

EMTA, Inc.

Consolidated Statements of Financial Position

	December 31,	
	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,898,019	\$ 4,026,521
Short-term investments	1,273,449	—
Assessments receivable	35,000	—
Prepaid expenses and other assets	13,700	11,119
	<u>3,220,168</u>	<u>4,037,640</u>
Total current assets		
Property and equipment:		
Leasehold improvements	89,112	89,112
Computer equipment and network	144,076	144,076
Furniture and fixtures	80,607	80,607
Telecommunication equipment	39,931	39,931
	<u>353,726</u>	<u>353,726</u>
Less accumulated depreciation and amortization	<u>(353,726)</u>	<u>(331,449)</u>
	—	22,277
Investments	<u>1,247,000</u>	<u>1</u>
Total Assets	<u><u>\$ 4,467,168</u></u>	<u><u>\$ 4,059,918</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,022,904	\$ 702,007
Unearned Membership dues	30,000	35,000
Total current liabilities	<u>1,052,904</u>	<u>737,007</u>
Deferred rent expense	—	12,443
Total liabilities	<u>1,052,904</u>	<u>749,450</u>
Net assets	<u>3,414,264</u>	<u>3,310,468</u>
Total Liabilities and Net Assets	<u><u>\$ 4,467,169</u></u>	<u><u>\$ 4,059,918</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

EMTA, Inc.

Consolidated Statements of Activities

	For the Year Ended December 31,	
	2002	2,001
Revenues and gains		
Membership dues	\$ 1,490,250	\$ 1,411,250
Gain on sale of EMCC shares	602,503	—
Directors' assessments	626,000	650,000
Investment income	84,063	159,704
Other	29,699	31,574
	<hr/>	<hr/>
Total revenue	2,832,515	2,252,528
	<hr/>	<hr/>
Expenses		
Compensation and benefits	2,163,097	2,188,846
Occupancy	204,374	135,715
Office supplies and administration	64,147	68,677
Depreciation and amortization	22,277	20,073
Telecommunications	55,015	25,624
Legal	129,622	(186,779)
Public relations and annual report	22,039	632
Audit, tax and computer consultants	39,134	30,272
Conferences, receptions and meetings	8,554	10,904
Travel, lodging, meals and other	20,460	25,400
	<hr/>	<hr/>
Total expenses	2,728,719	2,319,364
	<hr/>	<hr/>
Increase (decrease) in net assets	103,796	(66,836)
Net assets, beginning of year	3,310,468	3,377,304
	<hr/>	<hr/>
Net assets, end of year	\$ 3,414,264	\$ 3,310,468
	<hr/>	<hr/>

The accompanying notes are an integral part of these consolidated financial statements.

EMTA, Inc.

Consolidated Statements of Cash Flows

	For the Year Ended December 31,	
	2002	2,001
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 103,796	\$ (66,836)
Adjustments to reconcile increase (decrease) in net assets to net cash (used for) provided by operating activities:		
Depreciation and amortization	22,277	20,073
Deferred rent expense	(12,443)	(12,163)
(Increase) in assessments receivable	(35,000)	—
(Increase) decrease in prepaid expenses and other assets	(2,581)	2,420
Increase (decrease) in accounts payable and accrued expenses	320,897	(300,119)
Decrease in unearned Membership dues	(5,000)	(150,000)
	<u>391,946</u>	<u>(506,625)</u>
Net cash (used for) provided by operating activities		
Cash flows from investing activities:		
Investments purchased	(2,520,448)	—
Payments for purchases of property and equipment	—	(3,214)
	<u>(2,520,448)</u>	<u>(3,214)</u>
Net cash used for investing activities		
Decrease in cash and cash equivalents	(2,128,502)	(509,839)
Cash and cash equivalents, beginning of year	<u>4,026,521</u>	<u>4,536,360</u>
Cash and cash equivalents, end of year	<u>\$ 1,898,019</u>	<u>\$ 4,026,521</u>

The accompanying notes are an integral part of these consolidated financial statements.

EMTA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

1. Organization

EMTA, Inc. (“EMTA”) is a non-profit corporation, formed in 1990 to promote the orderly development of fair, efficient and transparent trading markets for Emerging Markets instruments. EMTA’s primary sources of revenue are Membership dues and Directors’ assessments. All revenues and assets are unrestricted.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Operations of Subsidiaries

The consolidated financial statements include the accounts of EMTA and its four subsidiaries described below. Intercompany accounts and transactions are eliminated in consolidation.

The subsidiaries were organized in 1996 to provide services to participating Members, for which they charge fees, in carrying out EMTA’s mission. The subsidiaries include: (a) Match-EM, Inc., which operated an electronic post-trade matching and confirmation system, (b) Net-EM, Inc., which operated a multilateral netting and clearing facility for outstanding trades of loans and other instruments, (c) Clear-EM, Inc., which served as EMTA’s interface with Emerging Markets Clearing Corporation (EMCC), and (d) EMTA Black Inc., a holding company that is wholly owned by EMTA and that owns 100% of the common stock of the above three subsidiaries. The operations of Match-EM and Clear-EM were discontinued in November 1999 and the operations of Net-EM were discontinued in September 2000.

Membership Dues and Directors’ Assessments

EMTA had three membership categories during 2002 and 2001:

Full Members – active market participants that trade or invest in Emerging Markets instruments;

Associate Members – market participants that trade or invest in Emerging Markets instruments, but which are smaller and less active than Full Members; and

Affiliate Members – non-market participants that are nevertheless interested in Emerging Markets trading such as advisors, vendors, law firms, rating agencies and consultants.

Membership dues and Directors’ assessments for each calendar year are billed in advance and recorded as unearned in the Consolidated Statement of Financial Position at the beginning of such year. The unearned dues and assessments are then amortized to income throughout the year as earned. Members not paying their annual dues within 60 days of billing may be suspended from membership. The Board of Directors may levy special assessments on Members to defray certain expenses. Such special assessments are to be equal for all Members of the same class. Additionally, the Board may agree to levy assessments on Directors (payable by the Members that employ them) to meet working capital deficiencies.

EMTA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Excess funds are maintained in either: (a) an interest-bearing money market account with a bank that is also an EMTA Member or (b) an income-producing mutual fund managed by the same bank. This mutual fund invests in high quality short-term obligations of corporations, governments and banks and is carried at fair value.

Allowance for Doubtful Accounts

The allowance for doubtful accounts provides for the risk of losses arising from non-collection of dues, assessments and fees. Amounts included in the allowance are specifically reserved for, and the offsetting charge is recorded to the applicable revenue caption in the Consolidated Statement of Activities. Any subsequent recoveries are credited to the same caption. The allowance is increased by provisions for doubtful accounts and reduced by write-offs and recoveries of allowances previously provided. Write-offs are recorded when, in the judgment of management, a receivable is considered uncollectible. Such write-offs amounted to \$200,000 and \$142,500 in 2002 and 2001, respectively.

Property and Equipment

Property and equipment are stated at cost. Amortization of leasehold improvements is provided on a straight-line basis over the shorter of the estimated lives of the improvements or the related lease, beginning at the lease inception date. Depreciation of computer, network and telecommunication equipment is provided on a straight-line basis over estimated useful lives of three years. Depreciation of furniture and fixtures is provided on a straight-line basis over estimated useful lives of five years.

Investments

Investments consist primarily of certificates of deposit and are carried at cost adjusted for permanent diminutions in value. Investments with maturities less than one year are classified as short-term investments.

Income Taxes

EMTA is exempt from income tax under Section 501(c)(6) of the Internal Revenue Code and similar provisions of state and city tax codes. However, EMTA is subject to tax on any unrelated business taxable income. The operations of EMTA's subsidiaries are also subject to income tax, but taxable income generated since inception in 1996 has not been material.

EMTA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

3. Summary of Membership Dues

The individual components of Membership dues are set forth below:

	Year ended December 31,	
	2002	2001
Membership dues:		
Full	\$ 970,000	\$ 876,250
Associate	419,000	415,000
Affiliate	101,250	120,000
Total Membership dues	<u>\$ 1,490,250</u>	<u>\$ 1,411,250</u>

4. Summary of Expenses

Following is a summary of program and non-program expenses:

	Year ended December 31,	
	2002	2001
Program expenses:		
Direct:		
Documentation and Market Practices	\$ 129,622	\$ (194,698)
Conferences, receptions and meetings	8,554	10,904
Advocacy	—	8,838
Indirect (primarily staff and facilities costs)	<u>1,768,114</u>	<u>1,714,785</u>
Total program expenses	<u>1,906,290</u>	<u>1,539,829</u>
Non-Program expenses:		
Direct:		
Public relations and membership development	22,039	632
General administration	39,134	29,353
Indirect (primarily staff and facilities costs)	<u>761,256</u>	<u>749,550</u>
Total non-program expenses	<u>822,429</u>	<u>779,535</u>
Total expenses	<u>\$ 2,728,719</u>	<u>\$ 2,319,364</u>

Prior to 2001, EMTA had established an accrual for certain legal fees relating to Emerging Markets industry documentation projects that management had estimated would cost \$350,000. On final negotiation of amounts due for these projects, this accrual was reduced by \$200,000, which was credited in 2001 to the respective expense line in the Consolidated Statement of Activity.

EMTA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

5. Office Space Leases

EMTA's office space lease at 63 Wall Street became effective in March 1995 and expired January 2003. The annual payments for rent were \$124,614 ("base") plus EMTA's proportionate share of increases in property taxes and other building expenses after the first year ("escalation"), except that EMTA made no payments for six months in 1995 and for three months in 1996. Rent expense includes the year's ratable share of the total base amount to be paid over the life of the lease plus the escalation amount for the year, which totaled \$124,459 in 2002 and \$113,056 in 2001. In addition, EMTA earned \$7,350 by subleasing a portion of its 63 Wall Street office space for a portion of 2002, which amount was credited to rent expense. An EMTA Member employing a Director provided a letter of credit (subject to partial reimbursement by three other Members that also employ Directors) providing additional security to the landlord of EMTA's performance under the lease.

Effective September 26, 2002, EMTA entered into an arrangement with The Bond Market Association ("TBMA"), whereby EMTA began subleasing office space at 360 Madison Avenue, including supporting computer and office services, from TBMA for \$17,802 per month. As part of this arrangement, four employees separated from EMTA and were hired by TBMA on January 1, 2003. Starting on that date, EMTA agreed to begin paying TBMA for accounting and technology services provided by TBMA staff. EMTA will pay a mutually agreed upon amount based on such services used. The entire arrangement is subject to continual approval by both parties and can be abrogated at any time.

6. Employee Benefit Plans

EMTA has two Plans, descriptions of which are set forth below:

- a 401(k) Plan, whereby participants are allowed to contribute up to 15% of taxable compensation, subject to statutory limitations. EMTA matches the first 4% of such contributions. All employees are eligible to participate, and balances in participants' accounts are fully vested at all times; and
- a SEP-IRA arrangement, whereby EMTA contributes a certain percentage of eligible compensation each year, at the election of EMTA and subject to statutory limits. All staff employed at year end are eligible to participate, and balances in participants' accounts are fully vested at all times.

Contributions to the above two Plans totaled \$197,036 in 2002 and \$158,867 in 2001, which are included in compensation and benefits in the Consolidated Statement of Activities.

EMTA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

7. Investment in Emerging Markets Clearing Corporation (“EMCC”)

In 1996, EMTA entered into an agreement with a subsidiary of National Securities Clearing Corporation (“NSCC”) to develop EMCC, which clears trades of Emerging Markets debt instruments. EMTA coordinated industry decision-making regarding EMCC’s development. In this connection, EMTA provided management and legal expertise and certain administrative services, including billing and collection of EMCC’s initial funding requirements.

In March 1999, EMTA received a minority interest of 300 shares of Class A voting stock in EMCC in exchange for these services rendered by EMTA in connection with EMCC’s formation, organization and development. The recognized cost of this investment in EMCC of \$95,960 was attributable primarily to unreimbursed staff expenses incurred in 1997.

In the fall of 1999, EMTA made an additional cash investment in EMCC of \$132,000, representing 132 Class B non-voting shares (an amount derived from the approximate revenue received from EMCC by Clear-EM during 1998).

During 1999, EMTA management determined that the appropriate carrying value of its investment in EMCC was \$1, and a one-time charge of \$227,959 was taken at that time.

In connection with a plan by EMCC to become a wholly-owned subsidiary of Depository Trust & Clearing Corporation, EMTA entered into an agreement with EMCC in November 2002 to sell its shares of EMCC common stock back to EMCC in early 2002 (the “Agreement”). Because the consummation of the Agreement was contingent on its being completed by March 31, 2002, no gain was accrued in the financial statements at December 31, 2001. Pursuant to the Agreement, EMTA received proceeds of \$602,504 from EMCC in March 2002 for EMCC shares tendered. This amount, less the \$1 carrying value, was recorded as a gain in 2002.