Financial Industry Regulatory Authority

FINRA 2010 Year in Review and Annual Financial Report

FROM THE CHAIRMAN AND CEO

2010 was an exceptionally challenging year in a variety of ways—both for the securities industry and regulators. While FINRA maintained as its top priority its mission to protect investors, we also focused substantial effort responding to a continuous stream of change—both expected and unexpected—in our financial markets and regulatory environment.

For example, in the wake of the May 2010 flash crash, FINRA took a leadership role in evaluating trading activity and participating in policy discussions to prevent similar events in the future. Working with regulators and markets, we helped implement and deploy a number of market structure reforms, including the introduction of single-stock circuit-breaker rules and protocols that allow for a pause in trading when there is extreme volatility. We also adopted new rules to strengthen the minimum quotation standards for market makers and prohibit "stub quotes"—quotes to buy or sell stocks at prices beyond the prevailing market prices—in the U.S. equity markets. A year later, there's still more work to do, including fine-tuning the single-stock circuit breaker rules. However, investors should feel confident that regulators—and the markets—are better prepared to deal with extreme volatility because of these reforms.

Regarding change that was expected, the Dodd-Frank Wall Street Reform and Consumer Protection Act passed in July 2010, mandating landmark reform to the way our markets and financial industry are regulated. Leading up to and after the passage of the Dodd-Frank Act, FINRA advocated for enhanced regulatory oversight of investment advisers. This view was further supported in January 2011 by the SEC's release of a Dodd-Frank mandated study on enhancing investment adviser examinations.

In this study, the SEC concluded that it had insufficient resources to devote to investment adviser examinations. Only 9 percent of SEC-registered investment advisers were examined in 2010. At that rate, the average registered adviser could expect to be examined less than once every 11 years.

The study includes three options for investment adviser oversight, two of which discuss authorizing an SRO to help close the regulatory gap that the SEC is currently facing. We agree with the study's suggestion that one or more SROs for investment advisers can augment government oversight programs through more frequent examinations. As we have consistently stated, customers of investment advisers would benefit from the additional protection afforded by SRO oversight, and we will continue to assist the SEC and Congress as they proceed with addressing this critical issue.

Richard G. Ketchum
Chairman and
Chief Executive Officer

In addition to responding to events that occurred in 2010, FINRA continued to take action to address the lingering effects of the financial crisis and revelations of fraud from years past. Throughout the year, we strengthened our focus on fraud detection and on ensuring urgent matters are addressed as quickly as possible. We continued to build on the enhancements we made to our examination program last year, and put our risk-based exam approach to work in earnest. Our goal with these improvements—addressed below in more detail—is to evolve how we regulate firms and the markets in a way that anticipates change as the norm and works to prevent, rather than just react to, problems.

Strengthening Our Examination Program

As mentioned above, in 2010 we enhanced our examination programs and procedures in a variety of ways intended to help us better detect conduct that could be indicative of fraud.

For example, we continued building on the success of the Office of the Whistleblower and the Office of Fraud Detection and Market Intelligence (OFDMI) to expedite fraud detection and investigation. These offices have helped us uncover, resolve and refer to other regulators a wide range of issues, including suspicious trading ahead of material news announcements by hedge funds, institutional investors, private equity firms and retail investors, as well as microcap fraud and Ponzi schemes.

In 2010, OFDMI referred more than 550 matters involving potential fraudulent conduct to the SEC or other federal law enforcement agencies for further investigation. In 2010, the Office of the Whistleblower received and triaged over 170 substantive calls to its hotline, and another 220 reviews were initiated from emails received via a dedicated email address.

In addition to enhancing our procedures to better detect fraud—and as discussed in last year's letter—we have shifted our exam program to a more risk-based approach. This approach is designed to focus on understanding the composition of each firm's business and focus on those areas that present a real risk to investors. As part of the change, we are making a number of significant policy and operational changes to best leverage our resources, including:

- adding more coordinators to our district staff dedicated to the surveillance function;
- strengthening our ability independently to verify customer and proprietary assets that a firm maintains at third-party financial institutions;
- developing comprehensive profiles of firms' business models and underlying risks; and
- developing new examination technology that supports our placing greater emphasis on open-ended risk-based reviews that require a more complete understanding of firms' business and the areas that are vulnerable to breakdowns in controls.

Through these efforts, our goal is to better protect investors by having a more in-depth understanding of each firm's business and how it's changing from the standpoint of business model, products and market events. Going forward, the Sales Practice team will be working closely with our new Office of Risk. This office is tasked with strengthening our ability to identify high-risk firms, branch offices, brokers, activities and products through broader data collection and more comprehensive analysis. The combination of the qualitative information we collect through coordinators and our on-the-ground exam staff—and the quantitative information we gather through the Office of Risk—will better enable us to identify risk and decide where, how and with what intensity to apply our resources.

Sustaining a Vigorous Enforcement Effort

FINRA is committed to maintaining a strong enforcement program, which helps us ensure investors are protected in a fast-changing marketplace. In 2010, FINRA filed 1,310 new disciplinary actions, barring 288 individuals, suspending 428 others and expelling 14 firms. We levied fines against firms and individuals totaling nearly $42.2 million. In addition, we ordered firms and individuals to return nearly $6.2 million in restitution to investors.

During the year, we conducted sweeps and targeted exams in the areas of Regulation D (Reg. D) offerings, placement agents, direct market access, municipal sales practices and junk bonds. For example, in the sweep of retail sales of private placement interests, as well as broker-dealers affiliated with private placement issuers, FINRA focused on firms' compliance with suitability, supervision and advertising rules, as well as potential instances of fraud and unregistered sales of securities. A number of these investigations led to the filing of private placement/Reg. D actions, including one against Provident Asset Management that resulted in an expulsion of the firm for marketing fraudulent private placements offered by its affiliate, Provident Royalties, which was engaged in a massive Ponzi scheme. More recently—in April of this year—FINRA suspended Pinnacle Partners Financial Corporation and its President for failure to comply with a temporary cease and desist order prohibiting their fraudulent misrepresentations in connection with the sale of certain oil and gas interests.

Responding to a Rapidly Changing Market Environment

Having a comprehensive view of what's happening in the markets is essential to effective regulation. We continue to seek a more complete picture of market activity, and we are working to develop a comprehensive surveillance platform that views trading across multiple markets and financial products.

As discussed in my letter to you last year, in 2010 we reached a milestone agreement to assume responsibility for the regulatory functions of NYSE Euronext's equities and options markets and the enforcement functions conducted by NYSE Regulation. We closed the agreement in June of 2010 and are continuing to integrate those functions. As a result of the agreement with NYSE Euronext and the extension of our multi-year NASDAQ Regulatory Services Agreement (RSA), we are now responsible for surveillance, investigation and enforcement of more than 80 percent of U.S. equity trading.

These regulatory services agreements, and the data consolidation and cross-market surveillance responsibilities that go with them, are critical to our ability to keep pace with the constant changes we are seeing in the market. The agreements also position us to respond quickly to the SEC's request for a consolidated audit trail, which we believe could be achieved most efficiently and effectively by leveraging existing systems, such as FINRA's Order Audit Trail System (OATS). If implemented, a consolidated audit trail would ensure that a single entity can review data across all markets and participants and apply consistent standards to the audit trail data. Throughout 2010, we continued to enhance our automated surveillance patterns to detect trading manipulation in a market where high-frequency trading and algorithmic trading predominate. Even before issues with high-frequency and algorithmic trading emerged in the spotlight as a result of the flash crash, FINRA had been scrutinizing this kind of trading activity closely to detect attempts to use these technologies to implement manipulative trading strategies.

In September 2010, for example, we brought the first high-frequency trading case in the United States against Trillium Brokerage Services LLC. We fined the firm for repeatedly entering improper "layered," non-bona fide, market moving orders to create a false appearance of buy- or sell-side pressure.

We continue to look for ways to enhance our market surveillance capabilities, especially in light of new trading vehicles and strategies, and the speed and volume at which trading occurs. One significant improvement is slated to take effect in October 2011, when OATS will be expanded to include all National Market System (NMS) stocks. As a result of this expansion, more than 1 billion order events could be reported to us daily. This change should result in the end of the NYSE Order Tracking System (OTS), meaning that dual firms will have one uniform order audit trail requirement across NMS stocks. This transition will serve to reduce firms' cost burden and create a trading surveillance environment that is more effective and less duplicative for the securities industry.

Making Market Information More Transparent for Investors

Providing transparency services continues to be an important part of our work to protect investors. In 2010, we expanded FINRA's Trade Reporting and Compliance Engine (TRACE) to include debt issued by federal government agencies, government corporations and government-sponsored enterprises, as well as primary market transactions in new corporate and agency debt issues. As a result, the number of reportable debt instruments through TRACE increased by 50 percent. In May of this year, we further expanded TRACE to cover asset-backed securities (ABS), including mortgage-backed securities and collateralized debt obligations. The reporting of ABS transactions to FINRA provides us with trade prices, volume and other information, enhancing our ability to supervise the market. However, with over 1.2 million CUSIPs, we recognize that the breadth and complexity of these products are far greater than that of the instruments currently included in TRACE. We will study the data we gather closely to determine the most effective way to bring transparency to the trading of these products.

In July 2010, we completed the first major expansion of our BrokerCheck system since 2002. Investors now have access to more information, including historic complaints in the public records on nearly 1.35 million current and former brokers. FINRA now discloses criminal convictions, civil injunctions, customer complaints and records on former brokers whose registrations have terminated within the last 10 years.

Leading the Way in Investor Education

In 2010, we continued to take steps to position FINRA as a leading advocate for investor education. In October, the FINRA Investor Education Foundation released the nation's first Military Financial Capability Survey in partnership with the U.S. Treasury and the President's Advisory Council on Financial Literacy. The survey, which measures the overall financial capabilities of U.S. military personnel and their spouses, found that the military community was significantly deeper in debt than the general population. The Foundation subsequently introduced a new, specialized tool to help military servicemembers and their families with credit management. We continue to support the military community with a strong education program realized through research, partnership and outreach.

Following the release of the military survey, the FINRA Foundation launched an interactive Web resource to display the results of America's first State-by-State Financial Capability Survey, which surveyed more than 28,000 respondents. The new website, www.usfinancialcapability.org, displays a clickable map of the United States and allows the public, policymakers and researchers to delve into and compare the financial capabilities of Americans in every state and across geographic regions.

In addition, the Foundation maximized the reach and use of quality research and financial education resources through partnerships and grant making with the American Library Association and United Way Worldwide.

Financials

Financially, 2010 was a sound year overall. FINRA's financial results improved as a result of our efforts to control expenses and implement price structure changes to stabilize regulatory fees, which remain below 2008 levels. While our expenses increased in 2010, it was largely due to the addition of staff to support the new NYSE RSA contract awarded in June, along with other contract work—all of which was recovered through new contract fees.

As was discussed in last year's annual report, we transitioned our investment portfolio to a lower risk, less volatile asset allocation strategy. The portfolio's returns were consistent with our expectations in 2010 and generated yields that we used to defray operating costs. As a result of this performance, coupled with our revenue and expense efforts, FINRA posted a solid net income for the year.

Our efforts in 2010 have better positioned us as we look ahead to the rest of this year. Regulatory fees for 2011—especially those driven by share volumes—continue to decline, along with a softening of other revenue sources. At the same time, we continue to face expanding regulatory responsibilities and related costs. While the funding of our core regulatory operations remains a priority, we also need to make strategic, non-recurring investments in cross-market surveillance capabilities and shore up our technology infrastructure, including our data center and disaster recovery capabilities.

To address these issues, in 2011 we plan to fund our strategic spending from the balance sheet reserves while continuing to look for ways to stabilize declining revenues and maximize cost efficiencies to balance our cash flows. We will accomplish this without compromising the effectiveness of our operations or our core mission to protect investors.

FINANCIAL SUMMARY	Years Ended December 31,		
Key Results (In millions)	**2010** Actual	2009 Actual	2008 Actual
Net revenues	**$ 849.9**	$755.6	$ 804.5
Total expenses	**(940.9)**	(876.7)	(965.4)
Interest and dividend income	**30.6**	32.0	56.6
Net investments gains (losses)[1]	**50.1**	37.3	(479.2)
Equity earnings (losses) from other investments	**65.2**	86.6	(144.9)
Other	**(0.3)**	13.8	32.1
Net income (loss)	**$ 54.6**	$ 48.6	$ (696.3)

1 Amounts are net of impairments of $44.8 million and $308.6 million for 2009 and 2008. No impairment was recorded for 2010.

Looking Forward

Change is always a challenge for regulators, as we try to not only adapt to new market environments, new institutions and new financial instruments, but also anticipate future regulatory needs. Given the pace of change, it's more important than ever for firms and regulators to be prepared to move quickly to keep pace with developments in the financial system. Looking forward, we will continue to work with our fellow regulators, the industry, the administration and Congress on initiatives to make regulation even more effective and maintain confidence in the markets.

Richard G. Ketchum
Chairman and Chief Executive Officer

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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, 2010, FINRA oversaw nearly 4,600 brokerage firms, approximately 163,000 branch offices and almost 631,000 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 LLC (NYSE), FINRA is dedicated to investor protection and market integrity through effective and efficient regulation and complementary compliance and technology-based services.

With approximately 3,000 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 2010 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, 2010, 2009 and 2008.

RESULTS OF OPERATIONS

The Company’s consolidated net income (loss) for 2010, 2009 and 2008, was $54.6 million, $48.6 million and $(696.3) million.

The Company’s consolidated net income of $54.6 million for 2010 was driven primarily by realized investment-related gains from our trading, available-for-sale and other investments, offset by mark-to-market holding losses on our trading portfolio.

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 implementation of 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, 2010.

	Years Ended December 31,		
	2010	2009	2008
		(in millions)	
Revenues			
Regulatory fees	$ 428.6	$ 387.9	$ 453.4
User fees	154.0	148.3	157.4
Contract services fees	111.1	57.1	72.0
Dispute resolution fees	54.2	56.7	42.3
Transparency services fees	48.6	47.6	44.7
Other	11.4	10.4	9.2
Total operating revenues	807.9	708.0	779.0
Fines	42.2	47.6	25.9
Activity assessment	295.2	341.4	154.8
Total revenues	1,145.3	1,097.0	959.7
Activity assessment cost of revenues	(295.4)	(341.4)	(155.2)
Net revenues	849.9	755.6	804.5
Expenses			
Compensation and benefits	540.3	493.9	541.7
Professional and contract services	205.4	183.3	214.4
Computer operations and data communications	29.5	27.4	30.5
Depreciation and amortization	48.9	49.5	50.9
Occupancy	58.6	57.2	56.1
General and administrative	58.2	65.4	71.8
Total expenses	940.9	876.7	965.4
Interest and dividend income	30.6	32.0	56.6
Operating loss	(60.4)	(89.1)	(104.3)
Net investment gains (losses)	50.1	37.3	(479.2)
Equity earnings (losses) from other investments	65.2	86.6	(144.9)
Other (expense) income	(0.3)	13.8	32.1
Net income (loss)	**$ 54.6**	**$ 48.6**	**$(696.3)**

Net revenues for 2010 of $849.9 million increased by $94.3 million compared to 2009 net revenues of $755.6 million. The increase is due to the restructuring of the Gross Income Assessment (GIA) and Personnel Assessment (PA), as well as higher contract services fees related to regulatory services provided to NYSE, NYSE Arca, Inc. (NYSE Arca), and NYSE Amex LLC (NYSE Amex) under the Regulatory Services Agreement (NYSE RSA) effective June 14, 2010. Total expenses for 2010 of $940.9 million increased by $64.2 million from total 2009 expenses of $876.7 million. This increase was primarily driven by an increase in compensation and benefits expense, due in part to additional headcount relating to the NYSE RSA, an increase in professional and contract services, due to the introduction and delivery of national and state mortgage exams, and increased technology application maintenance as a result of prior year development and enhancement efforts.

Management Report on Financial Operations (continued)

Results of Operations, 2010 versus 2009

Revenues

Operating revenues were $807.9 million in 2010, compared with $708.0 million in 2009 — an increase of $99.9 million, or 14.1 percent, due to higher regulatory, user and contract services fees.

Regulatory fees fund our regulatory activities, including the supervision and regulation of firms through examination, policy making, rulemaking and enforcement activities. Regulatory fees primarily include the Trading Activity Fee (TAF), the GIA, the PA and the Branch Office Assessment (BOA). Regulatory fees were $428.6 million in 2010, compared with $387.9 million in 2009 — an increase of $40.7 million, or 10.5 percent, due primarily to GIA and PA increases of $27.8 million and $39.9 million. The increase in the GIA is attributable to the restructuring of the fee whereby the assessment is based on the higher of the current year's GIA or the average of the preceding three years' GIA. The PA increased due to a fee increase to better align our revenues with costs. The restructuring of both of these fees allowed FINRA to continue to effectively discharge its regulatory obligations in a fiscally prudent way, while reducing its vulnerability to another market downturn as experienced in 2009. These increases were offset by a $26.6 million decline in the TAF, primarily due to a decrease in trading activity volumes from 2009 to 2010. Additionally, we issued rebates to firms of $5.7 million in 2010 and $5.9 million in 2009. 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 $154.0 million in 2010, compared with $148.3 million for 2009 — an increase of $5.7 million, or 3.8 percent, due primarily to a $4.9 million increase in continuing education fees resulting from an exam fee increase to better align revenue with costs.

Contract services fees represent amounts charged for regulatory services provided primarily to the NASDAQ Stock Market LLC (NASDAQ LLC), NASDAQ Options Market, LLC (NASDAQ Options), NASDAQ OMX BX, Inc. (NASDAQ OMX BX), NASDAQ OMX PHLX, Inc. (NASDAQ OMX PHLX), NYSE, NYSE Arca, NYSE Amex, the Trade Reporting Facilities (TRFs), and other exchanges for services including surveillance reviews, investigations, examinations and the disciplinary process. Contract services fees also include fees for the mortgage licensing system FINRA developed and deployed to the State Regulatory Registry LLC (SRR) and the delivery of national and state mortgage exams. Contract services fees were $111.1 million in 2010, compared with $57.1 million in 2009 — an increase of $54.0 million, or 94.6 percent, driven primarily by FINRA's provision of market regulation services to NYSE, NYSE Arca and NYSE Amex as a result of the NYSE RSA, effective June 14, 2010. Market regulation fees for services provided under the NYSE RSA totaled $31.2 million in 2010. Additionally, contract services fees increased $24.4 million due to the development and delivery of national and state mortgage exams.

Dispute resolution fees represent fees earned during the arbitration and mediation processes. Dispute resolution fees totaled $54.2 million in 2010, compared with $56.7 million in 2009 — a decrease of $2.5 million, or 4.4 percent. Driving this decrease was a reduction in the number of new cases filed, from 7,137 in 2009 to 5,680 in 2010, a decrease of 20.4 percent. This decrease was partially offset by an increase in forum fees, which are assessed as arbitration and mediation sessions actually occur.

Transparency services fees represent amounts charged for services offered through the Trade Reporting and Compliance Engine® (TRACE®), the Alternative Display Facility (ADF®), the Over-the-Counter Bulletin Board (OTCBB™) and the OTC Reporting Facility™ (ORF™). Transparency services fees remained relatively consistent with the prior year, totaling $48.6 million in 2010, compared with $47.6 million in 2009.

Other revenues were relatively flat in 2010 compared to 2009, with revenues of $11.4 million in 2010, compared with $10.4 million in 2009. Other revenues represent the recognition of deferred contribution revenue attributable to the

Management Report on Financial Operations (continued)

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 for 2010 and 2009 were $9.4 million and $7.4 million.

Fines represent amounts levied as sanctions for rule violations. We do not view fines as part of our operating revenues. Fine revenues totaled $42.2 million in 2010 and $47.6 million in 2009 — a decrease of $5.4 million, or 11.3 percent. The number of fines remained flat, with 644 fines levied in 2009 compared to 643 in 2010; however, the average fine decreased from approximately $73,900 in 2009 to approximately $65,600 in 2010.

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 $295.2 million in 2010, compared to $341.4 million in 2009 — a decrease of $46.2 million, or 13.5 percent. Activity assessment cost of revenues was $295.4 million in 2010, compared to $341.4 million in 2009 — a decrease of $46.0 million, or 13.5 percent. A year-over-year rate decrease, 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 $940.9 million in 2010, compared to $876.7 million in 2009 — an increase of $64.2 million, or 7.3 percent. The increase was primarily driven by increases in compensation and benefits expense and professional and contract services.

Compensation and benefits expenses increased to $540.3 million in 2010, from $493.9 million in 2009 — an increase of $46.4 million, or 9.4 percent. Of the increase, $18.8 million was driven by the NYSE RSA. Approximately 160 NYSE employees were brought into the organization, increasing the number of employees on FINRA's payroll and employee benefit costs. The balance of the increase is attributed to the full-year effect of employees hired during 2009 and throughout 2010 coupled with annual merit and promotion increases. FINRA had approximately 2,800 and 3,000 employees as of December 31, 2009, and 2010.

Professional and contract services increased to $205.4 million in 2010, from $183.3 million in 2009 — an increase of $22.1 million or 12.1 percent, primarily due to regulatory exam external testing service fees and technology maintenance costs. External testing service fees increased $11.9 million due to the introduction of national and state mortgage-related exams. The cost of running this program is covered through the contract fees charged to SRR. Technology maintenance expenses increased by $10.0 million due primarily to the maintenance of integrated former NASD and NYSE member regulation technology platforms, previously in the application development stage.

All other operating expenses (computer operations and data communications, depreciation and amortization, occupancy and general and administrative) decreased to $195.2 million in 2010, from $199.5 million in 2009 — a decrease of $4.3 million, or 2.2 percent. This change was primarily driven by a $6.6 million decrease in marketing expenses related to the suspension of FINRA's advertising campaign, offset by a $2.0 million increase in Foundation grant payments and expenses incurred.

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 $30.6 million in 2010, compared with $32.0 million in 2009 — a decrease of $1.4 million or 4.4 percent.

Management Report on Financial Operations (continued)

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 $50.1 million in 2010, compared with $37.3 million in 2009. The net investment gains in 2010 are primarily due to the sale of private investments and steady investment returns from our trading portfolio. 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 was 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, would be sold at an amount different from the net asset value of our ownership interest in partners' capital. We sold all but one of our remaining legacy portfolio private investments during 2010.

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 $65.2 million in 2010, compared with $86.6 million in 2009. Our weighted ownership interest in the net assets of all equity method investees was 4.9 percent at December 31, 2010. The equity earnings in 2010 are due primarily to our main private investment fund's performance. The equity earnings in 2009 were generated from our main private investment fund's performance, as well as our investments in hedge funds, the majority of which were liquidated in 2010 as part of our change in investment strategy.

Other (Expense) Income

In 2010, other expenses of $0.3 million represent income taxes on unrelated business income earned in 2010, primarily from mortgage licensing and examination services.

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. The 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 were paid to FINRA to support its regulation and enforcement programs.

Other income in 2009 also included $5.6 million in income tax benefits from unrelated business loss carryforwards. We determined that these loss carryforwards would be used to offset taxable unrelated business 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.

Management Report on Financial Operations (continued)

Results of Operations, December 2009 versus December 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 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.

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.

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.

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 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.

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, primarily due to the recognition of deferred contribution revenue attributable to the Foundation's use of funds received from the GRA Settlement. Grant payments and expenses incurred against GRA Settlement funds in 2009 and 2008 were $7.4 million and $6.2 million.

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 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 retirements related to the 2008 Board-approved voluntary retirement program (VRP). 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 was 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 2008 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 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 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 was 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, would be sold at an amount different from the net asset value of our ownership interest in partners' capital. 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 related primarily to net realized losses on sales of our trading securities.

Equity Earnings (Losses) from Other Investments

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 in the amount of $8.2 million and an income tax benefit of $5.6 million.

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)

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 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 the Fund. As of December 31, 2010, the Fund remains highly liquid, with 56 percent available in 30 days or less.

See the separate Investment Committee Report on page 29 of the 2010 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 the 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, 2010, investments in the Company's consolidated financial statements consisted of: (i) global government (including state and local) securities; (ii) agency mortgage-backed securities; (iii) corporate and asset backed securities; (iv) mutual and commingled funds; (v) other investments (including private investments); and (vi) other financial instruments.

Our primary market risk relates to our investment portfolio. Our investments are impacted by fluctuations in the securities markets and by interest rate risk, currency risk and commodity risk, as well as other financial and nonfinancial risks.

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 2010 or 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.

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 third-party valuations. Based on our assessment, no impairment charges related to our private investments have been recorded in 2010. We recorded impairment charges for other-than-temporary declines of $44.8 million and $35.4 million in 2009 and 2008 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 45 percent of our total invested assets, excluding cash, as of December 31, 2010. Our active trading portfolio as of December 31, 2010, is a fixed income portfolio managed by Wellington Management Company, LLP.

FINRA is exposed to credit risk from third parties, including NASDAQ OMX Group, Inc., 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, net investment gains (losses), undistributed earnings and equity in losses from other investments 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,		
	2010	2009	2008
	(in millions)		
Operating	$ (36.5)	$(156.2)	$(182.4)
Investing	233.0	311.7	(34.3)
Financing	(10.2)	(7.5)	(14.9)
Total	$186.3	$ 148.0	$(231.6)

FINRA used $36.5 million of cash from operating activities in 2010. This was primarily due to payments related to SEC Section 31 fees. FINRA had a net cash inflow from investing activities of $233.0 million due primarily to net sales of trading securities and redemptions of other investments (private investments). We sold all but one of our remaining legacy portfolio private investments during 2010. Net cash used in financing activities was $10.2 million related to the Foundation's disbursement of GRA Settlement funds.

FINRA used $156.2 million of cash from operating activities in 2009. This was primarily used to purchase trading 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 Foundation's disbursement of GRA Settlement funds.

FINRA used $182.4 million of cash from operating activities in 2008 to fund the purchase of trading 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 in financing activities was $14.9 million in 2008, primarily representing the distribution of funds held in escrow related to a FINRA enforcement case and the Foundation's disbursement of GRA Settlement funds.

Overall, cash and cash equivalents, trading investments and available-for-sale investments totaled $1,189.6 million as of December 31, 2010, and $970.1 million as of December 31, 2009. The increase of $219.5 million or 22.6 percent was driven primarily by cash holding increases that will be used to fund future investments.

FINRA's working capital was $762.1 million as of December 31, 2010, and $764.8 million as of December 31, 2009. 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 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)			
Minimum rental commitments under non-cancelable operating leases	$183.0	$30.7	$44.0	$35.1	$73.2
Commitments related to facility operations and security in New York, NY	34.1	21.7	12.4	—	—
Information and technology services agreement	33.0	17.0	16.0	—	—
Commitments to investment in limited partnership	5.7	5.7	—	—	—
Total	$255.8	$75.1	$72.4	$35.1	$73.2

The majority of the non-cancelable operating leases contain escalation clauses based on increases in rent, 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 Hewlett-Packard (HP) Enterprise Services. Under that agreement, which expires on December 31, 2012, HP Enterprise Services provides us with systems support and maintenance services. Commitments to investment in limited partnership represent our remaining commitment to one investment in a limited partnership.

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.

The Management Compensation Committee (the Committee), composed of public members of the Board, is responsible for approving salary levels and incentive compensation targets for top-level executives. The Committee 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 2010, 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 global investment/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 a blend of 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 and 2010 compensation data in the year paid (all amounts are in dollars). The 2011 salary information represents the base annual salary at which the executives are compensated as of June 28, 2011. It does not represent 2011 year-to-date earnings. The 2011 incentive compensation amounts represent the actual payment in February 2011 based on 2010 performance. Other amounts, including deferred compensation and other benefits, are not presented for 2011 as these accumulate over the course of the year and final amounts are not determined until year-end.

This presentation has been revised and expanded from the prior year format and is intended to be consistent with FINRA's compensation reporting requirements in its Form 990 — *Return of Organization Exempt from Income Tax*. As a result, certain amounts from 2009 have been reclassified to maintain consistency with the 2010 presentation, and to incorporate additional information regarding pension benefit accruals, employer-paid health and welfare benefits, and other miscellaneous fringe benefits.

Name and principal position		Salary (2)	Incentive compensation (3)	Other awards (4)	Deferred compensation (5)	Other benefits (6)	Total
Richard Ketchum (1)	2011	1,000,000	1,200,000		*	*	
Chairman and Chief Executive	2010	1,000,000	1,250,000		321,305	38,049	2,609,354
Officer	2009	792,308			234,218	41,776	1,068,302
Stephen Luparello	2011	600,000	690,000		*	*	
Vice Chairman	2010	594,808	700,000		94,587	43,495	1,432,890
	2009	576,069	510,000		65,115	100,642	1,251,826
Todd Diganci	2011	500,000	660,000		*	*	
EVP and Chief Financial Officer	2010	500,000	660,000		30,644	41,353	1,231,997
	2009	518,692	550,000		30,979	87,196	1,186,867
Linda Fienberg	2011	459,700	417,800		*	*	
President, Dispute Resolution	2010	459,700	420,300		62,664	31,336	974,000
	2009	477,381	379,800		67,173	48,532	972,886
Howard Schloss	2011	432,000	325,000		*	*	
EVP, Corporate Communications	2010	432,000	393,000		157,340	45,044	1,027,384
	2009	448,615	350,000		174,477	92,535	1,065,627
Marc Menchel	2011	400,700	400,000		*	*	
EVP, General Counsel - Regulation	2010	400,700	434,300		291,322	31,852	1,158,174
	2009	416,111	380,000		243,126	68,030	1,107,267
Martin Colburn	2011	400,050	430,000		*	*	
EVP and Chief Technology Officer	2010	400,050	454,043		159,027	38,929	1,052,049
	2009	415,436	365,000		144,545	71,468	996,449
Thomas Gira	2011	381,539	425,000		*	*	
EVP, Market Regulation	2010	375,770	410,000	10,000	79,653	39,430	914,853
	2009	344,291	300,000		69,342	62,219	775,852
Grace Vogel	2011	370,000	500,000		*	*	
EVP, Member Regulation	2010	370,000	525,000		258,719	33,263	1,186,982
	2009	384,231	470,000	150,300	120,086	37,591	1,162,208
Steven Joachim	2011	370,000	400,000		*	*	
EVP, Transparency Services	2010	370,000	428,200		293,675	39,359	1,131,234
	2009	384,231	362,500		269,578	64,405	1,080,714

* 2011 deferred compensation and other benefits will not be fully determinable until the end of the calendar year and are therefore not included in the above table.

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 as 2009 contained 27 pay periods rather than the usual 26. 2011 salary information represents the executives' current base annual rate of pay as of June 28, 2011.

3 Incentive compensation is paid after the close of the calendar year based on the prior year's performance. Payments are reflected in the table above in the year paid, consistent with FINRA's reporting in its Form 990 tax returns. Thus, the amount presented in 2011 was paid in February 2011, based on 2010 performance.

4 Other awards are presented in the year paid. Awards are typically discretionary and are attributed to specific individual performance events. Additionally, in 2009, 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 Deferred compensation includes earnings and accruals in supplemental executive retirement plans, which are not available to all employees. Mr. Ketchum and Ms. Vogel 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. Deferred compensation also includes employer funded 401(k) matching contributions and the accrual of benefits in FINRA's employee retirement plans. The 401(k) and retirement plans are generally available to all employees.

6 Other benefits include taxable and non-taxable benefits such as employer paid health, life, and disability insurance, which are generally available to all employees. They also include parking, travel subsidies, tax gross-ups, and other miscellaneous fringe benefits. In addition, 2009 amounts include a one-time vacation payout that resulted from a change in the accrual policy that limited the employees' carryover hours.

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 and officer level.
- Employee and family health, life and other insurance, pension and 401(k) deferral and matching programs, health club subsidies and other benefits are generally available to all employees. Additionally, certain executives receive miscellaneous taxable fringe benefits that may include parking, travel subsidies and similar minor items.

Management Report on Financial Operations (continued)

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 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 present cash flows from purchases and sales of trading securities as either operating or investing activities based on the nature and purpose for which the securities were acquired. Beginning in 2010, we presented net activity in trading securities within investing activities in our consolidated statement of cash flows based on our revised investment strategy and purpose for our trading portfolio. Prior to 2010, we presented net activity in trading securities as operating activities because we used our trading portfolio to help fund operations. We record available-for-sale securities at fair value and recognize temporary changes in fair value as unrealized gains (losses) 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 two private investment funds. We account for private investments under the cost or equity method based on our relative ownership interest in the partnership. The application of the equity method to our investments in hedge funds and private investment funds, including our related equity earnings, retains the industry-specific accounting applied by such funds. 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, the consideration of non-binding bids from potential buyers and third party valuations.

Investment Impairment

FINRA periodically monitors and evaluates the realizability of its available-for-sale, equity method 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 an equity method or 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. We have established certain valuation procedures to support the consistency, timeliness and reliability of the valuation data provided. In assessing potential impairment for equity method and cost method investments, net asset value is used as a practical expedient to measure fair value, unless it is probable that the 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 third party valuations.

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, PA and 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, while annual fees are recognized ratably over the annual period to which they relate.

User Fees

User fees consist of fees charged for initial and annual registrations, qualification examinations, FINRA-sponsored educational programs and conferences, and 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.

Contract Services Fees

Contract services fees represent amounts charged for regulatory services provided primarily to NASDAQ LLC, NASDAQ Options, NASDAQ OMX BX, NASDAQ OMX PHLX, NYSE, NYSE Amex, NYSE Arca, the TRFs, and other exchanges for services including surveillance reviews, investigations, examinations and the disciplinary process. Contract services fees also include fees for the mortgage licensing system FINRA developed and deployed to SRR. We recognize this revenue as the services are provided.

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 and comparison 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.

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. FINRA limits the use of fine monies to capital expenditures and regulatory projects, and all fine-related expenditures are reported to our Board of Governors.

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). Both plans are now closed with respect to new participants. We also provide an employer-funded defined contribution Retiree Medical Account Plan (RMA Plan) to assist our 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 using a composite yield curve analysis based on a portfolio of high quality, non-callable marketable bonds. 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/401(k) Plan Committee reviews and advises FINRA management on both the expected long-term rate of return and the discount rate assumptions, which were 7.75 percent and 5.25 percent as of December 31, 2010.

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, 2010, would cause the projected benefit obligation for pension benefits to decrease (increase) by approximately $11.2 million. A 25 basis point increase (decrease) in the discount rate assumption as of

December 31, 2009, would have caused the 2010 pension benefits expense to decrease (increase) by approximately $0.8 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.

On September 22, 2010, the Board approved the adoption of a new defined contribution component to the Company's 401(k) plan and the cessation of eligibility for participation in the ERP for all new hires beginning January 1, 2011. The Company's contributions for this new component are based on the participant's age plus years of service, and vesting is on a graduated scale for up to six years. The investment options are the same as for other monies in the 401(k) plan. During 2011, current ERP participants will be given a one-time option to participate in this new contribution component instead of the ERP. For ERP participants electing the new retirement contribution, their accrued benefit in the ERP will be frozen, but future service with FINRA will allow for growth into vesting and eligibility for early retirement and/or early payment subsidies.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (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 also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. Further, the ASU significantly expands the disclosures related to a vendor's multiple-deliverable revenue arrangements. The ASU will be effective for FINRA on January 1, 2011. The adoption of the provisions of the ASU is not expected to have a material impact on our consolidated results of operations and financial position.

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. We adopted the provisions of the ASU in its entirety with the issuance of our December 31, 2010 Consolidated Financial Statements. As the guidance is limited to enhanced disclosures, adoption did not have a material impact on our consolidated results of operations and financial position. *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, 2010. 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, 2010.

FINRA's financial statements included in this annual report have been audited by Ernst & Young LLP, an independent registered public accounting firm. Ernst & Young LLP has also issued an attestation report on FINRA's internal control over financial reporting as of December 31, 2010.

June 28, 2011

Richard G. Ketchum
Chairman and Chief Executive Officer

Todd T. Diganci
Executive Vice President and Chief Financial Officer

Certification of 2010 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, 2010, together with the consolidated financial statements of FINRA as of December 31, 2010, and 2009, and for the years ended December 31, 2010, 2009 and 2008. 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 thereunder 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, 2010. 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.

June 28, 2011

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 (Board), the Audit Committee of the Board assists the Board in fulfilling its responsibility for Board 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 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, and makes clear that the independent auditor is accountable to the Audit Committee and the Board, 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 2010, 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 Fees

	FINRA (1)	
	2010	2009
Audit services (2)	$ 868,000	$ 868,000
Audit-related services (3)	352,750	341,000
Tax services (4)	154,000	152,500
All other services (5)	317,400	—
Total	$1,692,150	$1,361,500

(1) FINRA based its fees reported for 2010 on fees approved by FINRA's Audit Committee as of March 31, 2011. The 2010 audit services, audit-related services, and tax services include estimates to complete the current work in process. FINRA has updated the 2009 fees from the prior year's report to reflect final amounts paid for the 2009 approved services.

(2) For 2010 and 2009, 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 2010 and 2009 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. Audit-related services also included a review of the investment portfolio transition and a review of the Market Regulation expansion initiative. Audit-related services in 2010 also include an internal controls review and assessment of the Company's enterprise resource system.

(4) Tax services represent fees related to tax return preparation services in connection with the 2010 and 2009 Form 990s and related Form 990-Ts, as well as tax compliance, advice and planning.

Audit Committee Report (continued)

(5) All other services include enterprise risk management (ERM) services in facilitating management's development of an ERM roadmap, performance of an enterprise risk assessment and design of an ERM framework.

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, 2010; 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 that FINRA's audited financial statements and related reports on internal control be included in the Annual Report for the year ended December 31, 2010.

Members of the Audit Committee*:

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

June 28, 2011

* Gary H. Stern, former President of the Federal Reserve Bank of Minneapolis, joined the Audit Committee in 2011.

Investment Committee Report

Year Ended December 31, 2010

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 in fulfilling its mission of protecting investors and maintaining market integrity by providing FINRA with supplemental financial resources. 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 subject to prior approval by the Board of Governors.

In total, FINRA's portfolio earned 6.9 percent in 2010, excluding the one-time liquidation of its legacy private investments in transitioning to a new investment policy approved by the Board of Governors in April 2009. Including the impact of the sale of private investments, total return for the year was 4.0 percent. Capital market returns were strong, enabling FINRA to liquidate its legacy assets within a positive market environment. At the end of the year, FINRA's investment portfolio totaled approximately $1.6 billion. The chart below shows investment results for FINRA and for several common market benchmarks for the two-year period since we repositioned the portfolio to its current strategy, as well as for the five-year period and since inception. Portfolio liquidity remains strong, with $898 million, or 56 percent, available in 30 days or less as of December 31, 2010.

		Annualized Returns		
	2010	2-Year	5-Year	Inception (2)
FINRA (1)	6.9%	10.6%	1.9%	3.4%
Barclays US Aggregate	6.5%	6.2%	5.8%	5.1%
Citigroup Treasury Bill-3 Month	0.1%	0.1%	2.3%	2.2%
S&P 500	15.1%	20.6%	2.3%	3.9%

(1) Total return percentages exclude accounting impairment charges and exclude the one-time sale of legacy private investments.

(2) Since inception as of 1/1/04.

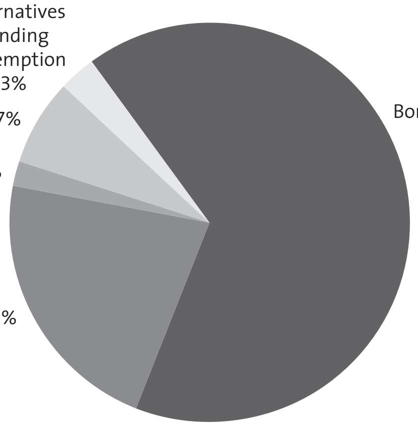
The FINRA Board of Governors is responsible for FINRA's investments and approved the charter that guides the FINRA Investment Committee. The Investment Committee, which is composed of members of the Board of Governors and other investment professionals, advises the Board of Governors and provides guidance in determining the appropriate policy, guidelines and allocation for FINRA's investments. The FINRA Investment Office is responsible for management of the investments within the framework of the investment policy. FINRA engages investment consultants to support the Investment Office as needed. The Investment Committee met five times during 2010.

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. The transition to the new policy was substantially completed in 2010, with 3 percent of assets pending final redemption as of December 31, 2010. During 2009, FINRA entered into a limited partnership agreement with HighVista II Limited Partnership, a broadly diversified multi-asset fund managed by HighVista Strategies LLC, which uses risk controlled strategies to obtain market and non-correlated exposures. FINRA's fixed income portfolio is a diversified, high-quality investment grade portfolio managed by Wellington Management Company, LLP. 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.

* For the purposes of this Investment Committee report, FINRA's investment portfolio includes investments net of their related receivables and payables on the consolidated balance sheet and excludes the Foundation's investments and Section 31 fees received but not yet remitted to the SEC.

Investment Committee Report (continued)

The chart below shows portfolio exposures as of December 31, 2010. Market exposures are 66 percent bonds/cash and 22 percent equities. Alternatives, at 7 percent, consist of non-correlated exposures.



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. Within the portion of the portfolio containing debt securities directly owned by FINRA, all securities within the Banking and Brokerage sectors are held within a blind trust, in order to prohibit any knowledge of or participation in the making of such investments by any FINRA personnel, and to avoid any appearance of a conflict of interest with FINRA's regulatory responsibilities.

All implementation 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, Investment 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.

Members of the Investment Committee*:

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

June 28, 2011

* Gary H. Stern, former President of the Federal Reserve Bank of Minneapolis, joined the Investment Committee in 2011.

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, 2010, 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, 2010, 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, 2010 and 2009, 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, 2010, and our report dated June 28, 2011 expressed an unqualified opinion thereon.

Ernst & Young LLP

McLean, Virginia
June 28, 2011

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, 2010 and 2009, 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, 2010. 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, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, 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, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 28, 2011 expressed an unqualified opinion thereon.

Ernst + Young LLP

McLean, Virginia
June 28, 2011

FINRA Consolidated Balance Sheets

(In millions)

	December 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 419.3	$ 233.0
Investments:		
Trading, at fair value	716.5	668.4
Available-for-sale, at fair value	28.3	40.5
Foundation available-for-sale, at fair value	25.5	28.2
Receivables, net	96.3	121.8
Investments receivable	9.1	81.4
Other current assets	35.1	31.6
Total current assets	1,330.1	1,204.9
Property and equipment:		
Land, buildings and improvements	107.0	106.4
Data processing equipment and software	221.1	212.6
Furniture, equipment and leasehold improvements	94.1	94.7
	422.2	413.7
Less accumulated depreciation and amortization	(305.9)	(275.4)
Total property and equipment, net	116.3	138.3
Goodwill and other intangible assets, net	32.0	33.8
Other investments	716.6	644.7
Other assets	36.3	50.6
Total assets	$2,231.3	$2,072.3

See accompanying notes.

FINRA Consolidated Balance Sheets (continued)

(In millions)

	December 31,	
	2010	2009
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 42.0	$ 35.5
Accrued personnel and benefit costs	130.8	116.9
Deferred revenue	54.6	53.3
Deferred contribution income	10.0	9.5
Deposits and renewals	59.4	66.9
Investments payable	174.9	—
Other current liabilities	8.0	8.4
SEC fee payable	88.3	149.6
Total current liabilities	568.0	440.1
Accrued pension and other postretirement benefit costs	147.4	178.2
Deferred revenue	27.6	15.7
Deferred contribution income	24.4	34.3
Other liabilities	30.0	36.0
Total liabilities	797.4	704.3
Equity	1,558.3	1,503.7
Unrealized gain on available-for-sale investments	5.1	14.4
Net unrecognized employee benefit plan amounts	(129.5)	(150.1)
Total equity	1,433.9	1,368.0
Total liabilities and equity	$2,231.3	$2,072.3

See accompanying notes.

FINRA Consolidated Statements of Operations

(In millions)

	Years Ended December 31,		
	2010	2009	2008
Revenues			
Operating revenues			
Regulatory fees, net of firm rebates of $5.7 in 2010 and $5.9 in 2009 and 2008	$ 428.6	$ 387.9	$ 453.4
User fees	154.0	148.3	157.4
Contract services fees	111.1	57.1	72.0
Dispute resolution fees	54.2	56.7	42.3
Transparency services fees	48.6	47.6	44.7
Other	11.4	10.4	9.2
Total operating revenues	807.9	708.0	779.0
Fines	42.2	47.6	25.9
Activity assessment	295.2	341.4	154.8
Total revenues	1,145.3	1,097.0	959.7
Activity assessment cost of revenues	(295.4)	(341.4)	(155.2)
Net revenues	849.9	755.6	804.5
Expenses			
Compensation and benefits	540.3	493.9	541.7
Professional and contract services	205.4	183.3	214.4
Computer operations and data communications	29.5	27.4	30.5
Depreciation and amortization	48.9	49.5	50.9
Occupancy	58.6	57.2	56.1
General and administrative	58.2	65.4	71.8
Total expenses	940.9	876.7	965.4
Interest and dividend income	30.6	32.0	56.6
Operating loss	(60.4)	(89.1)	(104.3)
Other income (expense)			
Net investment gains (losses)	50.1	37.3	(479.2)
Equity earnings (losses) from other investments	65.2	86.6	(144.9)
Other (expense) income	(0.3)	13.8	32.1
Net income (loss)	$ 54.6	$ 48.6	$(696.3)

See accompanying notes.

FINRA Consolidated Statements of Changes in Equity

(In millions)

	Equity	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available-for-Sale Investments	Accumulated Other Comprehensive Income (Loss): Net Unrecognized Employee Benefit Plan Amounts	Total
Balance, January 1, 2008	$2,151.4	$ 51.0	$ (86.3)	$2,116.1
Net loss	(696.3)	—	—	(696.3)
Change in unrealized (loss) gain 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	(0.1)	(110.1)	1,344.9
Net income	48.6	—	—	48.6
Change in unrealized gain (loss) 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	14.4	(150.1)	1,368.0
Net income	54.6	—	—	54.6
Change in unrealized (loss) gain on available-for-sale investments	—	(9.3)	—	(9.3)
Employee benefit plan adjustments	—	—	20.6	20.6
Comprehensive income				65.9
Balance, December 31, 2010	$1,558.3	$ 5.1	$(129.5)	$1,433.9

See accompanying notes.

FINRA Consolidated Statements of Cash Flows

(In millions)

	Years Ended December 31,		
	2010	2009	2008
Reconciliation of net income to cash used in operating activities			
Net income (loss)	$ 54.6	$ 48.6	$(696.3)
Adjustments to reconcile net income (loss) to cash used in operating activities:			
Depreciation and amortization	48.9	49.5	50.9
Net investment (gains) losses	(50.1)	(37.3)	479.2
Undistributed (earnings) and equity in losses from other investments	(63.8)	(86.6)	144.9
Bad debt expense	3.0	10.9	4.7
Other net non-cash income items	1.1	(14.0)	(7.4)
Net change in operating assets and liabilities, net of acquisitions and dispositions:			
Receivables, net	22.5	(37.5)	43.9
Net purchases of trading securities	—	(126.0)	(130.4)
Other current assets	(3.9)	2.9	(5.4)
Other assets	15.6	11.3	15.6
Accounts payable and accrued expenses	2.9	(0.2)	(8.7)
Accrued personnel and benefit costs	13.9	(34.8)	13.0
Deferred revenue	13.2	(5.6)	(6.2)
Deferred contribution income	(9.4)	(7.4)	(5.4)
Deposits and renewals	(7.5)	(1.5)	6.1
SEC fee payable	(61.3)	106.8	(65.9)
Other current liabilities	—	(11.5)	4.2
Accrued pension and other postretirement costs	(10.2)	(16.8)	(22.5)
Other liabilities	(6.0)	(7.0)	3.3
Net cash used in operating activities	$(36.5)	$(156.2)	$(182.4)

See accompanying notes.

FINRA Consolidated Statements of Cash Flows (continued)

(In millions)

	Years Ended December 31,		
	2010	2009	2008
Cash flow from investing activities			
Net sales of trading securities	$ 137.9	$ —	$ —
Proceeds from redemptions of available-for-sale investments	32.5	507.5	181.0
Purchases of available-for-sale investments	(13.1)	(38.6)	(204.8)
Return of capital and proceeds from redemptions from other investments	244.9	342.7	130.4
Purchases of other investments	(156.5)	(480.1)	(128.0)
Purchase of NYSE member regulation operations	—	—	(0.2)
Proceeds from the payment of the revolving credit facility	—	—	29.5
Purchases of property and equipment	(12.7)	(19.8)	(44.2)
Proceeds from sales of property and equipment	—	—	2.0
Net cash provided by (used in) investing activities	233.0	311.7	(34.3)
Cash flow from financing activities			
Change in donor-restricted and other restricted cash	(9.8)	(6.9)	(14.4)
Other	(0.4)	(0.6)	(0.5)
Net cash used in financing activities	(10.2)	(7.5)	(14.9)
Increase (decrease) in cash and cash equivalents	186.3	148.0	(231.6)
Cash and cash equivalents at beginning of year	233.0	85.0	316.6
Cash and cash equivalents at end of year	$ 419.3	$ 233.0	$ 85.0

See accompanying notes.

FINRA 2010 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 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 New York Stock Exchange LLC (NYSE), NYSE Arca, Inc. (NYSE Arca), NYSE Amex LLC (NYSE Amex), The Nasdaq Stock Market LLC (NASDAQ LLC), 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, NASDAQ Options Market, LLC (NASDAQ Options), NASDAQ OMX BX, Inc. (NASDAQ OMX BX), NASDAQ OMX PHLX, Inc. (NASDAQ OMX PHLX), NYSE, NYSE Arca 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 underserved Americans with the knowledge, skills and tools necessary for financial success throughout life. 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 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 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, reserves for uncollectible accounts, and the estimated business relationship periods related to our deferred revenue, that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 present cash flows from purchases and sales of trading securities as either operating or investing securities based on the nature and purpose for which the securities were acquired. Beginning in 2010, we presented net activity in trading securities within investing activities in the consolidated statement of cash flows based on our revised investment strategy and purpose for our trading portfolio. Prior to 2010 we presented net activity in trading securities as operating activities because we used our trading portfolio to help fund operations. We record available-for-sale securities at fair value and recognize temporary changes in fair value as unrealized gains (losses) 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 two private investment funds. We account for private investments under the cost or equity method based on our relative ownership interest in the partnership. The application of the equity method to our investments in hedge funds and private investment funds, including our related equity earnings, retains the industry-specific accounting applied by such funds.

Other-Than-Temporary Impairment

FINRA periodically monitors and evaluates the realizability of its available-for-sale, equity method 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 an equity method or 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the 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.

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 equity method and cost method investments, net asset value is used as a practical expedient to measure fair value, unless it is probable that the 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 Euronext, the NASDAQ OMX Group, Inc., and other exchanges. The financial statements present receivables net of reserves for uncollectible accounts of $14.4 million and $13.9 million as of December 31, 2010, and 2009. We calculate reserves based on the age, source of the underlying receivable and past collection experience. 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, 2010 and 2009, 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 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 straight-line method over

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $37.9 million, $38.6 million and $40.3 million for 2010, 2009 and 2008.

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 $18.7 million and $32.2 million as of December 31, 2010 and 2009, within data processing equipment and software in the consolidated balance sheets. Net additions to capitalized software were $3.5 million and $9.9 million in 2010 and 2009. Amortization of capitalized internal computer software costs totaled $17.0 million, $17.6 million and $19.7 million for 2010, 2009 and 2008, 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, 2010 and 2009, 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. 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, 2010 or 2009. 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 $11.4 million, net of accumulated amortization of $19.1 million as of December 31, 2010, and $16.4 million, net of accumulated amortization of $14.1 million as of December 31, 2009. We also have intangible assets related to software licenses, applications and patterns that are not related to the NYSE consolidation transaction in the amount of $5.6 million, net of accumulated amortization of $2.7 million as of December 31, 2010, and $2.4 million, net of accumulated amortization of $1.8 million as of December 31, 2009. *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 recoverability. If the evaluation failed the recoverability test, we would then prepare a discounted cash flow analysis to estimate fair value and the amount of any impairment. In 2010 and 2009, 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 funds are included in other assets because their use is restricted to the Foundation. The Foundation invests the GRA

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2010, were $9.9 million and $24.7 million. The current and long-term portions of the GRA Settlement funds as of December 31, 2009, were $9.5 million and $34.9 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, mediation 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. The estimated service period for mediation fees, arbitration fees, registration fees and firm application fees, based on historical experience, is four months, 14 months, four years and 11 years, respectively.

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. For the years ended December 31, 2010, 2009 and 2008, FINRA recognized revenue as the Foundation incurred grant payments and expenses against the GRA Settlement funds of $9.4 million, $7.4 million and $6.2 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. 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

investment advisers and their associated persons. As administrator of the IARD program, FINRA REG collects all fees and 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 agreement with the SEC dated July 23, 2009, as amended, the SEC will determine the distribution of the cumulative modified cash basis surplus attributable to filings by SEC-registered investment advisers upon termination of the agreement for the benefit of IARD filers. FINRA records a reserve, which represents the cumulative modified 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 agreement with the SEC to the cumulative surplus attributable to filings by state-registered investment advisers.

As of December 31, 2010 and 2009, FINRA recorded the cumulative modified cash basis surplus for the IARD program in its consolidated financial statements as follows:

	As of December 31,	
	2010	2009
	(in millions)	
Current deferred revenue	$ 0.4	$ 0.4
Non-current deferred revenue	0.6	1.0
Other long-term liabilities	19.1	23.8
Total	$20.1	$25.2

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 (four years), 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 (four years) 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Contract Services Fees

Contract services fees represent amounts charged for regulatory services provided primarily to NASDAQ LLC, NASDAQ Options, NASDAQ OMX BX, NASDAQ OMX PHLX, NYSE, NYSE Arca, NYSE Amex, the Trade Reporting Facilities (TRFs), and other exchanges for services including surveillance reviews, investigations, examinations and the disciplinary process. 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.

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 (14 months). Mediation filing fees are recognized over the average life of a mediation case (four months). 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 and comparison 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.

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. FINRA limits the use of fine monies to capital expenditures and regulatory projects, and all fine-related expenditures are reported to our Board of Governors.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

are reported. As of December 31, 2010 and 2009, we had $24.3 million and $40.5 million of SEC fee receivables presented within receivables, net in the accompanying consolidated balance sheets. 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.

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.

Other (Expense) 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 were 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.

ADVERTISING COSTS

We expense advertising costs, which include media and production costs, in the period in which the costs are incurred. Advertising costs totaled $2.9 million, $9.5 million and $6.7 million for the years ending December 31, 2010, 2009 and 2008, 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). Both plans are now closed with respect to new participants. We also provide an employer-funded defined contribution Retiree Medical Account Plan (RMA Plan) to assist our 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 using a composite yield curve analysis based on a portfolio of high-quality, non-callable, marketable bonds. We determine the long-term rate of return based on analysis of historical and projected

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

returns as prepared by our actuary and external investment consultant. FINRA's Pension/401(k) Plan Committee (the Pension Committee) reviews and advises FINRA management on 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). However, unrelated business income activities are taxed at normal corporate rates to the extent that they have taxable net income. 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. We also determine deferred tax assets based on the amount of net operating loss carryforwards. 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, excluding Foundation investments, consists of investments in debt securities, hedge funds and private investments. During 2009, we entered into a limited partnership agreement such that one investment fund represents approximately 45 percent of our total invested assets, excluding cash, as of December 31, 2010. The Foundation's investment portfolio consists of mutual funds and a commingled fund.

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. The contract with this supplier expires in December 2012.

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

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASU also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. Further, the ASU significantly expands the disclosures related to a vendor's multiple-deliverable revenue arrangements. The ASU will be effective for FINRA on January 1, 2011. The adoption of the provisions of the ASU is not expected to have a material impact on our consolidated results of operations and financial position.

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. We adopted the provisions of the ASU in its entirety with the issuance of our December 31, 2010 Consolidated Financial Statements. As the guidance is limited to enhanced disclosures, adoption did not have a material impact on our consolidated results of operations and financial position. *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. 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 security and facilities services provided by NYSE and represents the difference between the net present value of the payment stream at cost versus fair value. We also assumed certain liabilities in connection with the transaction totaling $3.1 million.

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):

		2010			2009		
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	$ (3.2)	$ 7.1	$10.3	$ (2.3)	$ 8.0
Copyrights	3 years	6.5	(6.5)	—	6.5	(5.2)	1.3
Executory contract-related	5 years	13.7	(9.4)	4.3	13.7	(6.6)	7.1
Total		$30.5	$(19.1)	$11.4	$30.5	$(14.1)	$16.4

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

As of December 31, 2010, estimated amortization expense for each of the next five years is as follows: 2011, $3.7 million; 2012, $2.5 million; 2013, $0.9 million; 2014, $0.9 million; and 2015, $0.9 million.

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. Mediation filing fees are recognized over the average life of a mediation case (four 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, 2010, and the years over which we will recognize those amounts:

	Registration	Arbitration	Annual and Other	Total
		(in millions)		
Year ending December 31,				
2011	$ 9.4	$6.7	$38.5	$54.6
2012	6.4	—	4.0	10.4
2013	3.8	—	4.0	7.8
2014	1.6	—	4.0	5.6
2015 and thereafter	2.0	—	1.8	3.8
	$23.2	$6.7	$52.3	$82.2

The following is a summary of activity in our current and non-current deferred revenue for the years ended December 31, 2010, and 2009, 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 and Other	Total
		(in millions)		
Balance as of January 1, 2010	$ 25.9	$ 8.2	$ 34.9	$ 69.0
Additions	8.7	12.3	341.6	362.6
Amortization	(11.4)	(13.8)	(324.2)	(349.4)
Balance as of December 31, 2010	$ 23.2	$ 6.7	$ 52.3	$ 82.2

	Registration	Arbitration	Annual and Other	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

5. INVESTMENTS

FINRA owns a diverse investment portfolio consisting of: (i) global government (including state and local) securities; (ii) agency mortgage-backed securities; (iii) corporate and asset-backed securities; (iv) mutual and commingled funds; (v) other investments (including private investments); and (vi) other financial instruments. We have classified 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 2010, our active trading portfolio was managed through two SMAs by one investment manager, who has the authority to buy and sell investments within FINRA-determined, pre-established multiple parameters.

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

	December 31, 2010	December 31, 2009
	(in millions)	
Trading investments	$ 716.5	$ 668.4
Available-for-sale investments: FINRA	28.3	40.5
Available-for-sale investments: Foundation	25.5	28.2
Other investments:		
Equity method investments	716.3	543.5
Cost method investments	0.3	101.2
Total other investments	716.6	644.7
Total	$1,486.9	$1,381.8

Trading Investments

The total mark-to-market holding (loss) gain on trading securities held at December 31, 2010, and 2009, was $(10.9) million and $33.5 million.

Available-for-Sale Investments

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)		
As of December 31, 2010:				
Mutual funds	$24.5	$ 3.8	$(—)	$28.3
As of December 31, 2009:				
Mutual funds	$27.6	$12.9	$(—)	$40.5

For 2010, 2009 and 2008, 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:

	2010	2009	2008
		(in millions)	
Gross investment gains recognized	$11.0	$30.9	$18.7
Gross investment losses recognized	—	2.6	79.5
Amounts reclassified from unrealized gains and losses in accumulated other comprehensive income	10.7	—	1.0

5. INVESTMENTS (CONTINUED)

As of December 31, 2010, the Foundation had investments in mutual funds with a cost of $24.2 million and a fair market value of $25.5 million. 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. 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 2010 and 2009, we did not record any impairment charges related to our mutual and commingled funds, as all of our mutual and commingled funds were in an unrealized gain position as of December 31, 2010, and 2009. In 2008, FINRA recorded impairment charges of $272.8 million related to 17 mutual and commingled funds. In 2008, the Foundation recorded impairment charges of $0.4 million 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.

Temporary Declines in Fair Market Value

As of December 31, 2010, and 2009, FINRA and the Foundation had no mutual or commingled funds with aggregate unrealized losses.

Other Investments

As of December 31, 2010, FINRA had investments accounted for under the equity method of accounting of $716.3 million, comprised of $676.4 million in one limited partnership and $39.9 million in hedge funds. These investments are included in other investments in the consolidated balance sheets. Our limited partnership investment accounted for under the equity method represents a variable interest in an investment limited partnership. The purpose of the limited partnership is to maximize risk-adjusted returns over the long term by investing in a highly diversified asset allocation strategy. The nature of the limited partnership includes investments in equity, fixed income and alternative investments. As a limited partner, we do not have the power to direct the activities of the partnership that most significantly impact the partnership's business. Therefore, we are not the primary beneficiary and accordingly account for our interest under the equity method. Our equity in the earnings of the partnership is based on the partnership's reported net asset value. The partnership's net assets consist primarily of its investments accounted for at fair value; the majority of the partnership's fair value measurements are based on the estimates of the general partner. We recognized equity earnings from this partnership of $58.4 million and $45.8 million in 2010 and 2009. During 2010 and 2009, we contributed $132.0 million and $440.2 million to this partnership. Our maximum exposure to loss related to this partnership is $676.4 million, the carrying amount of our investment. We have no outstanding capital commitments, guarantees or any other liquidity arrangements with this partnership.

We had an ownership interest in equity method investments with total net assets of $14.7 billion and total earnings from operations of $2.1 billion as of and for the year ended December 31, 2010. Our weighted ownership interest in all equity method investees was 4.9 percent at December 31, 2010.

The Company also had investments accounted for under the cost method of accounting of $0.3 million as of December 31, 2010, comprising one limited partnership and other cost based investments. These investments are included in other investments in the consolidated balance sheets. We had total outstanding commitments of $5.7 million to our one limited partnership accounted for under the cost method as of December 31, 2010.

In 2010, we recognized equity earnings from equity method investments of $65.2 million. We did not recognize any impairment charges on our cost or equity method investments for the year ended December 31, 2010.

5. INVESTMENTS (CONTINUED)

As of December 31, 2009, FINRA had investments accounted for under the equity method of accounting of $543.5 million, comprising $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, comprised of $100.9 million of investments in 28 limited partnerships and $0.3 million of other cost based investments. 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 from equity method investments of $86.6 million. We recorded impairment charges of $44.8 million related to our investment in 27 limited partnerships in 2009.

In 2008, we recognized equity losses from equity method investments of $144.9 million. We recorded impairment charges of $35.4 million related to our investment in seven limited partnerships in 2008.

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, 2010, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

		Fair Value Measurements at December 31, 2010 Measured Using		
Description	Total carrying amount in balance sheet December 31, 2010	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				
Agency mortgage-backed securities	$174.3	$ —	$174.3	$—
Industrial	74.4	—	74.4	—
Utility	69.9	—	69.9	—
Consumer – non-cyclical	68.5	—	68.5	—
Banking and brokerage	67.9	—	67.9	—
Communication	56.0	—	56.0	—
Government	52.8	—	52.8	—
Life insurance	50.8	—	50.8	—
Other financial institutions	50.2	—	50.2	—
Asset-backed securities	39.2	—	39.2	—
Other securities	12.5	12.5	—	—
Available-for-sale securities				
Mutual funds	53.5	53.5	—	—
Commingled funds	0.3	—	0.3	—
Total Assets	$770.3	$66.0	$704.3	$—

FINRA 2010 Notes to Consolidated Financial Statements

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 December 31, 2009 Measured Using		
Description	Total carrying amount in balance sheet December 31, 2009	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	$—

Changes in the 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 unrealized gains (losses) 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 debt securities and other financial instruments. We rely on pricing inputs from our custodian and investment fund managers for valuing the investment securities held in SMAs.

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.

6. FAIR VALUE MEASUREMENTS (CONTINUED)

Available-for-Sale Investments:

FINRA's available-for-sale investment portfolio includes investments in mutual and commingled funds. We value these investments based on quoted market or other observable prices for either identical or comparable funds in active markets and classify these funds within Level 1 or 2 of the fair value hierarchy.

7. 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

Unrelated business income activities are taxed at normal corporate rates to the extent that they have taxable net income. Our unrelated business activities consist primarily of mortgage licensing services provided under our contract with SRR, certain external client exams and, in 2009 and prior, international consulting.

As of December 31, 2010, and 2009, FINRA had unrelated business loss carryforwards of $15.4 million and $16.6 million, primarily related to international consulting. The loss carryforwards are scheduled to expire beginning in 2024 through 2030.

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. However, based on the weight of positive evidence regarding the realizability of these loss carryforwards — specifically, our historical and sustained profitability on mortgage licensing services and external client exams — we reversed the valuation allowance in 2009 and recognized the full amount of the deferred tax asset of $7.2 million as of January 1, 2009.

As of December 31, 2010, and 2009, FINRA had a deferred tax asset of $5.4 million and $5.6 million, reflecting the benefit of $15.4 million and $16.6 million in loss carryforwards. 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.

The 2010 income tax provision of $0.3 million and 2009 income tax benefit of $5.6 million each represent the net change in deferred tax assets related to unrelated business loss carryforwards during the year. We did not have any unrelated business income taxes currently payable or refundable in 2010 or 2009.

The income tax provision (benefit) is included in other (expense) income in the consolidated statements of operations in 2010 and 2009.

Other

As of December 31, 2010, and 2009, 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, 2010, and 2009, 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.

7. INCOME TAXES (CONTINUED)

Uncertain Tax Positions

U.S. GAAP provides a two-step approach for evaluating tax positions. Recognition (step 1) occurs when an entity concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. In step 2 (measurement), the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, that is more likely than not to be realized upon ultimate settlement. During the years from 2007 to 2010, which represent the years management considers to be open for examination by taxing authorities, management did not identify the existence of any uncertain tax positions. Accordingly, all tax positions are recognized and measured at their full benefit in the consolidated balance sheets and statements of operations.

8. EMPLOYEE BENEFITS

Defined Benefit Pension Plans

As of December 31, 2010, and 2009, we provided two non-contributory defined benefit pension plans 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. Both plans are now 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, 2010, and 2009, $28.3 million and $16.6 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 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 ERP by investing assets per the target allocations stated below. The ERP 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 for hedging or creation of market exposures. Direct debt and equity interests are prohibited in any broker-dealer, exchange, contract market, regulatory client, alternative or electronic trading system, and entities that derive a certain threshold of revenue from broker-dealer activities. Asset allocations are reviewed quarterly and adjusted, as appropriate, to 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 ERP assets consisted of the following as of December 31:

	Target Allocation	2010	2009
Equity securities:			
U.S. equity	17.0%	16.4%	17.5%
Non-U.S. equity	15.0%	14.7%	16.1%
Global equity	12.0%	12.1%	5.6%
Debt securities	38.0%	37.0%	16.2%
Cash equivalents	2.0%	1.6%	33.8%
Alternative investments	11.0%	13.5%	10.8%
Real estate	5.0%	4.7%	—
Total	100.0%	100.0%	100.0%

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 ERP's asset managers overall will provide a modest premium to their respective market

8. EMPLOYEE BENEFITS (CONTINUED)

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 tables present information about the fair value of the Company's ERP assets at December 31, 2010 and 2009, by asset category, and indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Fair Value Measurements at December 31, 2010 Measured Using			
Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
		(in millions)		
Short-term investments in common/collective trusts (a)	$ —	$ 10.1	$ —	$ 10.1
Mutual funds	71.7	—	—	71.7
Common/Collective trusts (b)	—	69.1	—	69.1
103-12 investment entities (c)	—	59.6	—	59.6
Partnership/joint venture interests (d)	—	—	7.9	7.9
Corporate stocks	6.6	—	—	6.6
Total	78.3	138.8	7.9	225.0
Receivables (1)				30.6
Payables (1)				(11.6)
Total				$244.0

(1) Represents pending trades at December 31, 2010.

	Fair Value Measurements at December 31, 2009 Measured Using			
Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
		(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 (e)	—	—	18.7	18.7
Partnership/joint venture interests (d)	—	—	1.6	1.6
Corporate stocks	6.5	—	—	6.5
Total	$16.4	$149.8	$20.3	$186.5

(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.

8. 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 private equity fund, which is also a 103-12 entity, and an interest in a limited partnership. Fair values of these investments have been estimated using the net asset value of the Plans' ownership interest of partner's capital.

The investment in the private equity fund, representing approximately 31 percent of the value of the investments in this category, by nature, is nonredeemable, and therefore cannot be redeemed with the fund. 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 commitment to the fund is $5.3 million, of which $2.8 million has been funded as of December 31, 2010.

The limited partnership is an open ended partnership that invests in limited liability companies and limited partnerships established to act as real estate investment vehicles. Redemption may occur on a quarterly basis with notice of 30 days, provided there are liquid assets available. In the case of illiquid investments, partial payments will be made on a pro rata basis relative to the size of all other redeeming partners' investments.

(e) 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.

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	0.6	—	0.6
Balance at December 31, 2009	20.3	18.7	1.6
Actual return on plan assets:			
Relating to assets still held at the reporting date	—	—	—
Relating to assets sold during the period	0.3	0.3	—
Purchases	6.3	—	6.3
Sales	(19.0)	(19.0)	—
Ending balance at December 31, 2010	$ 7.9	$ —	$ 7.9

8. EMPLOYEE BENEFITS (CONTINUED)

The valuation techniques and inputs used to measure fair value of the ERP 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 ERP 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, the consideration of non-binding bids from potential buyers and third party valuations.

Postretirement and Retiree Medical Benefit Plans

As of December 31, 2010, and 2009, 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, 2010, and 2009, the Company provided an employer-funded defined contribution RMA Plan to assist our 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 recognized $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 2010 and 2009, $5.3 million and $14.1 million of severance benefits were paid to Program participants.

8. EMPLOYEE BENEFITS (CONTINUED)

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

Plan Disclosures

The following tables disclose "pension benefits," which include the ERP and SERP 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, 2010, and 2009, and the accumulated benefit obligation at December 31, 2010, and 2009, are as follows:

	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
	(in millions)			
Change in benefit obligation				
Benefit obligation at beginning of year	$ 338.6	$ 288.0	$ 32.0	$ 25.1
Service cost	31.7	24.6	2.3	2.3
Interest cost	18.9	17.3	2.1	1.6
Actuarial (gains) losses	(11.2)	56.2	1.8	3.4
Benefits paid	(14.9)	(47.5)	(1.0)	(0.4)
Benefit obligation at end of year	$ 363.1	$ 338.6	$ 37.2	$ 32.0
Change in plan assets				
Fair value of plan assets at beginning of year	$ 186.5	$ 145.8	$ —	$ —
Actual return on plan assets	16.8	22.7	—	—
Company contributions	55.6	65.5	1.0	0.4
Benefits paid	(14.9)	(47.5)	(1.0)	(0.4)
Fair value of plan assets at end of year	$ 244.0	$ 186.5	$ —	$ —
Underfunded status of the plan	$(119.1)	$(152.1)	$(37.2)	$(32.0)
Accumulated benefit obligation (ABO)	$ 247.7	$ 209.5		

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	
	2010	2009	2010	2009
	(in millions)			
Current	$ 7.6	$ 4.4	$ 1.3	$ 1.5
Noncurrent	111.5	147.7	35.9	30.5
Net amount at December 31	$119.1	$152.1	$37.2	$32.0

The current portion of pension and other benefits represents the net present actuarial value of benefits to be paid over the next 12 months in excess of plan assets. There are no plan assets for the SERP and RMA Plan.

The Company does not expect any plan assets to be returned to it during the year ending December 31, 2011.

8. EMPLOYEE BENEFITS (CONTINUED)

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

	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
	(in millions)			
Unrecognized net actuarial loss	$(109.4)	$(130.3)	$ (3.9)	$ (2.1)
Unrecognized prior service cost	(1.7)	(1.8)	(14.4)	(15.8)
Unrecognized net transition obligation	—	—	(0.1)	(0.1)
Net amount at December 31	$(111.1)	$(132.1)	$(18.4)	$(18.0)

The following amounts were included in other comprehensive income (loss) during 2010:

	Incurred but Not Recognized	Reclassification Adjustment for Prior Period Amounts Recognized
	(in millions)	
Actuarial gain (loss)		
Pension benefits	$13.7	$7.2
Other benefits	(1.8)	—
	11.9	7.2
Prior service cost		
Pension benefits	(0.1)	0.2
Other benefits	—	1.4
	(0.1)	1.6
	$11.8	$8.8

Estimated amounts to be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during 2011 based on December 31, 2010, plan measurements are as follows:

	Pension Benefits	Other Benefits
	(in millions)	
Unrecognized prior service costs	$0.2	$1.4
Unrecognized actuarial losses	5.5	—

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

	Pension Benefits			Other Benefits		
	2010	2009	2008	2010	2009	2008
Discount rate	5.25%	5.75%	6.50%	5.68%	6.15%	6.50%
Rate of compensation increase	4.74%	4.92%	4.90%	—	—	—
Expected return on plan assets	7.75%	7.75%	7.75%	—	—	—

8. EMPLOYEE BENEFITS (CONTINUED)

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

	Pension Benefits			Other Benefits		
	2010	2009	2008	2010	2009	2008
			(in millions)			
Service cost	$ 31.7	$ 24.6	$ 28.0	$2.3	$2.3	$1.7
Interest cost	18.9	17.3	16.3	2.1	1.6	1.3
Expected return on plan assets	(14.3)	(10.0)	(11.5)	—	—	—
Recognized net actuarial losses	7.2	5.3	7.8	—	—	—
Prior service cost recognized	0.2	0.2	0.2	1.4	1.4	1.4
Curtailment/settlement loss recognized	—	—	4.2	—	—	—
Special termination benefits	—	—	9.1	—	—	1.3
	$ 43.7	$ 37.4	$ 54.1	$5.8	$5.3	$5.7

The assumed health care cost trend rate to be used for the next year to measure the expected cost of other benefits is 10.7 percent, with a gradual decline to 5.3 percent by the year 2015. This estimated trend rate is subject to change. The assumed health care cost trend rate can have a significant effect on the amounts reported. However, 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 2011, we do not expect to contribute to the ERP or 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,		
2011	$ 19.8	$ 2.1
2012	17.8	2.6
2013	17.8	3.1
2014	23.3	3.6
2015	27.9	4.1
2016 through 2020	199.8	34.7
Total	$306.4	$50.2

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 4 percent of base compensation, with an additional discretionary match, effective January 1, 2010. Prior to January 1, 2010, the limit on amounts eligible for the basic dollar-for-dollar matching contribution was 6 percent. 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 2010, 2009 and 2008, was $16.0 million, $17.4 million and $18.0 million, and is included within compensation and benefits expense in the consolidated statements of operations. The savings plan expense for 2010 includes a

8. EMPLOYEE BENEFITS (CONTINUED)

discretionary 1 percent match totaling $2.7 million which is included within compensation and benefits expense in the consolidated statements of operations. The retiree medical match for 2010 and 2009 totaled $1.4 million and $1.3 million and is included within compensation and benefits expense in the consolidated statements of operations.

On September 22, 2010, the Board of Governors approved the adoption of a new defined contribution component to the savings plan and the cessation of eligibility for participation in the ERP for all new hires beginning January 1, 2011. The Company's contributions for this new component are based on the participant's age plus years of service, and vesting is on a graduated scale for up to six years. The investment options are the same as for other monies in the savings plan. During 2011, current ERP participants will be given a one-time option to participate in this new contribution component instead of the ERP. For ERP participants electing the new retirement contribution, their accrued benefit in the ERP will be frozen, but future service with FINRA will allow for growth into vesting and eligibility for early retirement and/or early payment subsidies.

FINRA maintains a deferred compensation plan for officers under the provisions of Section 457(b) of the IRC. Eligible employees may contribute to the plan and, at its discretion, FINRA may make additional contributions to the plan. FINRA placed the assets of this plan within an irrevocable rabbi trust and consolidates this trust. As of December 31, 2010, $7.1 million of investments and $7.1 million of amounts due to plan participants are included in trading investments and accrued personnel costs, respectively, in the consolidated balance sheet, representing participant contributions to this plan and accrued earnings. As of December 31, 2009, $5.3 million of investments and $5.3 million of amounts due to plan participants are included in trading investments and accrued personnel costs, respectively, in the consolidated balance sheet, representing participant contributions to this plan and accrued earnings. As of December 31, 2010, and 2009, FINRA made no additional contributions to this plan.

FINRA maintains a defined contribution SERP for the Company's senior officers. FINRA makes annual contributions based on salary and a portion of incentive compensation. Contributions and earnings vest upon the earlier of: (i) the end of each third year of participation following such contribution; (ii) attainment of age 62; (iii) death; or (iv) a disabled participant's termination of employment. As of December 31, 2010, $5.5 million of investments and $5.5 million of amounts due to plan participants are included in trading investments and accrued personnel costs, respectively, in the consolidated balance sheet, representing FINRA's contributions to this plan plus accrued earnings. As of December 31, 2009, $4.0 million of investments and $4.0 million of amounts due to plan participants are included in trading investments and accrued personnel costs, respectively, in the consolidated balance sheet, representing FINRA's contribution to this plan plus accrued earnings.

9. 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 rent, property taxes and building operating costs. Certain of these leases also contain renewal options. Rent expense for operating leases was $27.3 million, $27.3 million and $26.5 million for the years ended December 31, 2010, 2009 and 2008, 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, 2010 (amounts are in millions):

Year ending December 31,	
2011	$ 30.7
2012	24.0
2013	20.0
2014	18.3
2015	16.8
Remaining years	73.2
Total minimum lease payments	$183.0

10. 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.

11. SUBSEQUENT EVENTS

On December 8, 2010, the Board of Governors approved the management-proposed data center strategy, which included establishing a primary data center in the New York metro area; setting up a secondary data center in a currently owned Rockville, Maryland, facility; hiring staff to manage and operate the centers; and acquiring the necessary hardware and software needed to operate the centers in 2011. Currently, HP operates FINRA's technology infrastructure at sites in North Carolina and Texas. By adopting the data center strategy, we will be able to deliver an enhanced disaster-recovery capability and we will be positioned to achieve cross market surveillance. The implementation of this strategy will replace our currently outsourced processes. An incremental investment of approximately $13.0 million, over the cost of supporting the North Carolina and Texas sites, is anticipated to build-out and provide the network structure for the two data centers.

On April 5, 2011, we executed a sublease to occupy 204,067 square feet of space over a nine year period in New York City, New York. This space will be used by our New York personnel from the consolidation of NASD and the member regulation operations of NYSE due to the expiration of all currently subleased NYSE space by July 29, 2012. The length of the sublease is nine years. Construction and tenant improvements related to the subleased space will total approximately $28.6 million. Future minimum lease payments will total $43.3 million over the nine year lease term.

11. SUBSEQUENT EVENTS (CONTINUED)

On May 27, 2011, we executed a lease for 36,156 square feet near the grounds where two of our buildings are located in Rockville, Maryland. The space will be used by our enforcement division, currently residing in Washington, DC, office space, for which the lease will expire in May 2012. The length of the lease is 10 years and 11 months, with an early termination option after the seventh year. Tenant improvements related to the leased space will total approximately $1.6 million. Future minimum lease payments will total $11.1 million over the 10 year and 11 month lease term.

Subsequent events have been evaluated through June 28, 2011, the date these financial statements became available to be issued.

FINRA Board of Governors as of February 7, 2011

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