA REG and FINRA DR are tax-exempt organizations under IRC Section 501(c)(6). The Foundation is a tax-exempt organization under IRC Section 501(c)(4). The remaining consolidated subsidiaries of FINRA are taxable entities.

Unrelated business income

Within FINRA, unrelated business income activities, consisting primarily of mortgage licensing services, international consulting and certain external client exams are taxed at normal corporate rates to the extent that they have net income.

As of December 31, 2009 and 2008, FINRA had unrelated business loss carryforwards of $16.6 million and $21.2 million, primarily related to international consulting. The loss carryforwards are scheduled to expire beginning in 2024 through 2029.

In order to record a deferred tax asset without a valuation allowance, it must be more likely than not that the deferred tax asset will be realized. Prior to 2009, FINRA did not consider the realization of the deferred tax asset related to these loss carryforwards likely and, accordingly, had established a full valuation allowance for the deferred tax asset.

As of December 31, 2009, FINRA has a deferred tax asset of $5.6 million, reflecting the benefit of $16.6 million in loss carryforwards as we now anticipate that these loss carryforwards will be used to offset taxable income primarily from mortgage licensing and exam services over the next two to three years. Realization is dependent on generating sufficient taxable income prior to the expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. There are no other significant deferred tax assets or liabilities related to unrelated business income.

8. INCOME TAXES (CONTINUED)

As a result, in 2009, FINRA has recognized $1.6 million in income tax expense related to its current year unrelated business income activities and a $7.2 million adjustment to the beginning of year valuation allowance for deferred tax benefits related to the loss carryforwards. The 2009 income tax provision consists of the following:

	(in millions)
Current:	
Current income tax provision (benefit)	$ 1.6
Deferred:	
Adjustment to 1/1/2009 valuation allowance	(7.2)
Total income tax provision (benefit)	$(5.6)

This income tax benefit is included in other income in the consolidated statements of operations in 2009.

Other

As of December 31, 2009, and 2008, New NASD Holding, Inc. (NAHO), a wholly-owned taxable subsidiary of FINRA, had net operating loss carryforwards of $105.6 million. These loss carryforwards will begin to expire in 2020. The amount of the deferred tax asset relating to these loss carryforwards as of December 31, 2009, and 2008, was $36.9 million; NAHO has no other deferred tax assets or liabilities. As management currently believes that it is more likely than not that these loss carryforwards will not be realized, a valuation allowance has been established for the full amount of the deferred tax asset.

Uncertain tax positions must have a greater than 50 percent likelihood of prevailing under examination by tax authorities in order to be recognized in the financial statements. During the years from 2006 to 2009, which represent the years management considers to be open for examination by taxing authorities, management did not identify the existence of any tax positions that fell below this recognition threshold. Accordingly, all tax positions are recognized in the consolidated balance sheets and statements of operations.

9. EMPLOYEE BENEFITS

Defined Benefit Pension Plans

As of December 31, 2009, and 2008, we provided two non-contributory defined benefit pension plans (collectively, the Pension Plan) for the benefit of our eligible employees, consisting of a qualified ERP and a non-qualified SERP. The benefits are based primarily on years of service and the employees' average compensation, as defined, during the highest 60 consecutive months of employment. The SERP is closed with respect to new participants.

We established an irrevocable rabbi trust amount equal to our SERP obligation, and included this trust in our consolidated financial statements. As of December 31, 2009, and 2008, $16.6 million and $14.6 million of investments are included in available-for-sale securities and cash and cash equivalents in the consolidated balance sheets, representing the amounts contributed by FINRA, plus earned income and market value gains, less distributions to retirees and market value losses.

The investment policy and strategy of the plan assets, as established by the FINRA Pension/401(k) Plan Committee (the Pension Committee), strives to provide for preservation of principal, both in nominal and real terms, in order to meet the long-term spending needs of the Pension Plan by investing assets per the target allocations stated below. The Pension Plan assets are allocated to a diversified portfolio of equity investments, fixed income securities, alternative investments and cash equivalents with both domestic and international strategies. Derivatives are permitted on a limited scale to further portfolio diversification. Debt and equity interests are prohibited in any broker/dealer, and entities that derive a certain threshold of revenue from broker-dealers. Asset allocations are reviewed quarterly and adjusted, as appropriate, to

9. EMPLOYEE BENEFITS (CONTINUED)

remain within target allocations. The Pension Committee reviews the investment policy annually, under the guidance of an investment consultant, to determine whether a change in the policy or asset allocation targets is necessary. The Pension Plan assets consisted of the following as of December 31:

	Target Allocation	2009	2008
Equity securities:			
U.S. equity	30.0%	17.5%	18.1%
Non-U.S. equity	25.0%	21.7%	12.2%
Debt securities and cash equivalents	20.0%	50.0%	54.3%
Alternative investments:			
Hedge funds	15.0%	10.0%	11.5%
Private equity	10.0%	0.8%	3.9%
Total	100.0%	100.0%	100.0%

The allocation percentages at December 31, 2009, vary from the targets as a result of a $36.0 million contribution (19.3 percent of assets) made in December 2009 and initially invested in cash equivalents.

The expected long-term rate of return for the plan's total assets is based on the expected returns of each of the above categories, weighted based on the current target allocation for each class. Based on historical experience, the Pension Committee expects that the Pension Plan's asset managers overall will provide a modest premium to their respective market benchmark indexes. At least annually, the Pension Committee evaluates whether adjustments are needed based on historical returns to more accurately reflect expectations of future returns.

The following table presents information about the fair value of the Company's Pension Plan assets at December 31, 2009, by asset category, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

		Fair Value Measurements at 12/31/09 Measured Using		
Description	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(in millions)		
Short-term investments in common/collective trusts (a)	$ 63.1	$ —	$ 63.1	$ —
Mutual funds	9.9	9.9	—	—
Common/Collective trusts (b)	32.3	—	32.3	—
103–12 investment entities (c)	54.4	—	54.4	—
Fund of hedge funds (d)	18.7	—	—	18.7
Partnership/joint venture interests (e)	1.6	—	—	1.6
Corporate stocks	6.5	6.5	—	—
Total	$186.5	$16.4	$149.8	$20.3

(a) This category includes short-term investments in common/collective trusts that invest in non-government fixed income securities, government obligations, money market instruments and repurchase agreements. The fair values of the investments in this category have been estimated using the net asset value per unit of the trusts. Units of this investment are valued daily and a unit-holder's ability to transact a unit is not restricted.

9. EMPLOYEE BENEFITS (CONTINUED)

(b) This category includes investments in common/collective trusts that invest in both domestic and international equities. The fair values of the investments in this category have been estimated using the net asset value per unit of the funds. Investment managers are not constrained by any particular investment style and may invest in either “growth” or “value” securities. Units of this investment are valued daily and a unit-holder’s ability to transact in the trusts’ units occurs daily.

(c) This category includes investments in 103-12 investment entities that invest in global fixed income and international equities. The fair values of the investments in this category have been estimated using the net asset value per unit of the funds. The net asset value of these investments is determined daily or at least twice a month while redemptions of shares are made often, based upon the closing net asset value. No redemption restrictions exist for these funds.

(d) This category includes an investment in a hedge fund. The hedge fund’s investment portfolio consists of investments in other hedge funds whose underlying holdings include government and corporate debt obligations, corporate common stocks and warrants, closed-end funds, restricted preferred stock, and derivative financial instruments, among other investments. The fair values of the investments in this category have been estimated using the net asset value per share of the fund. Redemption restrictions exist for this category including a requirement of 92 days of written notice for quarterly withdrawals only, as well as a 5 percent holdback of any associated redemption.

(e) This category includes an investment in a private equity fund, which is also a 103-12 entity. This investment, by nature, is nonredeemable, and therefore cannot be redeemed with the fund. Instead, the nature of private equity funds is that any distribution is received by the general partner. Fair value of the fund has been estimated using the net asset value of the Plan’s ownership interest of partner’s capital. The term of the private investment is until the later of August 11, 2018 or one year after the date on which all of its underlying investments have been disposed of, but may be terminated earlier as set forth in the partnership agreement.

The change in investments measured at fair value for which the Company has used Level 3 inputs to determine fair value is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
		Alternative Investments	
	Total	Fund of hedge funds	Partnership/ joint venture interests
		(in millions)	
Beginning balance at December 31, 2008	$17.8	$16.7	$ 1.1
Actual return on plan assets:			
Relating to assets still held at the reporting date	2.0	2.0	—
Relating to assets sold during the period	(0.1)	—	(0.1)
Purchases, sales and settlements	0.6	—	0.6
Ending balance at December 31, 2009	$20.3	$18.7	$ 1.6

The valuation techniques and inputs used to measure fair value of the Pension Plan assets are consistent with the Company’s valuation procedures as disclosed in Note 6, “Fair Value Disclosures.” At times, the Company may engage external valuation experts to assist with the determination of the fair value of certain Pension Plan assets. For alternative investments, net asset value is used as a practical expedient to measure fair value, unless it is probable that an investment will be sold for an amount other than net asset value. In these cases, fair value is measured based on recent observable transaction information for similar investments and considering non-binding bids from potential buyers.

9. EMPLOYEE BENEFITS (CONTINUED)

Postretirement and Retiree Medical Benefit Plans

As of December 31, 2009, and 2008, the Company provided a non-contributory postretirement life insurance benefit plan for the benefit of eligible employees. The postretirement benefit plan provides a specified life insurance benefit to eligible retired employees. The postretirement benefit plan is closed with respect to new participants.

As of December 31, 2009, and 2008, the Company provided an employer-funded defined contribution RMA Plan to assist our employees and retirees with the cost of health care expenses during retirement. Under the RMA Plan, Retiree Medical Accounts are created for eligible employees and retirees and fixed annual credits are applied to those accounts for each year of FINRA service beginning at age 40. Active employees may also accrue credits for a portion of their unused vacation and personal leave. The credits can be accessed only in retirement and may be used only toward paying a portion of monthly premiums under FINRA-sponsored retiree health plans.

Voluntary Retirement Program

On September 29, 2008, FINRA announced that its Board of Governors had approved the implementation of a Voluntary Retirement Program (the Program). The Program was 100-percent voluntary, and was designed for those employees who, as of October 2, 2008, were retirement-eligible (minimum age of 55 as of December 26, 2008) and who, when combined with years of service, reached a minimum combined age and years of service of 65 as of December 26, 2008. The Program included provisions for benefits in the form of severance payments; medical, dental and vision benefits; outplacement services; eligibility and payout for various bonus programs; and additional service credits for the various FINRA pension and other postretirement benefits programs (if eligible).

We accounted for the benefits provided under the Program as a special termination benefit. As of December 31, 2008, we accrued $19.4 million of severance benefits related to the Program, and this amount is included in compensation and benefits in the consolidated statement of operations. In 2009, $14.1 million of severance benefits were paid out to Program participants.

Settlements and/or special termination benefits with respect to pension and retiree medical benefits under the Program are included in the plan disclosures below.

9. EMPLOYEE BENEFITS (CONTINUED)

Plan Disclosures

The following tables disclose "pension benefits," which include the Pension Plan described above, and "other benefits," which include the postretirement and RMA plans described above. The reconciliation of the projected benefit obligation, the change in the fair value of plan assets for the years ended December 31, 2009, and December 31, 2008, and the accumulated benefit obligation at December 31, 2009, and December 31, 2008, are as follows:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
	(in millions)			
Change in benefit obligation				
Benefit obligation at beginning of year	$ 288.0	$ 270.8	$ 25.1	$ 22.5
Service cost	24.6	28.0	2.3	1.7
Interest cost	17.3	16.3	1.6	1.3
Actuarial losses (gains)	56.2	(29.1)	3.4	(2.0)
Benefits paid	(47.5)	(19.5)	(0.4)	(0.6)
Special termination benefits	—	21.5	—	2.2
Benefit obligation at end of year	$ 338.6	$ 288.0	$ 32.0	$ 25.1
Change in plan assets				
Fair value of plan assets at beginning of year	$ 145.8	$ 133.8	$ —	$ —
Actual return on plan assets	22.7	(43.7)	—	—
Company contributions	65.5	75.2	0.4	0.6
Benefits paid	(47.5)	(19.5)	(0.4)	(0.6)
Fair value of plan assets at end of year	$ 186.5	$ 145.8	$ —	$ —
Underfunded status of the plan	$(152.1)	$(142.2)	$(32.0)	$(25.1)
Accumulated benefit obligation (ABO)	$ 209.5	$ 199.4		

The liability recorded in the accrued personnel and benefits and accrued pension and other postretirement benefit cost sections of the consolidated balance sheets is as follows:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
	(in millions)			
Current	$ 4.4	$ 10.2	$ 1.5	$ 2.2
Noncurrent	147.7	132.0	30.5	22.9
Net amount at December 31	$152.1	$142.2	$32.0	$25.1

The Company does not expect any plan assets to be returned to it during the year ending December 31, 2010.

The net amounts included in accumulated other comprehensive income (loss) are as follows:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
	(in millions)			
Unrecognized net actuarial (loss) gain	$(130.3)	$(92.1)	$ (2.1)	$ 1.3
Unrecognized prior service cost	(1.8)	(2.0)	(15.8)	(17.2)
Unrecognized net transition (obligation) asset	—	—	(0.1)	(0.1)
Net amount at December 31	$(132.1)	$(94.1)	$(18.0)	$(16.0)

9. EMPLOYEE BENEFITS (CONTINUED)

The following amounts were included in other comprehensive income (loss) during 2009:

	Incurred but Not Recognized	Reclassification Adjustment for Prior Period Amounts Recognized
	(in millions)	
Actuarial (loss) gain		
Pension benefits	$(43.5)	$5.3
Other benefits	(3.4)	—
	(46.9)	5.3
Prior service cost		
Pension benefits	—	0.2
Other benefits	—	1.4
	—	1.6
	$(46.9)	$6.9

Estimated amounts to be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during 2010 based on December 31, 2009, plan measurements are as follows:

	Pension Benefits	Other Benefits
	(in millions)	
Unrecognized prior service costs	$0.2	$1.4
Unrecognized actuarial losses	7.6	—

The weighted-average assumptions for all plans are as follows:

	Pension Benefits			Other Benefits		
	2009	2008	2007	2009	2008	2007
Discount rate	5.75%	6.50%	6.00%	6.15%	6.50%	6.00%
Rate of compensation increase	4.92%	4.90%	5.34%	—	—	—
Expected return on plan assets	7.75%	7.75%	8.50%	—	—	—

The components of net periodic benefit cost included in the consolidated statements of operations are as follows:

	Pension Benefits			Other Benefits		
	2009	2008	2007	2009	2008	2007
			(in millions)			
Service cost	$ 24.6	$ 28.0	$ 23.8	$2.3	$1.7	$1.6
Interest cost	17.3	16.3	14.2	1.6	1.3	1.2
Expected return on plan assets	(10.0)	(11.5)	(10.4)	—	—	—
Recognized net actuarial losses	5.3	7.8	3.8	—	—	—
Prior service cost recognized	0.2	0.2	0.3	1.4	1.4	1.4
Amortization of unrecognized transition asset	—	—	(0.1)	—	—	—
Curtailment/settlement loss recognized	—	4.2	0.2	—	—	—
Special termination benefits	—	9.1	—	—	1.3	—
	$ 37.4	$ 54.1	$ 31.8	$5.3	$5.7	$4.2

9. EMPLOYEE BENEFITS (CONTINUED)

The assumed health care cost trend rate to be used for the next year to measure the expected cost of other benefits is 12.8 percent, with a gradual decline to 5.3 percent by the year 2014. This estimated trend rate is subject to change. The assumed health care cost trend rate can have a significant effect on the amounts reported. A 1-percentage-point change in the assumed health care cost trend rate would not have a material impact on the benefit obligation or service and interest components of net periodic benefit cost.

We measure our plans as of the end of each fiscal year. The ERP's funding policy targets a funded ratio of the greater of the Funding Target or 100 percent of the ABO, the latter measure including a corridor between 95 percent and 110 percent of the ABO. In 2010, we expect to contribute $12.4 million to the ERP and $10.1 million to the SERP. In addition, we expect to make the following benefit payments to participants over the next 10 years:

	Pension Benefits	Other Benefits
	(in millions)	
Year ending December 31,		
2010	$ 19.1	$ 2.3
2011	15.5	2.7
2012	20.0	3.1
2013	18.3	3.5
2014	23.1	3.9
2015 through 2019	177.0	30.6
Total	$273.0	$46.1

All Other Benefit Plans

FINRA also maintains a voluntary contributory savings plan for eligible employees. Employees are immediately eligible to make elective contributions to the plan up to specified plan limits. Employees are also eligible to receive from FINRA a corresponding dollar-for-dollar matching contribution on any elective contribution made by the participant to the savings plan, up to a maximum of 6 percent of base compensation effective January 1, 2008. Prior to January 1, 2008, the limit on amounts eligible for the basic dollar-for-dollar matching contribution was 4 percent, with an additional discretionary match. Effective January 1, 2008, the plan also added the retiree medical match equal to 25 cents on the dollar for elective contributions in excess of 6 percent of compensation, up to an annual maximum match of $1,000. Savings plan expense for 2009, 2008 and 2007, was $17.4 million, $18.0 million and $14.0 million, and is included within compensation and benefits expense in the consolidated statements of operations. The retiree medical match for 2009 and 2008 totaled $1.3 million and $1.4 million and is included within compensation and benefits expense in the consolidated statements of operations. The savings plan expense amounts referred to above for 2007 included a discretionary 2 percent match totaling $4.2 million which is included within compensation and benefits expense in the consolidated statements of operations.

FINRA 2009 Notes to Consolidated Financial Statements

10. LEASES

FINRA leases certain office space and equipment in connection with its operations. The majority of these leases contain escalation clauses based on increases in property taxes and building operating costs. Certain of these leases also contain renewal options. Rent expense for operating leases was $31.9 million, $26.5 million and $22.1 million for 2009, 2008 and 2007, and is included in occupancy expense in the consolidated statements of operations.

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2009 (amounts are in millions):

Year ending December 31,	
2010	$ 30.2
2011	30.2
2012	24.0
2013	19.9
2014	18.3
Remaining years	90.1
Total minimum lease payments	$212.7

11. COMMITMENTS AND CONTINGENCIES

General Litigation

The Company may be subject to claims arising out of the conduct of its business. Currently, there are certain legal proceedings pending against us. Management believes, based on the opinion of counsel, we have adequately provided for any liabilities or settlements arising from these proceedings, and does not believe the results of such proceedings would have a material adverse effect on our financial position and results of operations. Management is not aware of any unasserted claims or assessments that would have a material adverse effect on our financial position and the results of operations. Litigation settlements are included in professional and contract services in the consolidated statements of operations.

12. SUBSEQUENT EVENTS

On May 4, 2010, FINRA jointly announced with NYSE Euronext a plan for FINRA to assume responsibility for performing the market surveillance and enforcement functions currently conducted by NYSE Regulation. This arrangement went into effect on June 14, 2010, upon receipt of SEC approval.

Subsequent events have been evaluated through September 30, 2010, the date these financial statements became available to be issued.

FINRA Board of Governors as of August 13, 2010

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