

1978  
ANNUAL  
REPORT

# CHAIRMAN'S AND PRESIDENT'S REPORT

## A Very Good Year

1978 was a very good year in the OTC Market, setting a share volume record with 2.76 billion NASDAQ-quoted shares traded, 43% more than in 1977 and 24% more than in 1972, the previous record year. Three NASDAQ indexes—the Composite, the Industrial and the Utility—reached all-time highs for the eight years of the NASDAQ System, before the fourth-quarter decline in all the markets, which still left the NASDAQ Composite Index with a gain of more than 12% for the year.

## The NASDAQ System

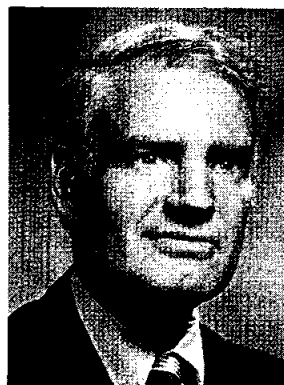
The NASDAQ System was materially upgraded by the installation of new central computers possessing double the memory of the old ones and by a series of enhancements, such as the improved Consolidated Quotations Service, to the System. The number of NASDAQ terminals in the offices of market makers and institutional subscribers rose to more than 1,150, and market data vendors provided NASDAQ information to more than 40,000 terminals used by registered representatives in the U.S. and abroad. For the future, plans were initiated to upgrade the System's four regional concentrators in 1979, to increase System capacity.

## Market Surveillance

Market Surveillance of the heavy NASDAQ/OTC traffic was intensified, as the NASDAQ computers for the first time provided on-line reports—1,300 of them—of price parameter breaks in NASDAQ securities, enabling the Market Surveillance Section to inquire immediately into the reasons for the unusual market activity. Where it appeared that material corporate developments accounted for the activity, quotations halts were initiated to allow the investing community to digest the news. There were 210 quotations halts, compared to 55 in 1977, because of the on-line reports, more merger activity and because issuers became more aware of the usefulness of the halts to their shareholders and to the maintenance of fair and orderly markets.

## Broker/Dealer Surveillance

Examinations of member firms by the NASD's regulatory personnel met all the Association's pre-



scribed frequency cycles. The examination reports reflected a continuing high level of member compliance and, as a result, the number of disciplinary actions which had to be taken by the District Committees was approximately the same as in 1977.

Only two firms for which the NASD had financial examining responsibility were placed in Securities Investor Protection Corporation (SIPC) liquidation, the smallest number of such cases since the inception of SIPC in 1970.

## Services to Issuers

Nearly 2,600 issuer companies benefitted from being quoted on the NASDAQ system, and approximately 800 which could have listed preferred to stay on NASDAQ. Issuers were represented on the NASD's Board and key committees, and their recommendations weighed heavily in the Association's suggestions to the SEC on criteria for National Market System securities. The information flow to NASDAQ companies will grow in 1979, as they receive Monthly Statistical Reports on the performance of their securities.

## Increasing Regulatory Efficiency

Two noteworthy steps were taken to increase the efficiency and to reduce the costs of the regulatory mechanisms for the securities industry. First, the NASD by agreement with four exchanges assumed the examining responsibility for some 200 dual NASD/exchange member firms, eliminating duplicative inspection and saving the firms and the industry time and money. Secondly, the Association took over the processing of registration applications for a number of exchanges and state securities agencies, which will produce further industry savings in years to come.

## Regulatory Policy Developments

The Association's principal effort in the regulatory policy area was concerned with rule revision

and interpretation to reinforce Section 24 of its Rules of Fair Practice, which deals with securities distribution practices and which had been called into question as a result of the case of *Papilsky v. Berndt*. An extensive package of rule proposals, designed to prevent practices inimical to the securities distribution system, was submitted to the membership for comment, approved by the Board of Governors and filed with the SEC, where it was awaiting action at the end of the year.

Another important Association proposal, for the regulation of members who conduct an options business on an access basis, received SEC approval in November, and new advertising rules were adopted, harmonizing all self-regulatory organizations' advertising review practices.

Other governmental agencies took regulatory policy decisions which increased the recognition of OTC securities. The Federal Reserve Board for the first time made certain OTC corporate bonds eligible for margin, whereas previously only exchange-listed bonds had qualified. Several states have extended, and others are now considering extending, to OTC securities the "blue chip" exemption from new issue registration hitherto reserved for listed securities.

### The National Market System

Looking to the future, the Association continued its contributions toward the development of a National Market System.

The Consolidated Quotations Service on NASDAQ was significantly enhanced. To the quotations on NYSE-listed securities displayed in 1977, CQS added quotations on AMEX and certain regional exchange-listed issues. Also, CQS added transaction information on all quoted issues and made provision for the optional display of size when quotations were good for more than a unit of trading.

In response to the SEC's major release regard-

ing the National Market System, the NASD supported the Commission's proposal that certain OTC securities should be traded in the System, and sent to the Commission its suggested criteria for all System securities.

Also, early in the year the Association submitted a detailed *Technical Plan* outlining the possible development of National Market System facilities.

### A People Business

During the year, the membership of the NASD grew for the first time since 1970, from 2,772 members at the beginning of 1978 to 2,813 at its end. The financial condition of the Association continued to be sound, and the condition of its wholly-owned subsidiary, NASDAQ, Inc., was such that its Board of Directors was able to authorize a refund of \$1.35 million, or 10% of subscriber billings for NASDAQ services during Fiscal Year 1978, compared to a refund of \$1 million, or 8% of subscriber billings, in the prior year. At present, all NASDAQ rates are being reviewed, with an eye to reducing the NASDAQ rate structure.

The accomplishments of the NASD in 1978 were made possible by the participation of hundreds of dedicated volunteers from the securities industry and the issuer community. Since this is indeed a people business, an abundance of capable and enthusiastic volunteers, supported by an experienced staff, should produce meaningful results again in 1979.

Respectfully submitted,

*David W. Mesker*

David W. Mesker, Chairman

*Gordon S. Macklin*

Gordon S. Macklin, President

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# THE OTC MARKET AND THE NASD

The broad regulatory responsibility of the NASD in 1978 embraced transactions in the many areas of the OTC Market, including:

- Overview**
- Actively traded domestic common stocks, foreign stocks and miscellaneous securities quoted on the NASDAQ communications system and traded in the OTC Market;
  - Thousands of other stocks not quoted on NASDAQ and less actively traded;
  - Listed securities traded off-board;
  - New issues of securities, both debt and equity, including intra-state offerings;
  - Municipal securities;
  - Corporate OTC bonds;
  - Variable contracts and other insurance company products;
  - Mutual fund shares; and
  - Direct participation programs.

Through its ownership of the NASDAQ System, the NASD provided regulation and communications services to trading in NASDAQ securities, whose 1978 highlights were that:

## NASDAQ Securities

*Share prices* as measured by the NASDAQ Composite Index in September rose to their highest level in the eight years of the NASDAQ System;

*Securities on NASDAQ* numbered 2,582 at the end of the year, up from 2,575 at the beginning;

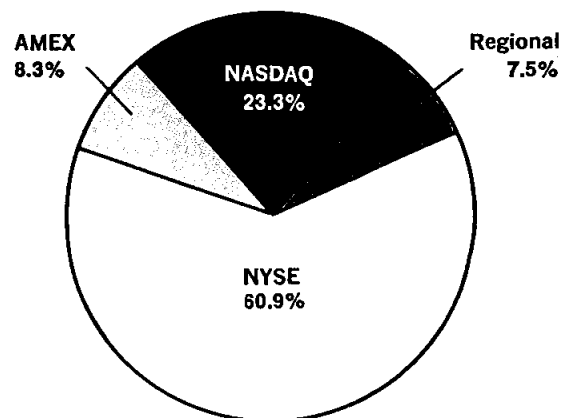
*Market value* of NASDAQ securities was \$78.8 billion at year-end, up from \$72.7 billion;

*Share volume* was 2.762 billion, up 43% over 1977 and a record for the eight years of the NASDAQ System; and

*Dollar value* of share volume was \$36.141 billion, up 46.5% over 1977 and an eight-year record.

## Trading in NASDAQ and Listed Securities

	1978 Share Volume
NASDAQ	2,762,499,000
American Stock Exchange	988,559,000
Regional U. S. Exchanges	883,932,000
New York Stock Exchange	7,205,059,000

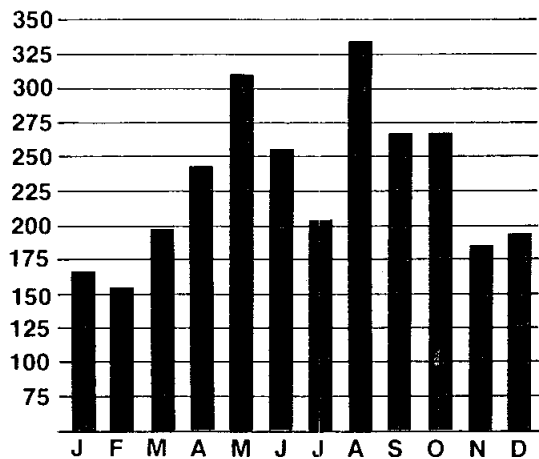


## NASDAQ VOLUME

### 1978 MONTHLY SHARE VOLUME

2,582 securities on December 29, 1978

Millions of Shares



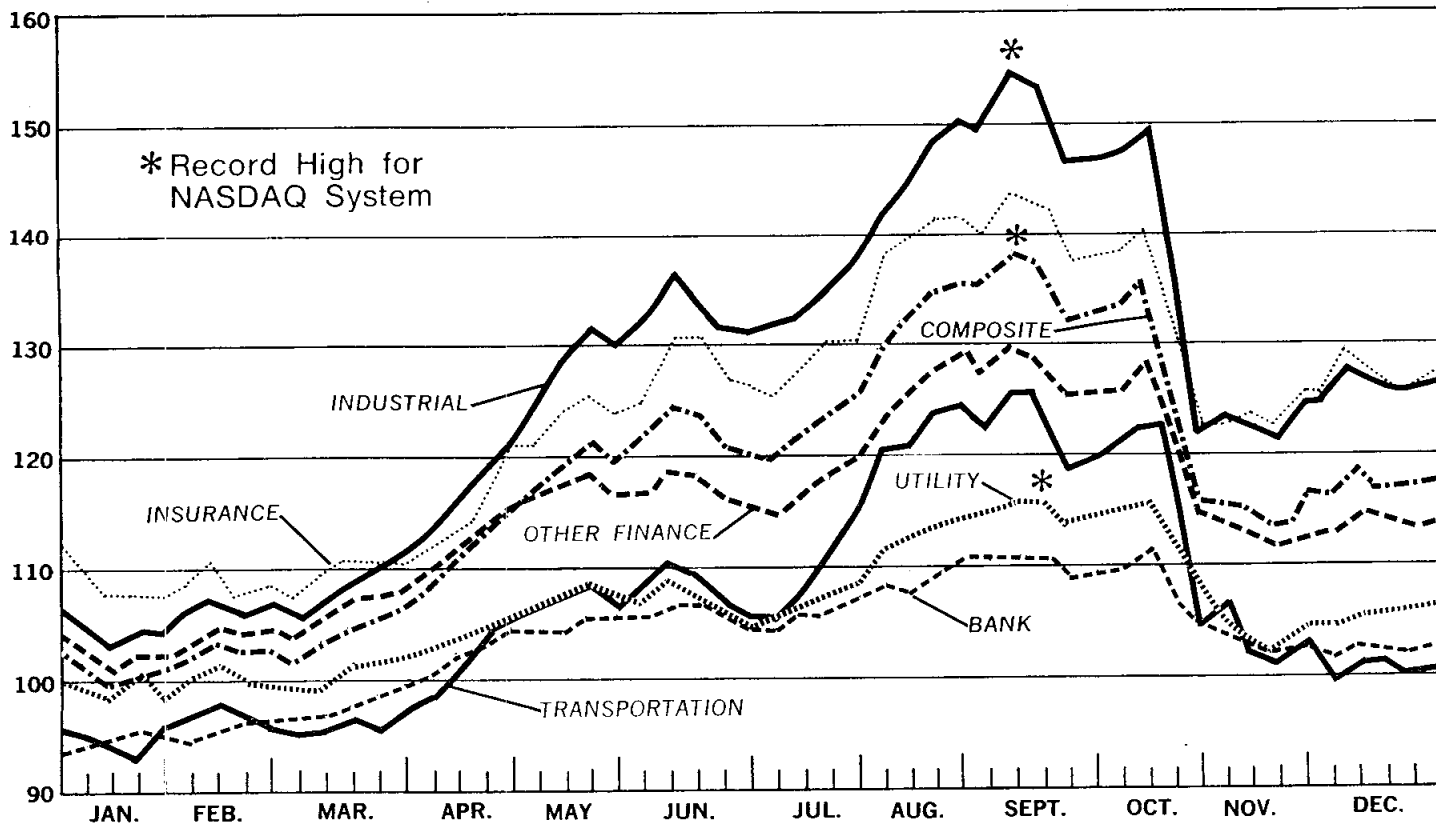
### ANNUAL SHARE VOLUME 1972-1978

1978 - 2,762,499,000  
 1977 - 1,932,100,000  
 1976 - 1,683,933,000  
 1975 - 1,390,412,000  
 1974 - 1,179,723,000  
 1973 - 1,681,064,000  
 1972 - 2,220,925,000

## NASDAQ STOCK PRICE INDEXES (WEEKLY CLOSING VALUES)

### 1978

Index: February 5, 1971 = 100



# MARKET MAKER COMPETITION

Key factors in the over-the-counter market are the competing market makers, dealers who buy for and sell from their own inventories of securities. The market maker system leads to:

- Appropriate pricing of securities through competition;
- A range of choices for investors as to where to buy or sell; and
- Multiple merchandising of issuer companies' securities through a number of outlets.

At the end of 1978, there were 355 market makers in NASDAQ/OTC securities. By the scale of their activities, these market makers were grouped as follows:

Number of Markets Made	by	Number of Firms
500+		7
400 - 499		5
300 - 399		3
200 - 299		6
100 - 199		35
50 - 99		58
25 - 49		62
13 - 24		59
6 - 12		65
1 - 6		55

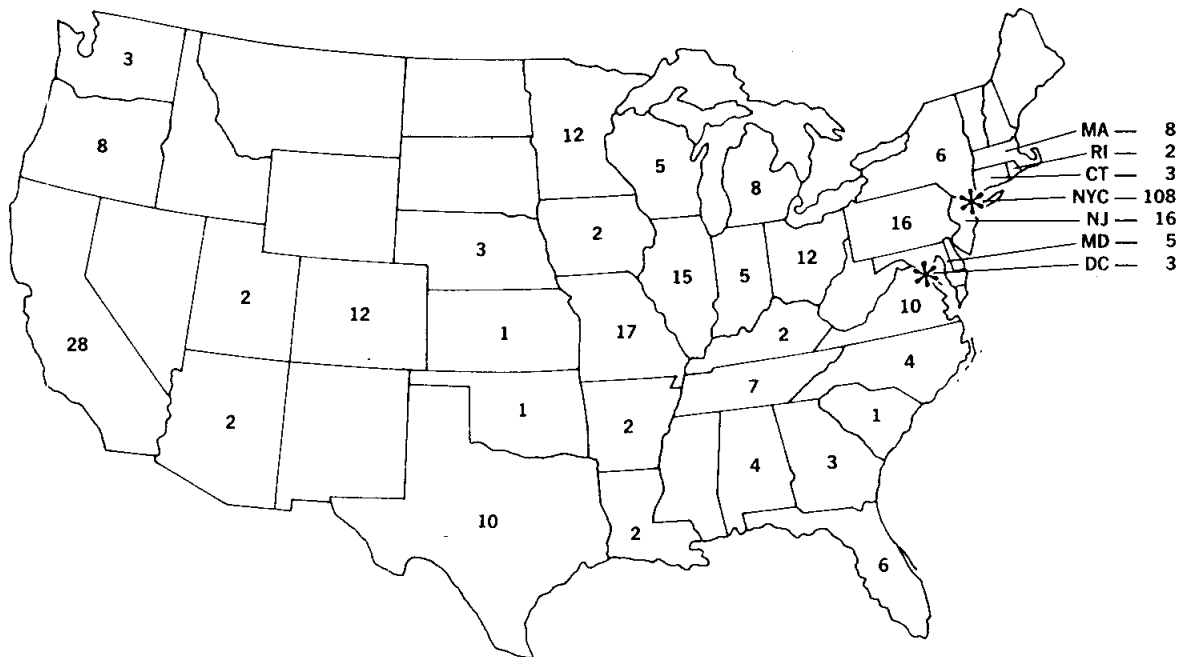
Altogether, there were almost 19,000 market making registrations in NASDAQ securities by the 355 market making firms at the end of the year.

Thus there was an average of 7.3 market makers in each issue on NASDAQ.



*Traders at market making firm check NASDAQ screens for stock quotations and negotiate transactions by telephone.*

Market makers are located all across the U. S. (below), and are of many different types. Some are exclusively market makers in OTC securities, both quoted on NASDAQ and not. Others are the OTC departments of firms which do a general securities business. Some specialize in certain categories of securities, such as industrial, bank or utility stocks. Others concentrate their efforts on stocks of local and regional enterprises. The geographic spread of the market makers and the variety of their operations give the OTC Market its breadth, diversity and responsiveness to investor and issuer interests.

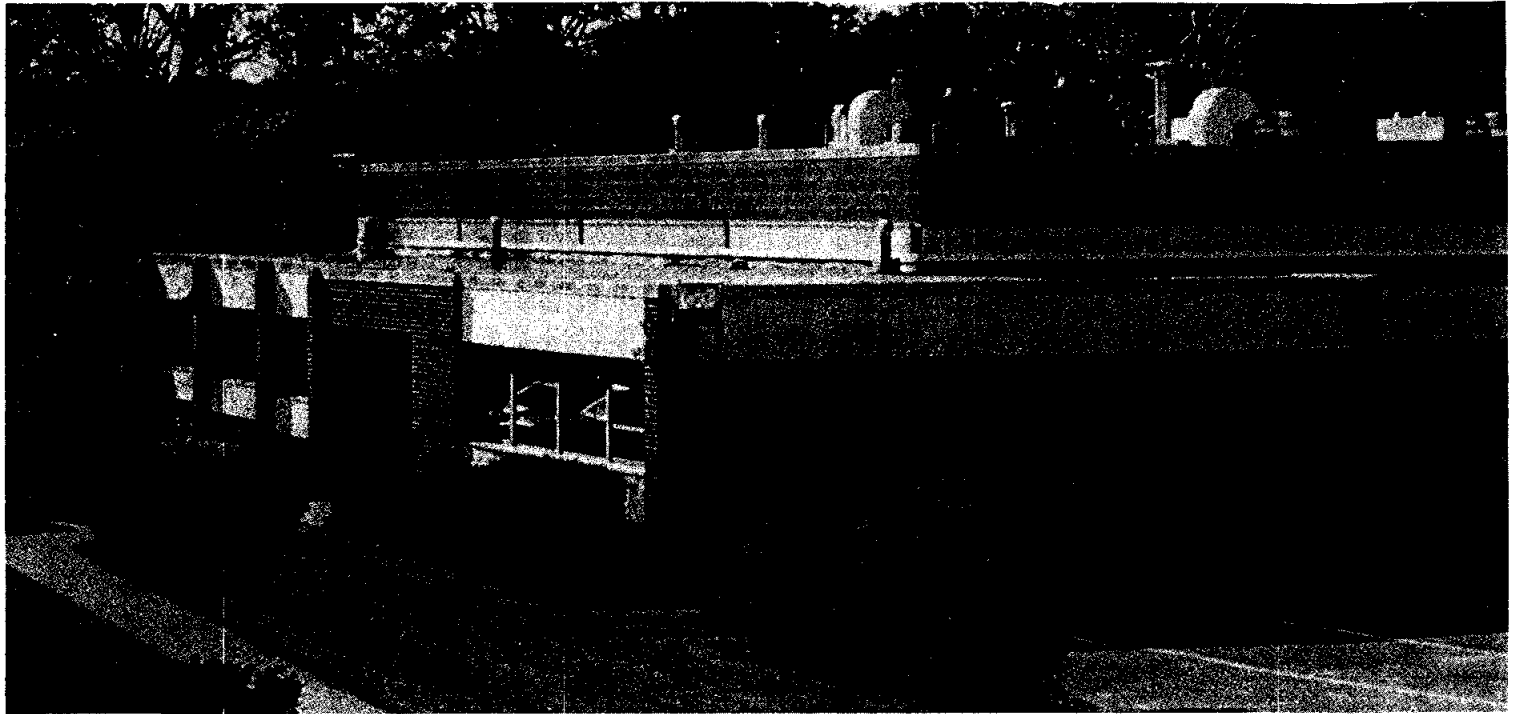


Of the 355 NASDAQ market makers, 247—or more than two-thirds—had their main offices in 36 states and the District of Columbia, while 108 were headquartered in New York City.

### Rules for Market Makers

While competition is an important regulatory force for market makers in NASDAQ and other OTC securities, they are subject to NASD surveillance, examination and regulation. Those making markets in NASDAQ securities are governed by the basic rules of the NASDAQ System, which require them to: enter both a bid and asked quotation on a security, and to be good for at least

100 shares on either side; enter only quotations related to the prevailing prices in a security; and secure excused withdrawal status to suspend quotations temporarily, which prevents them from jumping in and out of a security during the day. Violations of these and other rules are subject to the NASD's disciplinary action and to appropriate penalties. (P. 9)



*Building in Trumbull, Connecticut houses NASDAQ Central Computer Complex.*

## THE NASDAQ SYSTEM

### A Communications Facility For Market Makers, Investors, Regulators

The NASDAQ System, a nationwide hookup of computer terminals, is a communications facility for market makers, investors and regulators. Through their NASDAQ terminals, market makers enter their quotations on stocks in which they make markets, for display on all the terminals of the System, and they see on their screens the quotations of all other market makers.

The total number of terminals employed by market makers to enter quotations was 1,027 at the end of 1978, up from 977 at the beginning of the year. These terminals were installed at some 550 locations.

At the end of 1978 there were 132 additional NASDAQ terminals, up from 122 at the start of the year, which display market maker quotations but have no quotation entry capability. Many of these terminals were employed by institutions and others were used by market makers, to observe quotations in the NASDAQ System.

### The Central Computer Complex, Operations, Traffic

The heart of the NASDAQ System is its Central Computer Complex located in Trumbull, Connecticut (above). The complex was substantially upgraded in 1978 by the installation of two UNIVAC 1100/22 computers, each with 512,000 words of memory, to replace UNIVAC 1108s with half as much memory capacity.

Traffic to and from the NASDAQ Central Computer Complex flows through four regional concentrators in Atlanta, Chicago, New York and San Francisco. In 1978, preparations were made for a major upgrading of the concentrators, which will increase System reliability, shorten response time and augment System capacity to add new services.

During 1978, the NASDAQ System processed an average of 842,367 calls per day, with an average response time of less than three seconds. Peak traffic reached 1,205,015 calls. Downtime at the Central Computer Complex was less than 1/10 of 1% of total operating time.



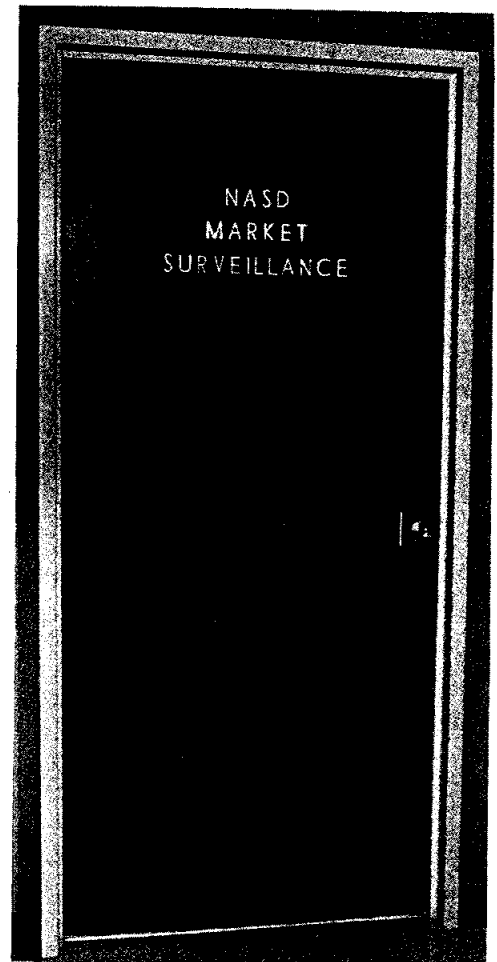
## The NASDAQ Computer As A Regulatory Tool

The NASDAQ Central Computer Complex plays a major part in the continuous surveillance of trading activity in NASDAQ securities, by reporting to the NASD's Market Surveillance Section in Washington all instances of unusual stock price and volume activity which it detects.

In early 1978, the computer's effectiveness for surveillance was enhanced, as an on-line capability to report unusual price moves was added to it to supplement its overnight Stock Watch Report. Through the on-line capability the Market Surveillance Section was notified, on a real-time basis, of 1,303 stock price breaks during the year, and promptly contacted market makers and NASDAQ issuers to ascertain the reasons for the unusual activity. Where NASDAQ issuers indicated that undisclosed corporate developments might be accounting for the activity, Market Surveillance recommended immediate disclosure of the developments and a quotations halt in the stock, to allow for complete dissemination of the news to the investing public.

The number of NASDAQ quotations halts increased significantly during 1978, to 210 compared to 55 during 1977. The increase was due to the heavy market activity, to the computer's new on-line reporting capability, to greater merger activity involving NASDAQ companies and to growing awareness on the part of issuers that quotations halts are helpful to the maintenance of fair and orderly markets in their stocks and are beneficial to their shareholders.

All told, the Market Surveillance Section conducted 1,686 inquiries into unusual activity in NASDAQ securities during 1978. These inquiries resulted in 95 investigations and, subsequently, the referral of 11 cases to NASD District Offices, the SEC and other agencies for further investigation and disciplinary action, where appropriate.



*Market Surveillance Section operates inside NASD Washington headquarters.*

### NASDAQ, Inc.

The NASDAQ System is owned by NASDAQ, Inc., a wholly-owned subsidiary of the NASD.

The NASDAQ, Inc. Board of Directors in 1978 consisted of David W. Mesker, Chairman, Eugene Arnold, Jr., William R. Hambrecht, Raymond J. Kiernan, J. Stephen Putnam, Robert W. Swinarton, John A. Wing, John R. Winsor and Gordon S. Macklin, President.

The NASDAQ, Inc. Board in 1978 refunded \$1.35 million to System subscribers, or 10% of their NASDAQ billings between October 1, 1977 and September 30, 1978, compared to a refund of \$1 million, or 8% of billings, in the previous year.

Bunker Ramo Corporation, the builder of the NASDAQ System, operates it under contract to the NASD.



*Board of NASDAQ, Inc. meets in NASD Executive Office. Chairman Mesker is second from left.*

## INVESTOR INFORMATION,

### From the NASDAQ Computer

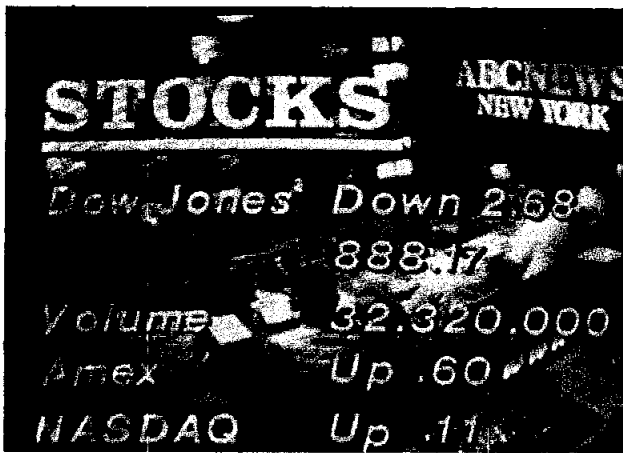
Investors are enabled to follow trends in the OTC Market and price and volume activity in its specific securities through information transmissions from the NASDAQ Central Computer Complex to (1) the media wire services and (2) specialized vendors of stock market information.

### . . . Through the Media

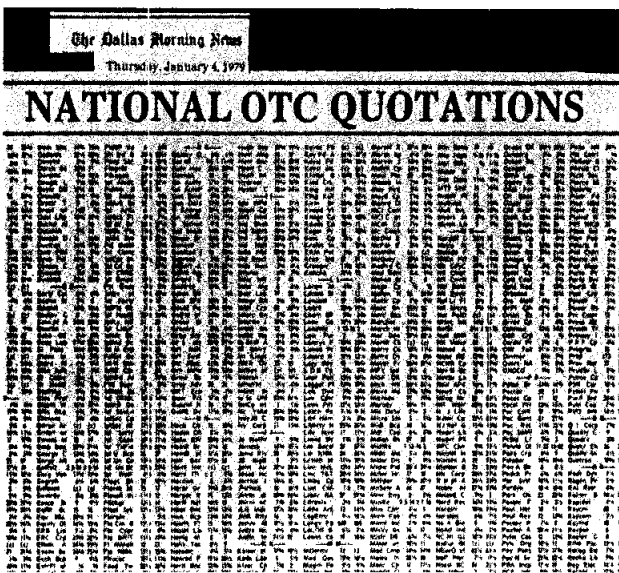
The media wire services relay general NASDAQ/OTC statistics to the broadcast media. In 1978, ABC-TV network news (upper left) joined the Public Broadcasting Service in broadcasting NASDAQ data, and several hundred more radio stations added the data to their stock market reports. The wire services transmit NASDAQ stock tables to newspapers across the country, who print them (center left) more or less extensively according to the space they have available. In 1978, four major newspapers more than doubled their coverage of NASDAQ stock tables, some 60 papers published quotations on nearly all or on a majority of NASDAQ stocks and another 250 papers published information on NASDAQ stocks of particular local interest.

### . . . And Desk-Top Terminals

Specialized vendors of stock market information send NASDAQ stock and market data to desk-top computer terminals (bottom left) located mainly in broker/dealers' offices throughout the U.S. and the free world. The number of such terminals with NASDAQ data rose from 34,680 at the beginning of 1978 to 40,474 at the end of the year. These so-called Level 1 terminals enable securities salesmen to quote up-to-the-minute representative bid/ask prices on NASDAQ securities to the investing public.



ABC televises NASDAQ and other indexes in August 1978.



Dallas Morning News publishes National NASDAQ/OTC List daily.



Desk-top terminal from one of several vendor firms displays NASDAQ data.

### Resolution of Investor Disputes

Investors in 1978 relied extensively on the NASD's nation-wide network of District Offices and Committees to have complaints against broker/dealers examined and resolved. The Districts processed 575 such complaints, in many instances persuading investors and the broker/dealers to reach settlements and in other cases taking disciplinary action against broker/dealers who had committed rule violations in their dealings with customers.

A number of investors who made money claims against broker/dealers because of alleged errors or improprieties in the handling of their accounts availed themselves of the NASD's arbitration facilities. The Association required all its member firms to submit to arbitration and to accept the arbitrators' awards where investors were willing to do so. The arbitration facilities in 1978 handled 102 cases involving customers of member firms, and 41 intra-industry disputes. Under streamlined procedures approved by the SEC in early 1978, aggrieved investors were enabled through a single filing and a fee of \$15.00 to have claims of \$2,500 or less resolved quickly by a single arbitrator.

# INVESTOR PROTECTION

By the NASD . . .

The NASD exercises regulatory, examination and disciplinary authority over broker/dealer firms which are members of the Association and over securities salesmen registered with it (right), and thereby seeks to provide protection for OTC investors.

. . . Through Broker/Dealer Surveillance

The NASD in 1978 had more than 450 staff employees in its 13 geographical Districts and its Washington headquarters who were engaged in regulatory activities, including on-site examinations of broker/dealers' books and records, sales practices and financial conditions, to check their compliance with Federal and state regulations and the NASD's own Rules of Fair Practice.

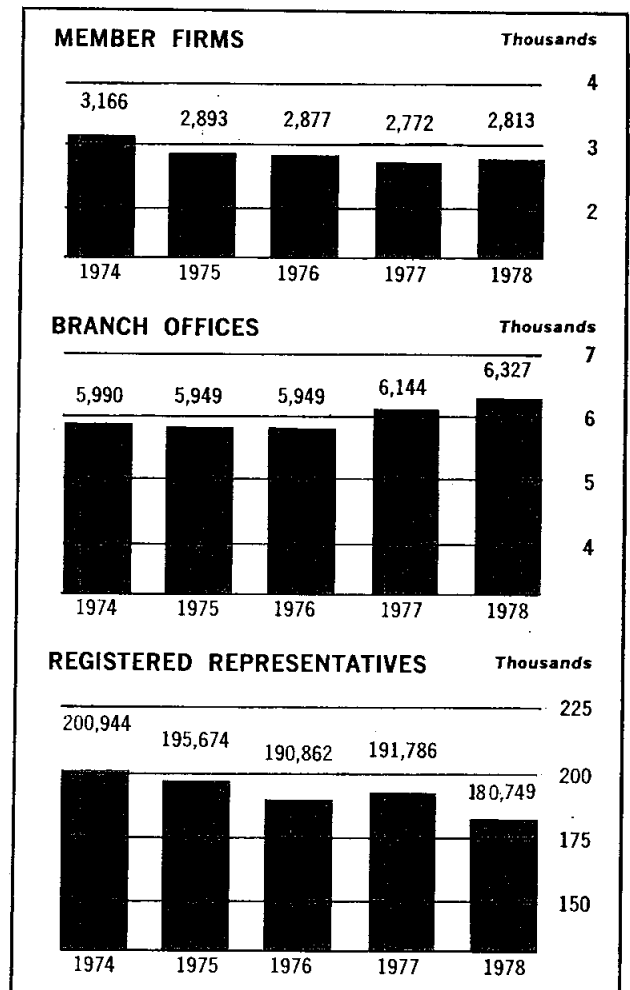
During the year, the Association met its prescribed examination frequency cycles for all categories of members as it conducted 2,162 routine examinations, 235 financial and operational examinations and 384 special (or "for cause") examinations of broker/dealer firms. These totals included examinations of all members conducting a municipal securities business and of the municipal securities departments of NASD/exchange members, pursuant to the responsibilities which the Association assumed under the Securities Acts Amendments of 1975.

The Association authorized that free-riding and withholding questionnaires be sent to 977 participating underwriters and selling group members, to review their compliance with their obligations to make *bona fide* public offerings in 15 so-called "hot new issues", which opened at premiums in after-market trading.

Further, the Association reviewed for fairness of the underwriting terms and distribution arrangements 760 public offerings of securities in which members intended to participate, with a registered gross dollar value of \$11.2 billion.

. . . And Disciplinary Action

All the NASD staff examination reports were reviewed by the 13 District Business Conduct Committees, consisting of 150 individuals elected by the securities industry in their respective areas (pp. 24-28). The majority of the reports showed no rule violations. However, the District Business Conduct Committees did find it necessary to file 235 formal and 2 summary complaints (compared to 221 and 9 in 1977) and to accept 72 Letters of Admission, Waiver and Consent (compared to 77 in 1977). These actions resulted in the expulsion of 22 firms (18 in 1977), the barring of 142 individuals (113 in 1977), the suspension of 10 firms (5 in 1977) and the suspension of 53 individuals (62 in 1977).



Membership growth in 1978 reflects establishment of smaller, specialized firms. Decline in Registered Representatives was due in large part to administrative termination of employees of a major investment company.

## Member Liquidations

During 1978 the NASD was the designated examining authority responsible for the continuous monitoring of the financial and operational condition of more than 2,300 broker/dealer firms. Two of these firms were placed in liquidation under the auspices of the Securities Investor Protection Corporation (SIPC). This represented the fewest number of new cases since the inception of SIPC in late 1970. Both firms had a minimal amount of customer exposure and therefore the SIPC Fund, established through assessments on broker/dealers, was not seriously affected.

Also, the Association during 1978 successfully monitored the self-liquidation of nine of its member firms, whose overall exposure to public customers and the securities industry totaled \$4,535,700. In one of these liquidations, the NASD was appointed by the court as the temporary receiver, and saw to it that all obligations of the firm were satisfied.

## SERVICES TO ISSUER COMPANIES

The issuers of the 2,582 NASDAQ securities in the OTC Market benefit from a marketplace which is visible to investors through the NASDAQ System and orderly for investors, broker/dealers and issuers alike through NASD regulation.

The visibility and orderliness of NASDAQ and the OTC Market in 1978 continued to make it attractive to approximately 800 companies who were large enough and profitable enough to have their stocks listed on exchanges, but preferred to stay on NASDAQ.

Some 300 companies met NASDAQ entry qualifications in 1978, and registered their securities on the NASDAQ System for the first time, in order to attract nationwide investor interest. A lesser number of securities was deleted from the System, for failure to meet its maintenance standards, or because of mergers, exchange listings or voluntary withdrawals. The overall number of securities on NASDAQ was up 7 for the year.



*Douglas H. Curtis*

Issuer companies are represented on the NASD Board of Governors by Douglas H. Curtis, Vice President-Finance of Franklin Electric Company, and on NASD committees of particular importance to them. In 1978, five officers of issuer companies sat on the NASDAQ Committee, which deals with rules and operations of the NASDAQ System. Three were on the National Market System Securities Qualifications Committee whose work led to significant NASD recommendations to the SEC (p. 15). Four issuer members of the Information Committee helped design NASD programs to keep NASDAQ companies abreast of developments in the securities markets (opposite page).

### Increased Recognition for NASDAQ Issues

A constant effort of the NASD is to secure greater governmental recognition for NASDAQ securities. In 1978, there were two significant developments in this area.

#### FRB Margin List

The Federal Reserve Board in 1978 increased to 1,157 the number of NASDAQ securities eligible for margin. This represented 51 more stocks than were on the FRB's OTC Margin List at the beginning of the year, and virtually half of all the domestic common securities quoted on NASDAQ.

Also, the FRB amended its rules to permit broker/dealers to extend credit on certain nonconvertible corporate bonds traded in the OTC market. Previously, only bonds listed on a national exchange had qualified for margin.

#### Blue Chip Exemption

A "blue chip" exemption, which gives to qualified NASDAQ issuers an exemption from state securities registration requirements similar to that previously accorded only to issuers of exchange-listed securities, was adopted in 1978 by the state of Wisconsin, and the Michigan legislature authorized adoption of the exemption by regulation. Massachusetts established a "blue chip" exemption in early 1977, seven other states now have one or do not generally require local registration of issues quoted on NASDAQ, and eighteen other states have the exemption under active consideration. The NASD appeared at Wisconsin hearings on the matter, and is in communication with other states on it.



In Minneapolis, NASDAQ company executives attend NASD meeting on National Market System.

## Keeping Issuers Informed

The NASD in April held conferences in 15 cities across the country with 575 officers of 442 NASDAQ companies, to apprise the companies of developments toward the National Market System and to take into account the companies' views of these developments. The conferences followed on the SEC's major release in January, outlining its general ideas on the forthcoming System.

On the two NASD speakers' panels, one in the East and the other in the West, Governor Douglas H. Curtis and former Governor Eric W. Anderson, Vice President & Treasurer of Friendly Ice Cream

Corporation, represented NASDAQ issuers. They joined NASD Chairman David W. Mesker, President Gordon S. Macklin, Governor J. Stephen Putnam and Senior Vice President John H. Hodges, Jr.

In addition to the conferences, the NASD during the year kept issuer companies informed through telephone contacts by the Market Surveillance and NASDAQ Departments, by NASDAQ Notices and by such publications as the *NASDAQ/OTC Fact Book* and *NASDAQ News*. With issuer guidance, the NASD developed a Monthly Statistical Report on each company's stock (below), which will be distributed in 1979.



Volume 3 Number 2 April 1978

### 750 EXECUTIVES OF COMPANIES ON NASDAQ REGISTER FOR NASD SEMINARS

Over 750 executives of companies quoted on NASDAQ registered for conferences conducted by the NASD in April in 15 cities, to apprise the forthcoming National Market System for securities trading. During the first part of each conference, the executives heard presentations on the possible structure of the National Market System, the NASDAQ plan and its effect on the development of the System, and on the general impact of the System on companies whose stocks are traded in the NASDAQ/OTC Market. During the second part of each meeting, the executives heard questions and made comments, which the NASD will weigh very carefully in determining its own future policy positions on the National Market System.

**The Eastern U.S. Conferences**  
Speakers at the Eastern U.S. conferences were Gordon S. Macklin, President of the NASD, J. Stephen Putnam, Chairman of the NASD and President of F. L. Putnam & Company, Inc., in Boston and Eric W. Anderson, former Governor of the NASD and Vice President and Treasurer of Friendly Ice Cream Corporation in Williamsport, Massachusetts. The meetings in the Eastern U.S. were held in Boston on April 10, New York City April 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, and Washington, D.C. April 27 and Washington, D.C. April 28.

**The Western U.S. Conferences**  
In the Western U.S., the speakers were David W. Mesker, Chairman of the NASD, Governor of Securities and Corporate Vice President of F. G. Edwards & Sons, Inc., in San Jose, Douglas H. Curtis, a Governor of the NASD and Vice President of Bank of America National City in San Francisco, and John H. Hodges, Jr., in San Francisco. The conferences in the Western U.S. were held in Dallas on April 11, Houston City April 12, Minneapolis April 13, Chicago April 14, San Jose April 15, Seattle April 16, San Francisco April 17 and Los Angeles on April 24.

Programs and press releases of the Conferences will appear in Volume 3, Number 2 of *NASDAQ News*. The Conferences are published by the NASDAQ News

### NASDAQ VOLUME SETS RECORD IN APRIL, FIRST QUARTER FIGURES UP

NASDAQ share volume hit record highs on April 27, with 14,970,000 shares traded and on April 17, with 14,537,000 shares traded. The previous record was 14,300,000 shares on December 29, 1977. During the first three months of 1978, NASDAQ share volume was over 513 million shares, or 2.9% from the corresponding period of 1977. Average daily share volume on NASDAQ for the first quarter of 1978 was 5,296,105 shares per day, up from 5,057,000 per day for all of 1977. The rise in first quarter NASDAQ share volume was in contrast to trading on the exchanges. Aggregate share volume on the NYSE and AMEX for the first three months of 1978 was 1.79 billion and 1.85 billion shares, respectively. This represented a decline in share volume of 0.4% for the NYSE and 13.3% for the AMEX when compared to the corresponding period of 1977.

NASDAQ indexes registered small gains for the first quarter of 1978 with the exception of the NASDAQ Insurance and Transportation Index. The NASDAQ Composite Index, the general barometer of the OTC market, gained 1.1%.

Circle K Markets indicated the listed stocks on issue in the NASDAQ Market Value Index which showed an increase of 0.8% for the quarter.

#### SHARE VOLUME

Period	1977	1st Quarter 1978	% Change
NASDAQ	1,428,224	1,512,276	+5.9
NYSE	17,911,477	17,242,644	-3.7
AMEX	17,911,477	17,242,644	-3.4

#### MARKET INDEXES

Index	3/29/77	4/27/78	% Change
NASDAQ Composite	28.45	28.88	+1.5
NASDAQ Insurance	114.1	114.8	+0.6
NASDAQ Transportation	96.78	96.88	+0.1
NASDAQ General	114.1	114.8	+0.6
NASDAQ OTC	100.0	101.7	+1.7
NASDAQ OTC	100.0	101.7	+1.7
NASDAQ OTC	100.0	101.7	+1.7
NASDAQ OTC	100.0	101.7	+1.7
NASDAQ OTC	100.0	101.7	+1.7
NASDAQ OTC	100.0	101.7	+1.7

NASDAQ														
MONTHLY STATISTICAL REPORT														
FOR THE MONTH OF APRIL 1978														
AS REPORTED BY THE NASDAQ MARKET SURVEILLANCE DEPARTMENT														
TOTAL QUOTE VOLUME: 14,970,000 SHARES TRADED (APRIL 1978)														
TOTAL QUOTE VOLUME: 14,537,000 SHARES TRADED (APRIL 1977)														
TOTAL QUOTE VOLUME: 14,300,000 SHARES TRADED (DECEMBER 1977)														
NASDAQ MARKET INFORMATION														
Symbol	Company Name	High	Low	Open	Close	Change	Volume	Market Value	Market Value	Market Value	Market Value	Market Value	Market Value	Market Value
100	NASDAQ Composite	28.88	28.45	28.45	28.88	+0.43	1,512,276	43,276,000	43,276,000	43,276,000	43,276,000	43,276,000	43,276,000	43,276,000
101	NASDAQ Insurance	114.8	114.1	114.1	114.8	+0.7	1,512,276	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000
102	NASDAQ Transportation	96.88	96.78	96.78	96.88	+0.1	1,512,276	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000
103	NASDAQ General	114.8	114.1	114.1	114.8	+0.7	1,512,276	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000
104	NASDAQ OTC	101.7	100.0	100.0	101.7	+1.7	1,512,276	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000
105	NASDAQ OTC	101.7	100.0	100.0	101.7	+1.7	1,512,276	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000
106	NASDAQ OTC	101.7	100.0	100.0	101.7	+1.7	1,512,276	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000
107	NASDAQ OTC	101.7	100.0	100.0	101.7	+1.7	1,512,276	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000
108	NASDAQ OTC	101.7	100.0	100.0	101.7	+1.7	1,512,276	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000
109	NASDAQ OTC	101.7	100.0	100.0	101.7	+1.7	1,512,276	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000
110	NASDAQ OTC	101.7	100.0	100.0	101.7	+1.7	1,512,276	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000	172,426,000

Quarterly NASDAQ News was published in 1978. Monthly Statistical Reports will be a new service to NASDAQ issuers.

# THE CHANGING PANORAMA OF SECURITIES RULES AND REGULATIONS

Much of the NASD's work in 1978 consisted of developing new rules and regulations made necessary by changing conditions in the securities industry or by changes in governmental regulatory policy.

## Securities Distribution Practices (Underwriting Rules)

During 1978, the Association continued with its effort of rule revision and interpretation to reinforce Section 24 of its Rules of Fair Practice. This Section provides that selling concessions in fixed price offerings of securities are to be allowed only for services rendered in distribution and only to registered broker/dealers qualified to engage in the business of distributing securities.

The application and scope of the Section were called into question in the case of *Papilsky v. Berndt*, which prompted a number of investment advisers to ask the NASD whether its Rules of Fair Practice permit an investment company to devise a method by which it could recapture selling concessions in underwritten offerings. The Association, through its General Counsel, stated that the recapture of selling concessions by an investment company would be a violation of Section 24.

Subsequently, the SEC raised several questions with respect to the Association's answer to these investment advisers. The Commission questioned the statutory authority for the NASD's interpreta-

tion of the Section, and expressed concern that practices may currently exist within the securities industry which result in customers indirectly receiving a discount from the public offering price, Section 24 notwithstanding. The practices which give rise to these concerns generally are the crediting of soft dollar obligations against selling concessions received from the sale of securities or taking securities in trade at prices in excess of the prevailing market price.

The NASD, after substantial study, submitted to its membership for comment a package of rules designed to prevent practices inimical to the system of securities distribution in the U.S. Following on two separate comment periods, the NASD Board of Governors approved a revised package of rule proposals and submitted it to the membership for vote. When the membership approved the package by an overwhelming margin, it was filed with the SEC in May and thereafter published for public comment by the Commission in the *Federal Register*. The comment period, having been extended by the Commission, expired on December 15, 1978. No further action had been taken by the Commission on the proposals at the end of the year.

## Advertising Standards

In November, following a previous publication for comment, a new advertising rule was submitted to the NASD membership for vote. The new rule (Article III, Section 37 of the Rules of Fair Practice) would eliminate certain requirements for members to file advertising with the Association and would authorize new advance filing requirements of a more limited nature. The rule would also codify existing interpretations, consolidate related requirements and outline a new spot-check procedure to be used by the Association. The overall effect of the rule would be to focus the NASD's monitoring of advertising on the areas where it is most necessary, and to lift a substantial compliance burden in less critical areas from many members.

The new advertising rule was overwhelmingly approved by the membership and is to be filed with the SEC early in 1979.

## Investment Company Securities

The NASD closely followed the SEC's continuing study of the bearing of distribution expenses by mutual funds, and worked to improve the regulation of advertising and sales literature concerning mutual funds securities. Also considered were is-



*SEC Chairman Harold M. Williams (second from left) addresses NASD Board of Governors' meeting in November 1978. NASD officials (from left) are President Macklin, Chairman Mesker, Vice Chairman John R. Winsor, Senior Vice President and General Counsel Frank J. Wilson.*

sues related to compensation arrangements and settlement procedures between dealers and underwriters. The study of these issues is expected to lead to new regulatory proposals in 1979.

### Options

In November, the Association received the long-awaited approval from the SEC of its proposed program for the regulation of members who conduct an options business on an access basis (i.e. are not members of an exchange on which the options they trade are listed) and of those members who trade conventional over-the-counter options. The program, scheduled to become effective on February 1, 1979, is designed to fill a regulatory void in the options area and will subject a number of firms for the first time to compliance with a set of specialized options rules.

Meanwhile, the NASD program for the display of standardized options on the NASDAQ System continued to be subject to the SEC's moratorium on options expansion, which remained in effect while the Commission's Special Study of the Options Market was being conducted. At the end of the year, a start-up date for the NASDAQ options program could not be accurately predicted.

### Insurance Company Members

A particularly positive development in the relationship between the insurance and securities industries was the 1978 appointment of certain securities firms as principal underwriters of the variable annuities which have been issued by some of the larger insurance companies and funded by investment companies sponsored by these same securities firms. This is further evidence of the

increasing cooperation that has developed between the two industries during the past ten years.

The NASD made a series of recommendations to the SEC on its proposed qualification standards insofar as they effect insurance company compliance systems, and will pursue the matter with the Commission in 1979.

A negative development during 1978 was a provision of a new SEC rule regarding the use of quarterly confirmations for certain investment company plans. The conditions in the new rule were such that very few, if any, insurance company members are able to use quarterly confirmations in the sale of variable contracts.

### Municipal Securities

During 1978, many new rules and regulations were adopted by the Municipal Securities Rulemaking Board and approved by the SEC. A number of the new regulations, known as the fair practice rules, covered such areas as arbitration procedures, underwritings of new issues and sales practices. The effect of all of these rules was to codify basic standards of conduct for municipal securities professionals and to create a regulatory framework for the municipal securities industry.

The NASD continued to play an active role in the development of this regulation through meetings with the Municipal Securities Rulemaking Board and the SEC, and through the submission of comment letters on issues as they developed. In addition, the NASD devoted substantial effort to assisting municipal securities firms in their understanding of the new rules, through written communications, sponsorship of meetings and seminars and participation in discussion forums sponsored by other organizations.

# NATIONAL MARKET SYSTEM DEVELOPMENT

Since the Securities Acts Amendments of 1975 mandated the development of a National Market System—a more integrated and uniform system for securities transactions—the NASD has made practical and planning contributions to it.

The practical contributions (below) of the NASD have been (1) 1977 initiation and 1978 enhancement of the Consolidated Quotations Service (CQS) on NASDAQ, and (2) participation in work

## CQS Enhancement

CQS is the second step, after the Consolidated Tape, toward National Market System trading facilities. The Consolidated Tape, in operation since 1975, shows completed transactions in most listed securities, in all markets; CQS, which started on NASDAQ in early 1977, displays quotations on these securities and thus increases the information available for making transaction decisions.

CQS on NASDAQ in 1977 was of limited usefulness: it carried quotations from the exchanges and Third Market Makers only for NYSE-listed (Tape A) securities, and the quotations were neither complete nor firm. In 1978, at the direction of the Board of NASDAQ, Inc., CQS added quotations of American and certain regional stock exchange-listed (Tape B) securities, as well as last sale information on all quoted issues. Also, an SEC rule required all markets to release firm quotations good for at least a unit of trading; the rule further specified that size could be displayed when quotations were good for more than a single unit of trading. These 1978 enhancements made CQS on NASDAQ a much more comprehensive and meaningful source of information, and substantially increased the capability of the NASD's Market Surveillance Section to monitor price activity in listed securities traded in the Third Market.

toward a single national system for the clearance and settlement of all securities transactions.

The planning contributions (opposite page) of the Association in 1978 were responsive to the January SEC release in which the Commission set forth its views on National Market System Development, and consisted of (1) a statement to the Commission suggesting criteria for securities to be traded in the System, and (2) a Technical Plan for the System.

■B ITT	LA-29 <sup>3</sup> / <sub>8</sub>	+1 <sup>h</sup>	N 0-
HT-29 <sup>1</sup> / <sub>2</sub>	LO-29 <sup>1</sup> / <sub>2</sub>	UOL-217900	11.30
XNSE	29 <sup>1</sup> / <sub>2</sub> 29 <sup>3</sup> / <sub>8</sub>	5-20	
ACAP	29 29 <sup>1</sup> / <sub>2</sub>		
XNVE	29 <sup>1</sup> / <sub>2</sub> 29 <sup>1</sup> / <sub>2</sub>	50-50	
XPSE	29 <sup>3</sup> / <sub>8</sub> 29 <sup>1</sup> / <sub>2</sub>	20-13	MOR

*Comparison of CQS on NASDAQ in 1978 (above) to CQS in 1977 (below) shows important enhancements to the service.*

■B ITT			
XNVE	33 <sup>3</sup> / <sub>8</sub> 34		
XPHL	33 <sup>5</sup> / <sub>8</sub> 34		
XNSE	33 <sup>7</sup> / <sub>8</sub> 34 <sup>1</sup> / <sub>2</sub>		
TSCO	33 <sup>7</sup> / <sub>8</sub> 34 <sup>1</sup> / <sub>2</sub>		
MADF	34 34 <sup>1</sup> / <sub>2</sub>		MOR

## Clearing Consolidation

During 1978, substantial progress was made toward a single national system for the clearance and settlement of transactions in OTC and listed securities. The progress had begun in 1977, when the NASD's National Clearing Corporation for the OTC market was consolidated with the clearing corporations of the American and New York Stock Exchanges into the National Securities Clearing Corporation. However, it was only after a number of legal issues were resolved in late 1978 (P. 19) that the two systems for clearing OTC and listed securities could be integrated into one.

The integration permitted the continued clearing of OTC transactions in cities outside New York at a cost equal to clearing in New York. But, under the SEC order allowing the integration, this geographic price mutualization cannot yet be applied to the clearing of transactions in listed securities. The NASD had agreed to the formation of the National Securities Clearing Corporation with the understanding that it would practice geographic price mutualization for all securities, and continues to advocate this policy to the SEC, as promoting equal competition between firms outside of New York and those in New York.



## Criteria for System Securities

The SEC in its January release stated that it would initiate a rulemaking proceeding to designate certain categories of securities—including over-the-counter securities—as qualified for trading in a National Market System. In its response to the Commission, the NASD supported the inclusion of over-the-counter securities in the System, and set forth its views on criteria for all National Market System securities.

Primary emphasis, the NASD said, should be on standards indicative of national investor interest—number of shareholders, trading volume and size of public float—rather than on standards which relate to the investment merits of securities, such as earnings and net income. Specifically, the Association proposed that stock issues be included in the National Market System if they represented \$3 million in total shares outstanding, 400,000 publicly-held shares, \$1 million in total company assets, \$500,000 in capital and surplus and 1,200

beneficial shareholders (or average dollar volume of \$85,000 each month for six consecutive months prior to inclusion in the National Market System).

These criteria would result in approximately 1,400 NASDAQ securities—in addition to most listed securities—qualifying for entry into the System, the NASD said. However, the Association strongly recommended that issuer companies of over-the-counter securities “should have a choice as to whether or not their shares are traded in the National Market System.” This recommendation reflected the views which many companies on NASDAQ had expressed during the April 1978 conferences which the NASD had held with them.

Also as conditions for the inclusion of OTC securities in the System, the NASD recommended that (1) there be in place the technical facilities which allow over-the-counter and exchange market makers to compete fairly, and (2) the existing ticker networks be revised to create a single data stream of all National Market System securities.

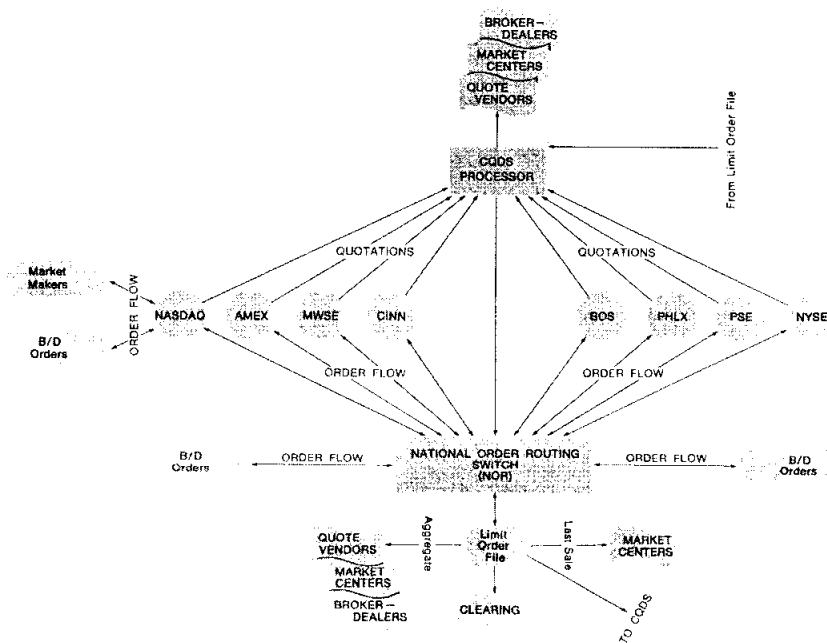


Diagram from NASD Technical Plan illustrates possible components of a National Market System trading facility.

## A Technical Plan for the System

The SEC in its January release also requested the NASD and other self-regulatory organizations to submit timetables for the market linkage and order routing systems which a National Market System trading facility would include. In its submission, published as *A Technical Plan for the Development of a National Market System*, the NASD laid particular stress on the cost savings in the construction of the facility which could be achieved by making maximum use of the existing automation equipment and communications net-

works of NASDAQ and the Securities Industry Automation Corporation, which is owned jointly by the New York and American Stock Exchanges.

The *Technical Plan* detailed a timetable, design specifications and estimated costs for the major components of a National Market System trading facility: (1) a Consolidated Quotation Data Stream, (2) a National Order Routing System, and (3) a National Limit Order File. However, the *Technical Plan* did not address the policy issues related to the trading rules which are necessary for certain aspects of a national system, particularly those dealing with the National Limit Order File.

# INCREASING EFFICIENCY IN THE SECURITIES BUSINESS

## Elimination of Duplicate Surveillance

Traditionally, broker/dealer firms have been subject to separate and duplicative on-site examinations by each self-regulatory organization to which they belong. In 1978, a major step was taken to eliminate such duplication when the NASD, by agreements with the Boston, Cincinnati, Midwest and Pacific Stock Exchanges, became the single examining body for more than 200 dual NASD/exchange member firms.

Name of Member	
Address	
Examination Number	Examination Date(s)
Examiner(s)	
MODULE MSE - EXAMINATION OF DUAL MSE/NASD MEMBER	
YES NO N/A EX-100A	
1.000	STRUCTURE OF THE FIRM
1.100	If the firm is a partnership does it have the required number of general partners?
1.200	Has every partner associated with another member organization or non-member securities firm made the

*Special check sheet for firms belonging to both NASD and Midwest Stock Exchange is used by NASD examiners.*

Under the simplified system, which has conditional SEC approval, the NASD provides the exchanges with the results of its examinations, as prescribed by the agreements, and performs all other regulatory functions with respect to the dual members, except that the exchanges maintain their own surveillance over practices on their trading floors. As a result, the firms are being relieved of unnecessary regulatory burdens and the number of regulatory personnel supported by the securities industry has been decreased.

Further, the joint NASD/NYSE examination program, which has been in effect since 1973, continued to function successfully.

## Reduction of Duplicate Paperwork

In a parallel effort, the NASD, the Boston, Cincinnati, Midwest and Pacific Stock Exchanges and the Chicago Board Options Exchange are reducing paperwork for themselves and their dual member firms as the NASD is taking over processing of registration applications of personnel employed by the firms. The firms are filing a single registration with the NASD, for the employment, transfer or termination of an individual; the NASD notifies the exchanges of changes to their registered per-

sonnel; and the exchanges have neither to process a separate filing nor to maintain records duplicating those at the NASD. Further, the NASD began to collect registration fees on behalf of the Midwest and Chicago Board Options Exchanges, so that a member firm of the three organizations was able to effect registration and fee payments with all of them with one document and one check. This program is expected to produce substantial cost savings for the industry.

## Toward a Centralized Registration Depository

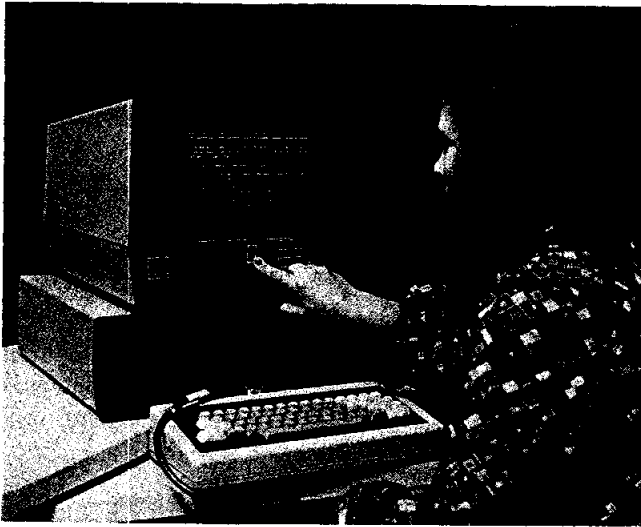
The registration processing arrangement between the NASD and the exchanges is an important step toward a central depository of all applications for registration with the self-regulatory organizations and with Federal and state regulatory agencies for the securities industry. The use of the NASD's computer bank for the depository and the naming of the NASD as the operator of the depository were tentatively endorsed during 1978 by the Securities Industry Association. The SIA urged the NYSE and each state to participate in the NASD's central depository program, and indicated that the program would save both broker/dealers and their regulators time and effort which could then be spent on better service and protection for investors.



*Raymond W. Cocchi, Director of the Securities Division of Massachusetts (right) discusses NASD's registration system with Gerard F. Foley, Director of the Membership Department.*

## Toward a Uniform State Law Examination

Unnecessary duplication has also been found in the procedures for qualifying individuals to work



*NASD examination question and answer boxes appear on PLATO terminal.*

in the securities industry: more than 20 of the states have separate law examinations which securities representatives must pass in order to do business with investors in those states. But in September 1978 the North American Securities Administrators Association approved in principle, and urged the states to accept, a uniform state law examination, which the Administrators Association is designing with the help of the NASD, the Securities Industry Association and the Investment Company Institute. As individual states approve the use of the uniform examination, securities representatives will be able to satisfy their requirements by taking a single test.

#### The NASD as Industry Test Administrator

It is envisioned that the new state law test will be given by the NASD, as part of the Association's growing function as the examinations administrator for much of the securities industry. In 1978, the NASD administered a total of 20,717 examinations for other regulatory organizations and 22,860 for itself.

The other organizations for which the NASD administers examinations include the American Stock Exchange, the Chicago Board Options Exchange, the Inter-Commodity Exchange Education Committee, the New York Stock Exchange, the SEC's SECO program and 23 state securities agencies.

#### More Convenient Testing by Computer

The thousands of security industry representatives taking NASD-administered examinations will

find the process more convenient in the future. Hitherto, the tests have been given to groups at fixed times in centers across the country, have been taken with paper and pencil, and due to the mechanics there has been an unavoidable delay in scoring the tests and notifying candidates of their results. In 1978, the Association contracted with Control Data Education Company to begin to administer some of the examinations on the PLATO System's computer screens in Control Data's network of learning centers, located in cities where 90% of the NASD's testing has been done. This will allow candidates to take the examinations individually, whenever they are ready to do so; it will also allow candidates to receive their scores within seconds of completing their tests.

#### Updating Qualifications Examinations

The NASD's Qualifications Committee continually redesigns examinations, in order to keep them up-to-date with changes in the rules and regulations for the securities industry. During 1978, the Association completed questions and study outlines for a new Financial and Operations Principal Examination and a new General Securities Principal Examination, both of which will come into use in January 1979. It also worked on a Direct Participation Programs Principal Examination and an Investment Company Products/Variable Contracts Principal Examination, for introduction in the Spring of 1979. Together with the options exchanges, the Association developed a new Registered Options Principal Examination, which is to become effective in the middle of next year.

#### Coordinating Arbitration

The NASD participated in the Securities Industry Conference on Arbitration and helped to draft a Uniform Code of Arbitration covering investors' claims of all sizes and types, throughout the industry. The proposed Code was submitted to the SEC in December 1978 for informal comment prior to its adoption by the NASD and other self-regulatory organizations.

By agreement with the Municipal Securities Rulemaking Board, the NASD in 1979 will become the forum administrator for arbitration in the municipal securities field, while the Board retains control of panel selection and other discretionary functions. The SEC in December approved the Board's proposed Arbitration Code, which compels arbitration of municipal securities disputes arising after the Code's effective date and allows the Board's Director of Arbitration to delegate administrative functions to the NASD.

# LEGISLATION AND LITIGATION CONCERNING THE SECURITIES INDUSTRY

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## LEGISLATION

### HR 8331

HR 8331, signed into law in May 1978, affected three areas of securities legislation.

- Its amendments to the Securities Investor Protection Act of 1970 increased the amount of coverage available to investors who deal with members of the Securities Investor Protection Corporation (SIPC), simplified liquidation proceedings for such members and authorized SIPC to require its members to identify themselves as such at their places of business and in their advertising and sales literature. The amendments did not eliminate the exemption from SIPC membership for distributors of mutual funds and variable annuities. The NASD, in its testimony on the bill, had opposed the elimination of this exemption.
- The law delayed until February 1, 1979, the effective date for prohibitions required under Section 11(a) of the Securities Exchange Act of 1934. Under that section, stock exchange members would be prohibited from effecting trades on exchange floors for institutional accounts which they manage, their own accounts, and for affiliated accounts.
- The new law also increased from \$500,000 to \$1.5 million the aggregate amount of an issue which the SEC may exempt from the 1933 Act's registration requirements under Regulation A. Before Congress adjourned, another bill was passed into law which increases the Regulation A exemptive ceiling to \$2 million. However, the SEC declared that it will not implement the \$2 million ceiling until it reviews how the \$1.5 million ceiling, which it had implemented, works out in practice.

### The Revenue Act of 1978

Just prior to adjournment in October, Congress passed the 1978 tax bill, which was subsequently signed into law by the President. Of primary importance to the securities industry were the pro-

visions which lower the maximum tax rate on individual capital gains from 49.1% to 28%.

### International Banking Act

The International Banking Act became law in September 1978, and established the principle of competitive equality between foreign and domestic banks, thereby bringing foreign banking activities within the purview of many of the same laws under which domestic banks operate. The law affects the securities activities of foreign banks by barring all foreign bank affiliates which were not in existence as of July 26, 1978 from engaging in non-banking activities.

### Coming Legislative Developments

The 96th Congress may consider a number of matters of particular interest to the securities industry, including:

- A bill which would permit commercial banks to underwrite revenue bonds issued by state and local governments;
- A bill drafted by the SEC which would subject industrial revenue bonds to Federal securities registration and disclosure laws;
- A bill which would increase disclosure requirements for issuers of municipal securities;
- A proposal to give the SEC authority to issue cease and desist orders, instead of having to go to court to obtain injunctions;
- A bill designed to codify the Federal securities laws; and
- The securities activities of the banking industry, especially after the release in early 1979 of the major study of this issue by the Subcommittee on Securities of the Senate Banking, Housing and Urban Affairs Committee.

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## LITIGATION

During the course of the year, two important matters were resolved favorably to the NASD, and there remained unresolved six matters in which the Association was involved.

### Haddad v. Crosby

One interesting matter disposed of was *Haddad v. Crosby*. In December 1972, actions were filed by the Department of Justice and various private litigants against mutual fund underwriters, advisers, broker/dealers and the NASD, alleging anti-trust violations which prevented the growth of secondary dealer and brokerage markets in open-end investment company shares. In December 1973, the District Court for the District of Columbia entered a judgment granting defendants' motion to dismiss the complaint in *Haddad v. Crosby*, *Gross v. NASD* and *U.S. v. NASD*.

The decision covering the two private actions was appealed to the U.S. Court of Appeals for the District of Columbia. However, these actions were stayed when the U.S. Supreme Court noted probable jurisdictions with respect to the government's request for an expedited appeal in *U.S. v. NASD*. More than 50 actions filed by private litigants in various federal courts were dismissed by the District Court following affirmation of the dismissal in *U.S. v. NASD* by the Supreme Court.

After the Supreme Court's decision in *U.S. v. NASD*, the defendants, including the NASD, joined in a motion for summary affirmance of the District Court's dismissal of *Haddad* and *Gross*. The Court of Appeals granted that reaffirmance in *Gross*; however, in *Haddad* the Court considered the matter on the briefs without oral argument.

The Court of Appeals affirmed the District Court's decision that no private right of action exists as to "intrafund" conspiracies, but remanded the case to the District Court for proceedings to determine the existence, if any, of "interfund" conspiracies. The District Court dismissed the case in June 1977. *Haddad* appealed this dismissal in July 1977, and in June 1978, the Circuit Court of Appeals dismissed the appeal without opinion. *Haddad* filed a petition for a writ of cer-

tiorari with the U.S. Supreme Court, and in November 1978, the Supreme Court denied this petition, thus effectively ending this protracted litigation.

### Bradford National Clearing Corp. v. SEC

Another significant matter involved the National Securities Clearing Corporation, of which the NASD is a co-owner.

In September 1978, the U.S. Court of Appeals issued its opinion in the matter of *Bradford National Clearing Corp. v. SEC* affirming the SEC order creating the National Securities Clearing Corporation (NSCC), except for two issues which were remanded to the Commission for further consideration. Those two issues concerned geographic price mutualization of NSCC fees and competitive bidding for the NSCC's facilities management contract.

Following the court decision, the SEC gave NSCC permission to terminate Bradford as the facilities manager of its separate NCC Division. NSCC gave Bradford 90 days notice of the termination but Bradford sought to overturn it by resorting to various courts. Before these court matters could be resolved, Bradford and NSCC entered into a settlement agreement in October 1978, in which Bradford agreed to dismiss all pending litigation, other than the issues on remand to the Commission, and agreed to cooperate in its termination which is to occur in January 1979.

As a result, the NCC Division was integrated into NSCC during this transition period. While the remand is proceeding, the SEC has ordered that price mutualization for OTC transactions be continued but that it is not be expanded to transactions in listed securities.

### Pending Matters

The NASD General Counsel has no reason to believe that meritorious defenses are not available in all litigation matters pending against the Association.

# NASD OFFICERS AND BOARD OF GOVERNORS



**Gordon S. Macklin**  
President and member  
of the Board

## To Serve Until January 1979



**David W. Mesker**  
A. G. Edwards &  
Sons, Inc.  
St. Louis, Missouri  
Chairman, 1978



**John R. Winsor**  
Piper, Jaffray &  
Hopwood Incorporated  
Minneapolis, Minnesota  
Vice Chairman, 1978



**Wayne G. Skaggs**  
American General  
Capital Companies  
Houston, Texas  
Vice Chairman-Finance,  
1978



**Dwight C. Baum**  
Blyth Eastman Dillon &  
Co. Incorporated  
Los Angeles, California



**John E. Eckelberry**  
Paine, Webber, Jackson  
& Curtis Incorporated  
New York, New York



**Ray Garrett, Jr.\***  
Gardner, Carton & Douglas  
Chicago, Illinois



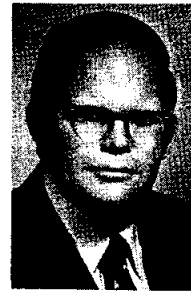
**Robert R. Googins\***  
Connecticut Mutual Life  
Insurance Company  
Hartford, Connecticut



**N. Clark Moran**  
Baker, Watts & Co.  
Baltimore, Maryland



**Walter Schnabel**  
E. F. Hutton &  
Company, Inc.  
Rochester, New York



**J. Stephen Putnam**  
F. L. Putnam &  
Company, Inc.  
Boston, Massachusetts  
Chairman, 1979



**John A. Wing**  
A. G. Becker  
Incorporated  
Vice Chairman, 1979



**William R. Hambrech**  
Hambrecht & Quist  
San Francisco,  
California  
Vice Chairman-Finance  
1979



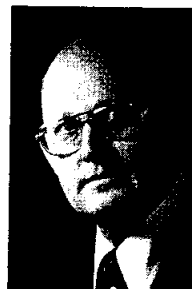
**John Barnard, Jr.\***  
Massachusetts Financial  
Services Company  
Boston, Massachusetts



**Gerald B. Brenzel**  
Stifel, Nicolaus &  
Company, Inc.  
Louisville, Kentucky



**Colin A. Campbell**  
Campbell, Waterman &  
Seattle, Washington



**Ernest E. Cragg\***  
Washington National  
Insurance Company  
Evanston, Illinois



**Raymond J. Kiernan**  
Merrill Lynch, Pierce,  
Fenner & Smith Inc.  
New York, New York



**Robert A. Mackie, Jr.**  
Singer & Mackie, Inc.  
Jersey City, New Jersey

The Board of Governors is the controlling body of the NASD and determines policy on a national scale. The Board consists of 21 representatives of the securities industry elected from the Association's Districts, five Governors-at-Large and the President of the NASD. The Board meets six times a year.

To Serve Until January 1981



**John D. Berl**  
Sutro & Co.  
Incorporated  
Los Angeles, California



**Peter A. Bernard**  
Bache Halsey Stuart  
Shields Incorporated  
New York, New York



**Douglas H. Curtis \***  
Franklin Electric  
Co., Inc.  
Bluffton, Indiana



**James F. Keegan**  
Morgan, Keegan &  
Company, Inc.  
Memphis, Tennessee



**John C. Printon**  
Printon, Kane & Co.  
Summit, New Jersey



**William W. Strawther, Jr.**  
Continental American  
Securities, Inc.  
Phoenix, Arizona



**William Z. Suplee III**  
Elkins, Stroud, Suplee  
& Co.  
Philadelphia, Pennsylvania



**David W. Wiley, Jr.**  
Wiley Bros., Inc.  
Nashville, Tennessee

To Serve Until January 1982



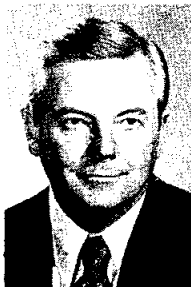
**Edward S. Arnold**  
Paine, Webber, Jackson  
& Curtis Incorporated  
Palo Alto, California



**Andrew M. Blum**  
L. F. Rothschild,  
Unterberg, Towbin  
New York, New York



**William B. Madden**  
Schneider, Bernet &  
Hickman, Inc.  
Dallas, Texas



**James J. McCormack\***  
Metropolitan Life  
Insurance Company  
New York, New York



**W. Lincoln Mossop, Jr.**  
Barrett & Company  
Providence,  
Rhode Island



**Mason T. New**  
Branch, Cabell &  
Company  
Richmond, Virginia



**L. C. Petersen**  
Kirkpatrick, Pettis,  
Smith, Polian Inc.  
Omaha, Nebraska



**Williamson S. Stuckey,  
Jr.\***  
Former Congressman  
Washington, D.C.



**James F. Wade**  
Julien Collins &  
Company  
Chicago, Illinois

\* Governor-at-Large

# NATIONAL COMMITTEES 1978

## Executive

David W. Mesker \*  
*Chairman*  
 John E. Eckelberry \*  
 Robert R. Googins \*  
 J. Stephen Putnam \*  
 Wayne G. Skaggs \*  
 John A. Wing \*  
 John R. Winsor \*  
 Gordon S. Macklin \*

## Finance

Wayne G. Skaggs \*  
*Chairman*  
 Dwight C. Baum \*  
 Richard L. Bové  
 Ray Garrett, Jr. \*  
 William R. Hambrecht \*  
 David W. Mesker \*  
 N. Clark Moran \*  
 Walter Schnabel \*  
 Gordon S. Macklin \*  
 Jack A. Schindel (*Ex Officio*)

## National Business Conduct

J. Stephen Putnam \*  
*Chairman*  
 Robert A. Mackie, Jr. \*  
*Vice Chairman*  
 John D. Berl \*  
 Peter A. Bernard \*  
 Douglas H. Curtis \*  
 James F. Keegan \*  
 John C. Printon \*  
 William W. Strawther, Jr. \*  
 William Z. Suplee III \*  
 David W. Wiley, Jr. \*

## Arbitration

Alfred J. Rauschman  
*Chairman*  
 Eugene Arnold, Jr.  
 Dwight C. Baum \*  
 Eugene W. Bell  
 Gerald B. Brenzel \*  
 J. Gordon Cooney  
 Lloyd J. Derrickson  
 Constantine N. Katsoris  
 N. Clark Moran \*  
 Walter Schnabel \*  
 A. A. Sommer, Jr.  
 Arnold J. Weinberg  
 Lewis M. Weston  
 John R. Winsor \*

## Automation

Peter C. Barnes  
*Chairman*  
 Richard L. Bové  
 Raymond J. Kalinowski  
 Harry T. Lewis, Jr.  
 Robert A. Mackie, Jr. \*  
 Robert W. Parker  
 W. James Price  
 J. Stephen Putnam \*  
 Thomas C. Schneider  
 Lawrence J. Welte

## Corporate Financing

Robert E. Linton  
*Chairman*  
 Peter A. Bernard \*  
 Andrew M. Blum  
 John E. Eckelberry \*  
 Arthur Fleischer, Jr.  
 Richard P. Gillette  
 William R. Hambrecht \*  
 William Harman  
 Fred L. Heyes  
 William M. Kearns, Jr.  
 Anthony A. LaCroix  
 Robert A. Malin  
 Robert P. Mann  
 N. Clark Moran \*  
 J. Perry Ruddick  
 William Z. Suplee III \*

## Direct Participation Programs

John F. Guion  
*Chairman*  
 Jaye F. Dyer  
 Robert L. Franklin  
 Robert R. Googins \*  
 G. Charles Hann  
 Harris E. Lawless  
 James H. Levi  
 Lewis G. Mosburg, Jr.  
 Kenneth Sanders  
 William R. Waag  
 Linda Wertheimer  
 Lawrence J. Winston

## Fidelity Bonding

E. Richard Larson  
*Chairman*  
 Nelson S. Burbank  
 Colin A. Campbell \*  
 Ralph L. Gosselin  
 John C. Harden  
 Alfred J. Rauschman  
 John R. Winsor \*

## Financial Responsibility

N. Clark Moran \*  
*Chairman*  
 Peter C. Barnes  
 Joseph A. Crisler III  
 Gerald W. Demain  
 Ralph L. Gosselin  
 Joseph F. Neil  
 James Quarto

## Foreign

Lewis M. Weston  
*Chairman*  
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 Alan H. Bede  
 Michael J. G. Chapman  
 Donald M. Feuerstein  
 William S. Gilbreath  
 Robert A. Mackie, Jr. \*  
 Toshio Mori  
 David Stein  
 Stephen L. Sutton  
 Alexander Thomas  
 Stanford S. Warshawsky

## Information

Walter Schnabel \*  
*Chairman*  
 Eric W. Anderson  
 Peter A. Bernard \*  
 Douglas H. Curtis \*  
 Martha Famula  
 Raymond J. Kiernan \*  
 N. Clark Moran \*  
 J. Stephen Putnam \*  
 Lawrence R. Rice  
 Thomas C. Sullivan  
 John L. Watson III

## Insurance Trustees and Insurance

Robert R. Googins \*  
*Chairman*  
 Ernest E. Cragg \*  
 Julian E. Gillespie  
 N. Clark Moran \*  
 Gordon S. Macklin \*  
 Jack A. Schindel

## Investment Companies

John Barnard, Jr. \*  
*Chairman*  
 C. Herbert Emilson  
 Robert R. Googins \*  
 John R. Haire  
 William J. Lippman  
 John E. McTavish  
 George W. Meyer  
 Richard F. Palmer  
 James W. Ratzlaff  
 Thatcher W. Root  
 Wayne G. Skaggs \*  
 Donald W. Spiro

## Long Range Planning

Eugene Arnold, Jr.  
*Chairman*  
 Roger E. Birk  
 Robert S. Driscoll  
 James H. Lorie  
 David W. Mesker \*  
 David R. Murphy III  
 Ian McK. Rolland  
 Robert W. Swinarton  
 Gordon S. Macklin \*

## Margin

Gerald B. Brenzel \*  
*Chairman*  
 David B. Coates  
 Gerald W. Demain  
 Vincent P. Fay  
 John Geelen  
 Simon K. Schaffler  
 Harry C. Webb, Jr.



The National Committees of the NASD are appointed by the Board of Governors and make recommendations to the Board in their various areas of responsibility. The Executive, Finance and Business Conduct Committees meet immediately prior to each Board meeting; all other Committees meet as necessary.

#### **Municipal Securities**

Alfred J. Bianchetti  
*Chairman*  
Donald R. Bonniwell, Jr.  
Gerald B. Brenzel \*  
Ralph L. Gosselin  
Gedale B. Horowitz  
J. Kevin Kenny  
William Kondratuk  
William S. Magnus  
John E. McClelland  
George Rinker, Jr.  
Edward Roddy  
Jean J. Rousseau  
Robert A. Schlichting  
Harry C. Webb, Jr.

#### **NASDAQ**

Raymond J. Kiernan \*  
*Chairman*  
Eric W. Anderson  
Douglas H. Curtis \*  
John P. Dubinsky  
Aime E. Girard  
William R. Hambrecht \*  
John E. Herzog  
William E. Hostettler  
James F. Keegan \*  
John J. Morton  
J. Stephen Putnam \*  
William R. Radetzky  
Thomas C. Sullivan  
Kenneth J. Wessels  
Stephen S. Wien  
David W. Wiley, Jr. \*  
Paul A. Yednak

#### **National Market System Securities Qualifications**

Eric W. Anderson  
*Chairman*  
Harold E. Bigler  
Douglas H. Curtis \*  
William R. Hambrecht \*  
Raymond J. Kiernan \*  
J. Stephen Putnam \*  
John R. Winsor \*

#### **National Market System Trading**

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*Chairman*  
Peter J. DaPuzzo  
Raymond J. Kiernan \*  
Robert A. Mackie, Jr. \*  
Bernard L. Madoff  
John J. Morton  
Thomas C. Schneider  
Richard H. Tierney

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*Chairman*  
Thomas J. Asher  
Michael Epstein  
John E. Herzog  
Ross B. Kenzie  
Robert A. Mackie, Jr. \*

Jeremiah A. Mullins  
Milton Pauley  
Theodore M. Perkowski  
Leslie H. Pihlblad  
James Quarto  
Lawrence R. Rice  
William W. Strawther, Jr. \*

#### **Qualifications**

Ronald E. Buesinger  
*Chairman*  
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James Blake  
Robert A. Cappucci  
John D. Cleland  
Joseph A. Crisler III  
John E. Eckelberry \*  
James J. McCormack  
N. Clark Moran \*  
James J. O'Donnell  
Wayne G. Skaggs \*  
William Z. Suplee III \*

#### **Retirement Plan Review**

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*Chairman*  
Eric W. Anderson  
Ernest E. Cragg \*  
Robert R. Googins \*  
N. Clark Moran \*  
John A. Wing \*

#### **Third Market Rules and Disclosure**

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*Chairman*  
Jeffrey W. Casdin  
Joseph A. Crisler III  
Donald M. Feuerstein  
Murray L. Finebaum  
Herbert S. Kipnis  
Fredric W. Rittereiser  
Fred Siesel  
John A. Wing \*

#### **Uniform Practice**

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*Chairman*  
Lyle W. Davis  
James F. Keegan \*  
Raymond Meselsohn  
N. Clark Moran \*  
John C. Printon \*  
Helen Sherkman  
Alfred Turrisi

#### **Variable Contracts**

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*Chairman*  
Bruce Avedon  
Robert R. Baird  
John Barnard, Jr. \*  
Samuel C. Cantor  
Ernest E. Cragg \*  
Harold Engelman

Paul V. Gartland  
David D. Horn  
Donal A. Kinney  
William R. Oberkrieser

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##### **Advertising Review**

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*Chairman*  
Gerald B. Brenzel \*  
W. James Price  
Alfred J. Rauschman  
Joseph P. Short

##### **Registration**

N. Clark Moran \*  
*Chairman*  
Raymond W. Cocchi  
John J. D'Arcy  
Edward E. Hill  
Philip J. Hoblin  
Marcia Rung  
William Stewart  
W. Stewart Storie

##### **Section 24**

Alfred J. Rauschman  
*Chairman*  
J. Logan Burke, Jr.  
*Vice Chairman*  
John Barnard, Jr. \*  
J. Coleman Budd  
John Daly  
Philip D. Davidson  
Lloyd J. Derrickson  
Donald M. Feuerstein  
Ray Garrett, Jr. \*  
William R. Hambrecht \*  
William Harman  
David H. Klann  
John E. Kohl  
Robert E. Linton  
David W. Mesker \*  
W. Allen Northcutt III  
Michael S. O'Brien  
Richard O. Scribner  
Lewis M. Weston  
Samuel H. Wolcott III

##### **Small Business Financing**

William R. Hambrecht \*  
*Chairman*  
J. Coleman Budd  
Anthony A. LaCroix  
J. Stephen Putnam \*  
Ernest F. Rice, Jr.

\* NASD Board of Governors Member

## DISTRICT COMMITTEES 1978

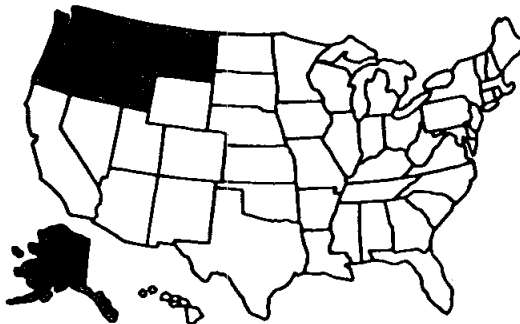
The District Committees are elected by NASD member firms in their respective areas. They supervise NASD programs in the Districts and serve as Business Conduct Committees, which review the reports of NASD examiners, investigate complaints against members, conduct disciplinary proceedings and impose penalties for violations of Federal and state laws and of the NASD's Rules of Fair Practice. The Chairmen of the District Committees constitute the Advisory Council to the Board of Governors.

### DISTRICT NO. 1

ALASKA OREGON  
IDAHO WASHINGTON  
MONTANA



**David C. Grove**  
Chairman  
Somers, Grove & Co., Inc.  
Portland, Oregon



**Charles N. Covey**  
Vice Chairman  
Rhaco First Invest, Inc.  
Portland, Oregon

**Phillip F. Frink, Jr.**  
Piper, Jaffray & Hopwood  
Incorporated  
Seattle, Washington

**E. G. Marks**  
Merrill Lynch, Pierce, Fenner  
& Smith Inc.  
Spokane, Washington

**Richard T. McLean**  
Seattle-Northwest Securities  
Corporation  
Seattle, Washington

**Stuart C. Nicholson**  
D. A. Davidson & Co.  
Great Falls, Montana

**Gilbert C. Powers**  
Kidder, Peabody & Co.,  
Incorporated  
Seattle, Washington

**Kenneth M. Snider**  
KMS Financial Services, Inc.  
Seattle, Washington

**Peter D. Williams**  
Blakely, Strand & Williams, Inc.  
Portland, Oregon

**L. Hoyt DeMers**  
Director  
1111 IBM Building  
Seattle, Washington 98101

71 MEMBERS • 307 BRANCHES • 5,126 REGISTERED REPRESENTATIVES

### DISTRICT NO. 2

CALIFORNIA NEVADA  
HAWAII



**Herbert G. Kawahara**  
Co-Chairman  
E. F. Hutton & Company, Inc.  
Los Angeles, California



**William L. Bagnard**  
American Funds Distributors,  
Inc.  
Los Angeles, California

**William C. Bailey, Jr.**  
Wagenseller & Durst, Inc.  
Los Angeles, California

**Howard D. Banks**  
Blyth Eastman Dillon & Co.  
Incorporated  
San Francisco, California

**Richard D. Bingham**  
Bateman, Eichler, Hill  
Richards, Incorporated  
Los Angeles, California

**Charles G. Bragg**  
Quincy Cass Associates,  
Incorporated  
Los Angeles, California

**Donald R. Duffy**  
Waldron & Co., Inc.  
San Rafael, California

**Ray E. Hummel**  
University Securities  
Corporation  
San Francisco, California

**Theodore G. M. Jung**  
Bache Halsey Stuart Shields  
Incorporated  
Honolulu, Hawaii

**Ronald P. Lynch**  
Lord, Abbett & Co.  
San Francisco, California

**Richard A. Miller**  
Loeb Rhoades, Hornblower  
& Co.  
Los Angeles, California

**James L. Owens**  
Jefferies & Company, Inc.  
Los Angeles, California

**Lynn P. Reitnauer**  
Crowell, Weedon & Co.  
Los Angeles, California

**William R. Timken**  
Hambrecht & Quist  
San Francisco, California

**Jon H. Tolson**  
Sutro & Co. Incorporated  
San Francisco, California

**Theodore F. Schmidt**  
Director  
425 California Street,  
Room 1400  
San Francisco, California 94104

**William J. Radding, Jr.**  
Director  
606 South Olive Street  
Los Angeles, California 90014

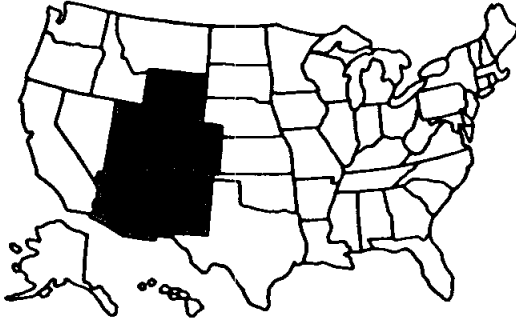
313 MEMBERS • 981 BRANCHES • 23,298 REGISTERED REPRESENTATIVES

## DISTRICT NO. 3

ARIZONA UTAH  
COLORADO WYOMING  
NEW MEXICO



**B. Mills Sinclair**  
Chairman  
Young, Smith & Peacock, Inc.  
Phoenix, Arizona



**William A. Conklin**  
Vice Chairman  
Bosworth, Sullivan & Company,  
Incorporated  
Denver, Colorado

**James A. Gamble**  
Thomson McKinnon Securities  
Inc.  
Salt Lake City, Utah

**Michael T. Hamilton**  
Hyder and Company  
Albuquerque, New Mexico

**Jack I. Kibben**  
Piper, Jaffray & Hopwood  
Incorporated  
Sheridan, Wyoming

**James D. Payne**  
Olsen & Company  
Salt Lake City, Utah

**Edwin J. Pittock**  
E. J. Pittock & Co. Incorporated  
Denver, Colorado

**Edward H. Sundermann, Jr.**  
Hanifen, Imhoff & Samford, Inc.  
Denver, Colorado

**Herve J. R. Tessier**  
H. J. Tessier & Co., Inc.  
Phoenix, Arizona

**L. Richard Ure**  
Dean Witter Reynolds Inc.  
Salt Lake City, Utah

**John T. Christensen**  
Director  
909 17th Street, Room 608  
Denver, Colorado 80202

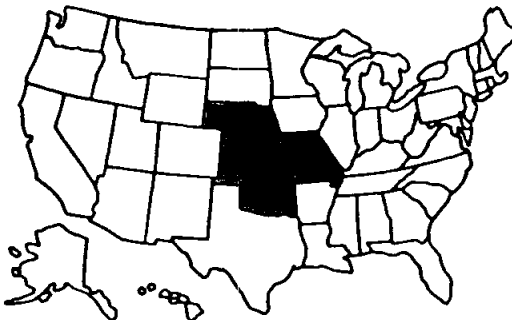
103 MEMBERS • 360 BRANCHES • 6,121 REGISTERED REPRESENTATIVES

## DISTRICT NO. 4

KANSAS NEBRASKA  
MISSOURI OKLAHOMA



**Shelby C. Chism**  
Chairman  
Burns, Pauli & Co., Inc.  
St. Louis, Missouri



**Walter J. Middlecamp, Jr.**  
Vice Chairman  
Merrill Lynch, Pierce, Fenner &  
Smith Inc.  
Kansas City, Missouri

**L. Kenneth Britt**  
Zahner and Company  
Kansas City, Missouri

**J. Paul Erickson**  
Mutual of Omaha Fund  
Management Company  
Omaha, Nebraska

**John E. Hayes**  
McCourtney-Breckenridge &  
Company  
St. Louis, Missouri

**John H. Henning**  
Blyth Eastman Dillon & Co.  
Incorporated  
Kansas City, Missouri

**Wayne Lamb**  
Waddell & Reed, Inc.  
Kansas City, Missouri

**Douglas V. Martin III**  
Newhard, Cook & Co., Inc.  
St. Louis, Missouri

**H. Clay Miller**  
George K. Baum & Company  
Incorporated  
Kansas City, Missouri

**P. David Patrick**  
Dean Witter Reynolds Inc.  
Oklahoma City, Oklahoma

**Joseph Pierce**  
Beecroft, Cole & Company  
Topeka, Kansas

**Owen L. Saddler, Jr.**  
Kirkpatrick, Pettis, Smith,  
Polian Inc.  
Omaha, Nebraska

**Richard M. Coster**  
Director  
911 Main Street, Suite 2230  
Commerce Tower Building  
Kansas City, Missouri 64105

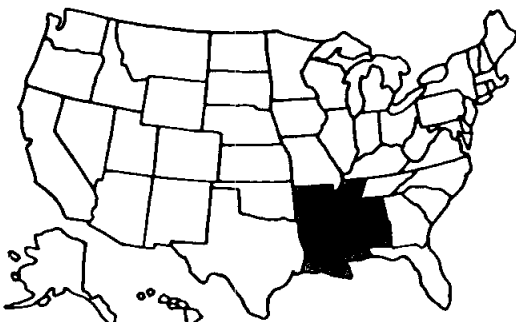
117 MEMBERS • 391 BRANCHES • 9,546 REGISTERED REPRESENTATIVES

## DISTRICT NO. 5

ALABAMA MISSISSIPPI  
ARKANSAS WESTERN TENNESSEE  
LOUISIANA



**Walter N. Trulock III**  
Chairman  
Dean Witter Reynolds Inc.  
Pine Bluff, Arkansas



**Morris H. Fair**  
Vice Chairman  
UMIC, Inc.  
Memphis, Tennessee

**Lee Bodenhamer**  
Variable Annuity Sales  
Corporation  
Little Rock, Arkansas

**James S. Holbrook, Jr.**  
First Birmingham Securities  
Corporation  
Birmingham, Alabama

**Frederick Lin Lawrence, Jr.**  
Tennessee Capital Corporation  
Memphis, Tennessee

**William K. McHenry, Jr.**  
Sterne, Agee and Leach, Inc.  
Birmingham, Alabama

**John O. Roy, Jr.**  
E. F. Hutton & Company, Inc.  
New Orleans, Louisiana

**Hughes Schneidau, Jr.**  
Waters, Parkerson & Co., Inc.  
New Orleans, Louisiana

**Leland R. Speed**  
Leland Speed, Mounger &  
Bartlett Incorporated  
Jackson, Mississippi

**Edward J. Newton**  
Director  
1004 Richards Building  
New Orleans, Louisiana 70112

97 MEMBERS • 246 BRANCHES • 4,771 REGISTERED REPRESENTATIVES

## DISTRICT NO. 6

TEXAS



**Eugene B. Shepherd**  
Chairman  
Greer Moreland Fosdick Inc.  
Houston, Texas



**William B. Madden**  
Vice Chairman  
Schneider, Bernet & Hickman,  
Inc.  
Dallas, Texas

**Frederick L. Baker**  
Fred Baker & Associates, Inc.  
San Antonio, Texas

**William E. Barker, Jr.**  
Edie Funds Distributor, Inc.  
Dallas, Texas

**Malcolm L. Cooper**  
Rotan Mosle Inc.  
Austin, Texas

**Daniel D. Howell**  
E. F. Hutton & Company, Inc.  
San Antonio, Texas

**Samuel P. Mitchell**  
Eppler, Guerin & Turner, Inc.  
Dallas, Texas

**Daniel M. Underwood**  
Underwood, Neuhaus & Co.,  
Inc.  
Houston, Texas

**Peter M. Walker**  
Director  
1610 Metropolitan Federal  
Savings Building  
1407 Main Street  
Dallas, Texas 75202

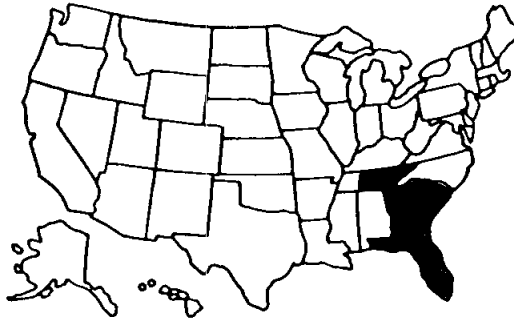
131 MEMBERS • 365 BRANCHES • 8,100 REGISTERED REPRESENTATIVES

## DISTRICT NO. 7

FLORIDA  
GEORGIA  
SOUTH CAROLINA  
EASTERN TENNESSEE  
CANAL ZONE  
PUERTO RICO  
VIRGIN ISLANDS



**William H. Cammack**  
Chairman  
Equitable Securities  
Corporation  
Nashville, Tennessee



**Andrew B. Carroll**  
Vice Chairman  
Dean Witter Reynolds Inc.  
Fort Lauderdale, Florida

**Ralph C. Allen**  
Allen & Company  
Lakeland, Florida

**Harold W. Clark**  
The Cherokee Securities  
Company  
Nashville, Tennessee

**L. Massey Clarkson, Jr.**  
Drexel Burnham Lambert  
Incorporated  
Atlanta, Georgia

**William Hindsman**  
Johnson, Lane, Space, Smith &  
Co., Inc.  
Atlanta, Georgia

**Walter H. McIntyre, Jr.**  
A. G. Edwards & Sons, Inc.  
Eustis, Florida

**Park B. Smith**  
Frost, Johnson, Read & Smith,  
Inc.  
Charleston, South Carolina

**James L. Spencer**  
Western Reserve Financial  
Services Corp.  
Clearwater, Florida

**Bennett Whipple**  
Director  
1100 Atlanta Center  
250 Piedmont Avenue, N.E.  
Atlanta, Georgia 30308

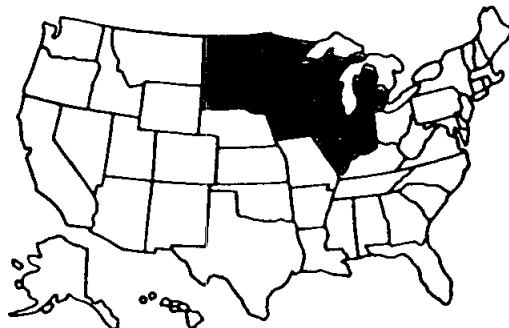
166 MEMBERS • 654 BRANCHES • 12,091 REGISTERED REPRESENTATIVES

## DISTRICT NO. 8

ILLINOIS  
INDIANA  
IOWA  
MICHIGAN  
MINNESOTA  
NORTH DAKOTA  
SOUTH DAKOTA  
WISCONSIN



**Ernest F. Rice, Jr.**  
Chairman  
Blunt Ellis & Loewi  
Incorporated  
Milwaukee, Wisconsin



**Hal H. Smith III**  
Vice Chairman  
Smith, Hague & Co.,  
Incorporated  
Detroit, Michigan

**J. Philip Boesel, Jr.**  
R. G. Dickinson & Co.  
Des Moines, Iowa

**Jerome J. Brault**  
Burton J. Vincent, Chesley  
& Co.  
Chicago, Illinois

**Clayton F. Brown**  
Wauterlek & Brown, Inc.  
Chicago, Illinois

**Arthur J. Cassidy**  
Wm. C. Roney & Co.  
Detroit, Michigan

**Paul A. Frederick**  
Frederick & Company, Inc.  
Milwaukee, Wisconsin

**Stanley M. Freehling**  
Freehling & Co.  
Chicago, Illinois

**Hubert A. Gile, Jr.**  
The Minnesota Mutual Life  
Insurance Company  
St. Paul, Minnesota

**Joseph M. Mengden**  
First of Michigan Corporation  
Detroit, Michigan

**Richard C. Romano**  
Romano Brothers and Company  
Evanston, Illinois

**James H. Schmidt**  
Paine, Webber, Jackson &  
Curtis Incorporated  
Chicago, Illinois

**King R. Traub**  
Traub and Company, Inc.  
Indianapolis, Indiana

**John L. Walton**  
Dain, Kalman & Quail,  
Incorporated  
Minneapolis, Minnesota

**William F. White**  
Bacon, Whipple & Co.  
Chicago, Illinois

**E. Craig Dearborn**  
Director  
10 South La Salle Street,  
Room 600  
Chicago, Illinois 60603

366 MEMBERS • 1,041 BRANCHES • 32,753 REGISTERED REPRESENTATIVES

## DISTRICT NO. 9



**Stephen J. Wolfe**  
Chairman  
S. J. Wolfe & Co.  
Dayton, Ohio

KENTUCKY OHIO



**Gilbert L. Pamplin**  
Vice Chairman  
J. J. B. Hilliard, W. L. Lyons,  
Inc.  
Louisville, Kentucky

**Keith R. Barker**  
Wm. C. Roney & Co.  
Cleveland, Ohio

**Prentice Brown**  
Johnston, Brown, Burnett &  
Knight Inc.  
Louisville, Kentucky

**Randolph D. Bucey**  
The First Boston Corporation  
Cleveland, Ohio

**Edward S. Herzog**  
Kidder, Peabody & Co.,  
Incorporated  
Toledo, Ohio

**Jack W. Levi, Jr.**  
A. E. Aub & Co.  
Cincinnati, Ohio

**Richard M. Pauly**  
Hill & Co.  
Cincinnati, Ohio

**Edward F. Saville**  
Paine, Webber, Jackson &  
Curtis Incorporated  
Columbus, Ohio

**P. William Hotchkiss**  
Director  
100 Erieview Plaza  
Cleveland, Ohio 44114

79 MEMBERS • 288 BRANCHES • 7,529 REGISTERED REPRESENTATIVES

## DISTRICT NO. 10



**Jay H. Salkin**  
Chairman  
Salkin, Welch & Co., Inc.  
Lutherville, Maryland

DISTRICT OF COLUMBIA NORTH CAROLINA  
MARYLAND VIRGINIA



**George M. Ferris, Jr.**  
Vice Chairman  
Ferris & Company,  
Incorporated  
Washington, D.C.

**Harry M. Boyd**  
Interstate Securities  
Corporation  
Charlotte, North Carolina

**Edmund J. Cashman, Jr.**  
Legg Mason Wood Walker,  
Incorporated  
Baltimore, Maryland

**Edwin B. Horner, Jr.**  
Horner, Barksdale & Co.  
Lynchburg, Virginia

**Marshall H. Johnson**  
McDaniel Lewis & Co.  
Greensboro, North Carolina

**John J. Muldowney**  
Scott & Stringfellow, Inc.  
Richmond, Virginia

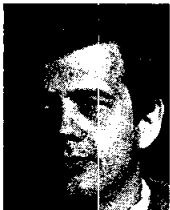
**Leslie J. Silverstone**  
Dean Witter Reynolds Inc.,  
Washington, D.C.

**Duane E. Waldenburg**  
Vance, Sanders & Company,  
Inc.  
Washington, D.C.

**Thomas P. Forde**  
Director  
1735 K Street, N.W., 6th Floor  
Washington, D.C. 20006

103 MEMBERS • 378 BRANCHES • 11,291 REGISTERED REPRESENTATIVES

## DISTRICT NO. 11



**Richard A. Purkiss**  
Chairman  
Dean Witter Reynolds Inc.  
Philadelphia, Pennsylvania

DELAWARE PENNSYLVANIA  
NEW JERSEY\* WEST VIRGINIA

\* With the exception of counties  
adjacent to New York City



**Paul A. Hagerty**  
Vice Chairman  
C. C. Collings and Company,  
Inc.  
Philadelphia, Pennsylvania

**Charles J. Anderson**  
Delaware Management  
Company, Inc.  
Philadelphia, Pennsylvania

**Richard J. Beisel**  
Parker/Hunter Inc.  
Pittsburgh, Pennsylvania

**Robert C. Fixter**  
J. W. Sparks Municipals, Inc.  
Philadelphia, Pennsylvania

**Frederick H. L. Fung**  
Harleysville Securities  
Corporation  
Harleysville, Pennsylvania

**L. Edison Mathis, Jr.**  
Mathis & Co.  
Atlantic City, New Jersey

**Gerald A. Roney**  
Moore, Leonard & Lynch,  
Incorporated  
Pittsburgh, Pennsylvania

**Rudolph C. Sander**  
Janney Montgomery Scott, Inc.  
Philadelphia, Pennsylvania

**George S. Weaver, Jr.**  
Hazlett, Burt & Watson, Inc.  
Wheeling, West Virginia

**Allen Weintraub**  
Advest, Inc.  
Philadelphia, Pennsylvania

**Robert A. Woeber**  
Arthurs, Lestrangle & Short  
Pittsburgh, Pennsylvania

**Robert B. Gilmore**  
Director  
1932 Philadelphia National  
Bank Building  
Broad and Chestnut Streets  
Philadelphia, Pennsylvania  
19107

198 MEMBERS • 382 BRANCHES • 15,331 REGISTERED REPRESENTATIVES

# DISTRICT NO. 12

## NEW YORK CITY\*

\* Includes adjacent NY and NJ counties



**Andrew M. Blum**  
Chairman  
L. F. Rothschild, Unterberg,  
Towbin  
New York, New York



**James E. Bacon**  
Chairman\*  
White, Weld & Co. Incorporated  
New York, New York



**Travers J. Bell, Jr.**  
Daniels & Bell, Inc.  
New York, New York

**George W. Benoit**  
Matthews & Wright, Inc.  
New York, New York

**Charles A. Bernheim**  
Stern, Lauer & Co.  
New York, New York

**Alfred J. Bianchetti**  
Dean Witter Reynolds Inc.  
New York, New York

**William H. Fickel**  
Metropolitan Life Insurance  
Company  
New York, New York

**John E. Herzog**  
Herzog, Heine, Geduld, Inc.  
Jersey City, New Jersey

**Gedale B. Horowitz**  
Salomon Brothers  
New York, New York

**A. James Jacoby**  
Asiel & Co.  
New York, New York

**Ross B. Kenzie**  
Merrill Lynch, Pierce, Fenner  
& Smith, Inc.  
New York, New York

**Thomas D. Levis**  
Investors Company  
New York, New York

**Benjamin L. Lubin**  
Bruns, Nordeman, Rea & Co.  
New York, New York

**Daniel J. Lynch**  
Donaldson, Lufkin & Jenrette  
Securities Corporation  
New York, New York

**David Marcus**  
Drexel Burnham Lambert  
Incorporated  
New York, New York

**Joseph V. Missett III**  
Shearson Hayden Stone Inc.  
New York, New York

**Fredric W. Rittereiser**  
Thomson McKinnon Securities  
Inc.  
New York, New York

**Michael L. Tarnopol**  
Bear, Stearns & Co.  
New York, New York

**George J. Bergen**  
Vice President, Director  
77 Water Street  
New York, New York 10005

814 MEMBERS • 442 BRANCHES • 31,068 REGISTERED REPRESENTATIVES

\*Served for part of 1978

# DISTRICT NO. 13

CONNECTICUT  
MAINE  
MASSACHUSETTS  
NEW HAMPSHIRE  
NEW YORK\*  
RHODE ISLAND  
VERMONT

\* With the exception of New York City and adjacent counties



**Thomas H. Adams, Jr.**  
Chairman  
Paine, Webber, Jackson &  
Curtis Incorporated  
Boston, Massachusetts



**Donald C. Day**  
Vice Chairman  
NEL Equity Services  
Corporation  
Boston, Massachusetts

**William Clafin, Jr.**  
Merrill Lynch, Pierce, Fenner &  
Smith, Inc.  
Boston, Massachusetts

**Tarrant Cutler**  
Massachusetts Financial  
Services Company  
Boston, Massachusetts

**Peter N. Dana**  
Paine, Webber, Jackson &  
Curtis Incorporated  
Boston, Massachusetts

**Frances B. Dyleski**  
Robert C. Carr & Co., Inc.  
Manchester, New Hampshire

**Robert L. Goldberg**  
John Hancock Distributors, Inc.  
Boston, Massachusetts

**John W. Holt**  
State Investment-Leonard & Co.  
Portland, Maine

**Anthony A. LaCroix**  
Advest, Inc.  
Hartford, Connecticut

**George C. McNamee**  
First Albany Corporation  
Albany, New York

**Howard R. Merriman, Jr.**  
Miller & George  
Providence, Rhode Island

**Eugene F. Miller**  
E. F. Miller Municipals Inc.  
Rochester, New York

**Herbert Sarkisian, Jr.**  
Hodgdon & Company  
Boston, Massachusetts

**William S. Clendenin**  
Director  
75 Federal Street  
Boston, Massachusetts 02110

255 MEMBERS • 492 BRANCHES • 21,577 REGISTERED REPRESENTATIVES

## REPORT OF INDEPENDENT ACCOUNTANTS

### To the Board of Governors of National Association of Securities Dealers, Inc. and NASDAQ, Inc.

We have examined the accompanying individual and consolidated balance sheets of the National Association of Securities Dealers, Inc. (NASD) and its subsidiary NASDAQ, Inc. as of September 30, 1978 and 1977, and the related statements of operations and Association equity and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated January 11, 1978, our opinion on the September 30, 1977 financial statements was qualified as being subject to the effects on the September 30, 1977 financial statements of such adjustments, if any, as might have been required had the outcome of the application for exemption from Federal and state income taxes been known. As explained in Note 2, the applications for exemption from Federal and certain state income taxes were approved in December 1978. Accordingly, our present opinion on the September 30, 1977 financial statements, as presented herein, is no longer qualified with respect to this matter.

As further described in Note 9, NASD is a defendant in several legal actions, the outcome of which is not presently determinable.

In our opinion, subject to the effect of such adjustments, if any, as might have been required had the outcome of the matters referred to in the preceding paragraph been known, the financial statements examined by us present fairly the individual and consolidated financial position of the National Association of Securities Dealers, Inc. and NASDAQ, Inc. at September 30, 1978 and 1977, and the individual and consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Washington, D.C.  
January 8, 1979

PRICE WATERHOUSE & CO.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. AND NASDAQ, INC.  
BALANCE SHEETS

September 30,

	1978			1977		
	NASD (Parent Organization)	NASDAQ	Consolidated	NASD (Parent Organization)	NASDAQ	Consolidated
<b>Assets</b>						
<b>Current assets</b>						
Cash	\$ 176,229	\$ 191,382	\$ 367,611	\$ 150,737	\$ 163,541	\$ 314,278
Investment securities, at cost (approximate market value for 1978: NASD \$7,350,000, NASDAQ \$8,811,000; for 1977: NASD \$6,088,000, NASDAQ \$6,251,000)	7,543,883	8,880,654	16,424,537	6,132,726	6,298,345	12,431,071
Other current assets	894,920	1,069,646	1,900,167	731,400	879,415	1,505,646
Total current assets	8,615,032	10,141,682	18,692,315	7,014,863	7,341,301	14,250,995
Data processing, subscriber equipment and software, at cost less accumulated depreciation and amortization of \$6,843,000 and \$5,568,000 (Note 5)		2,520,738	2,520,738		4,078,110	4,078,110
<b>Investments in</b>						
<b>Wholly-owned subsidiaries,</b>						
at equity in net assets (Notes 1 and 2)						
National Clearing Corporation (Note 6)	346,233		346,233	902,894		902,894
NASDAQ, Inc.	4,915,373			1,802,535		
Investment securities, at cost (approximate market value of \$4,435,000 and \$4,557,000) (Note 5)	4,494,987		4,494,987	4,497,802		4,497,802
Depository Trust Company, at cost (Note 7)	209,162		209,162	215,585		215,585
Land, building and improvements, at cost less accumulated depreciation of \$535,000 and \$460,000 (Note 4)	2,983,227		2,983,227	3,005,440		3,005,440
Special investment account, at lower of cost or market (Note 2)	265,956		265,956	251,185		251,185
Other assets	219,283	24,760	244,043	188,687	30,288	218,975
	<u>\$22,049,253</u>	<u>\$12,687,180</u>	<u>\$29,756,661</u>	<u>\$17,878,991</u>	<u>\$11,449,699</u>	<u>\$27,420,986</u>
<b>Liabilities and Association Equity</b>						
<b>Current liabilities</b>						
Accounts payable and accrued expenses	\$ 1,102,732	\$ 421,129	\$ 1,459,462	\$ 829,954	\$ 647,164	\$ 1,371,949
Prepaid NASDAQ issuers fees	1,665,409		1,665,409	1,569,431		1,569,431
Current portion of mortgage payable	111,257		111,257	105,316		105,316
Current portion of note payable (Note 5)		2,000,000	2,000,000		2,000,000	2,000,000
Refund of user services fees (Note 2)		1,350,678	1,350,678		1,000,000	1,000,000
	2,879,398	3,771,807	6,586,806	2,504,701	3,647,164	6,046,696
<b>Long-term liabilities</b>						
Reserve for deferred compensation	265,956		265,956	251,185		251,185
Mortgage payable (Note 4)	823,765		823,765	935,023		935,023
Note payable (Note 5)		4,000,000	4,000,000		6,000,000	6,000,000
Total liabilities	3,969,119	7,771,807	11,676,527	3,690,909	9,647,164	13,232,904
Association equity (Note 5)	18,080,134	4,915,373	18,080,134	14,188,082	1,802,535	14,188,082
Commitments and contingencies (Notes 5, 8 and 9)						
	<u>\$22,049,253</u>	<u>\$12,687,180</u>	<u>\$29,756,661</u>	<u>\$17,878,991</u>	<u>\$11,449,699</u>	<u>\$27,420,986</u>

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. AND NASDAQ, INC.

STATEMENTS OF OPERATIONS AND ASSOCIATION EQUITY

Year Ended September 30,

	1978			1977*		
	NASD (Parent Organization)	NASDAQ	Consolidated	NASD (Parent Organization)	NASDAQ	Consolidated
<b>Income</b>						
Member assessments and branch office fees	\$ 7,548,831		\$ 7,548,831	\$ 7,317,460		\$ 7,317,460
NASDAQ user services fees		\$13,850,376	13,850,376		\$12,921,312	12,921,312
Registered representative fees						
Applications	1,294,900		1,294,900	1,316,410		1,316,410
Examinations	1,046,503		1,046,503	1,158,468		1,158,468
Corporate finance fees	1,092,684		1,092,684	909,126		909,126
Fines	209,985		209,985	212,300		212,300
Interest and other	1,029,320	568,066	1,597,386	907,447	289,653	1,197,100
NASDAQ issuers fees	2,859,326		2,859,326	2,716,621		2,716,621
Regulatory service for NCC/NSCC (Note 3)	783,004		783,004	1,167,907		1,167,907
Refund of user services fees (Note 2)		(1,350,678)	(1,350,678)		(1,000,000)	(1,000,000)
	<u>15,864,553</u>	<u>13,067,764</u>	<u>28,932,317</u>	<u>15,705,739</u>	<u>12,210,965</u>	<u>27,916,704</u>
<b>Expenses</b>						
Salaries and employee benefits	10,203,203	1,004,297	11,207,500	9,252,545	926,076	10,178,621
Travel, meeting and investigation	1,271,938	131,915	1,403,853	1,205,984	118,258	1,324,242
Publication, stationery and postage (net of publication sales of \$39,000 in 1978 and \$41,000 in 1977)	911,409	78,923	990,332	736,234	65,106	801,340
Professional and other services	755,707	279,637	1,035,344	493,145	359,774	852,919
Occupancy	979,108	416,650	1,395,758	944,666	244,610	1,189,276
Telephone and office	502,438	95,133	597,571	486,496	64,380	550,876
Interest	54,590	700,000	754,590	60,214	910,000	970,214
System operator's fees		4,349,278	4,349,278		4,305,609	4,305,609
Depreciation and amortization	75,061	1,637,900	1,712,961	72,011	2,918,205	2,990,216
Data processing and transmission	255,108	1,072,087	1,327,195	184,285	679,309	863,594
Other	45,116	189,106	234,222	61,832	219,402	281,234
	<u>15,053,678</u>	<u>9,954,926</u>	<u>25,008,604</u>	<u>13,497,412</u>	<u>10,810,729</u>	<u>24,308,141</u>
<b>Net income (deficit)</b>						
NASD	810,875		810,875	2,208,327		2,208,327
NCC (Note 6)	(31,661)		(31,661)	(555,885)		(555,885)
NASDAQ, Inc.	3,112,838	3,112,838	3,112,838	1,400,236	1,400,236	1,400,236
Consolidated	<u>3,892,052</u>		<u>3,892,052</u>	<u>3,052,678</u>		<u>3,052,678</u>
Association equity, beginning of year	14,188,082	1,802,535	14,188,082	11,135,404	402,299	11,135,404
Association equity, end of year	<u>\$18,080,134</u>	<u>\$ 4,915,373</u>	<u>\$18,080,134</u>	<u>\$14,188,082</u>	<u>\$ 1,802,535</u>	<u>\$14,188,082</u>

\* Certain categories of expenses have been reclassified for comparative purposes.



NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. AND NASDAQ, INC.  
STATEMENTS OF CHANGES IN FINANCIAL POSITION

Year Ended September 30,

	1978			1977		
	NASD (Parent Organization)	NASDAQ	Consolidated	NASD (Parent Organization)	NASDAQ	Consolidated
<b>Financial resources were provided by:</b>						
Net income	\$ 810,875	\$3,112,838		\$2,208,327	\$1,400,236	
Net (loss) of NCC	(31,661)			(555,885)		
Net income of NASDAQ, Inc.	3,112,838			1,400,236		
	<u>3,892,052</u>	<u>3,112,838</u>	<u>\$3,892,052</u>	<u>3,052,678</u>	<u>1,400,236</u>	<u>\$3,052,678</u>
<b>Items not affecting working capital in the period:</b>						
Net income of wholly-owned subsidiaries	(3,081,177)		31,661	(844,351)		555,885
Depreciation and amortization	75,061	1,637,900	1,712,961	72,011	2,918,205	2,990,216
Return of capital from NCC	525,000		525,000			
	<u>1,410,936</u>	<u>4,750,738</u>	<u>6,161,674</u>	<u>2,280,338</u>	<u>4,318,441</u>	<u>6,598,779</u>
<b>Financial resources were used for:</b>						
Purchase of data processing, subscriber equipment and software, net		80,528	80,528		146,943	146,943
Increase (decrease) in non-current investment securities	(2,815)		(2,815)	5,338		5,338
(Decrease) in investment in Depository Trust Company	(6,423)		(6,423)	(43,304)		(43,304)
Purchase of building improvements	52,848		52,848	16,632		16,632
Increase (decrease) in other assets	30,596	(5,528)	25,068	24,669	11,064	35,733
Decrease in long-term note payable		2,000,000	2,000,000		2,000,000	2,000,000
Decrease in long-term mortgage payable	111,258		111,258	105,316		105,316
	<u>185,464</u>	<u>2,075,000</u>	<u>2,260,464</u>	<u>108,651</u>	<u>2,158,007</u>	<u>2,266,658</u>
<b>Increase in working capital</b>	<u>\$1,225,472</u>	<u>\$2,675,738</u>	<u>\$3,901,210</u>	<u>\$2,171,687</u>	<u>\$2,160,434</u>	<u>\$4,332,121</u>
<b>Analysis of Changes in Working Capital</b>						
<b>Increase in current assets</b>						
Cash	\$ 25,492	\$ 27,841	\$ 53,333	\$ 16,990	\$ 59,443	\$ 76,433
Investment securities	1,411,157	2,582,309	3,993,466	2,132,651	2,888,358	5,021,009
Other current assets	163,520	190,231	353,751	67,313	183,075	232,810
	<u>1,600,169</u>	<u>2,800,381</u>	<u>4,400,550</u>	<u>2,216,954</u>	<u>3,130,876</u>	<u>5,330,252</u>
<b>Decrease (increase) in current liabilities</b>						
Accounts payable and accrued expenses	(272,778)	226,035	(46,743)	(16,631)	29,558	30,505
Prepaid NASDAQ issuers fees	(95,978)		(95,978)	(23,013)		(23,013)
Current portion of mortgage payable	(5,941)		(5,941)	(5,623)		(5,623)
Refund of user services fees		(350,678)	(350,678)		(1,000,000)	(1,000,000)
	<u>(374,697)</u>	<u>(124,643)</u>	<u>(499,340)</u>	<u>(45,267)</u>	<u>(970,442)</u>	<u>(998,131)</u>
<b>Increase in working capital</b>	<u>\$1,225,472</u>	<u>\$2,675,738</u>	<u>\$3,901,210</u>	<u>\$2,171,687</u>	<u>\$2,160,434</u>	<u>\$4,332,121</u>

**NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. AND NASDAQ, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 1978 AND 1977**

**Note 1—Organization**

The National Association of Securities Dealers, Inc. (NASD) is a not-for-profit membership association established to regulate the over-the-counter securities market. NASDAQ, Inc., which was incorporated in 1976 to operate the NASDAQ quote information system, and National Clearing Corporation (NCC) (Note 6) are both wholly-owned subsidiaries of the NASD.

**Note 2—Summary of Significant Accounting Policies Investment in NCC and NASDAQ, Inc.**

The NASD's investment in NCC is recorded at its equity in net assets and accordingly is adjusted for the net income or loss of NCC. Summary financial information for NCC is presented in Note 6.

The consolidated financial statements include the accounts of the NASD and NASDAQ, Inc. after elimination of all significant intercompany transactions.

**Retirement Benefits and Deferred Compensation**

NASD maintains a non-contributory trustee pension plan for the benefit of all eligible employees. Certain employees have been granted extended retirement and death benefits. It is NASD's policy to fund pension costs and to provide for the cost of other benefits as they accrue. Pension and deferred compensation costs were \$427,000 and \$348,000 for the years ended September 30, 1978 and 1977, respectively.

In November 1978 the NASD Board of Governors approved a defined benefit pension plan and a savings plan to be effective January 1, 1979. The new pension plan, which will replace the non-contributory pension plan as discussed above, will cover substantially all NASD employees. As a result of this change, it is estimated that the annual cost to NASD will increase approximately \$150,000.

The Special Investment Account represents amounts set aside to fund the reserve for deferred compensation which relates to five former or current employees.

**Depreciation and Amortization**

NASD's building and improvements are being depreciated on a straight-line basis over lives of 38 and 10 years, respectively. Purchases of office furniture and equipment by NASD are treated as an expense in the year acquired.

For the year ended September 30, 1977 NASDAQ, Inc.'s data processing, subscriber equipment and software acquired on February 9, 1976 was being depreciated and amortized on an accelerated basis over 3 years. However, during 1978 the estimate of the useful life was changed to 4 years. Accordingly, depreciation expense is approximately \$1,130,000 less in 1978 as a result of this change. Other NASDAQ equipment subsequently acquired, is being depreciated using various methods over useful lives from 3 to 10 years.

**Prepaid NASDAQ Issuers Fees**

Prepaid NASDAQ issuers fees are deferred and included in income of the applicable fiscal year.

**Income Taxes**

NASD is a tax-exempt not-for-profit organization. In December 1978, NASDAQ, Inc. was also ruled exempt from Federal and certain state income taxes. It is anticipated that exemptions from remaining states and other jurisdictions will be obtained.

**Refund of User Service Fees**

During 1978 and 1977, the governing Boards of NASD and NASDAQ, Inc. approved \$1,350,678 and \$1,000,000, respectively, for refunds of NASDAQ user services fees. The refund reflects a reduction in rates for those years.

**Note 3—Related Party Transactions**

NASDAQ, Inc. utilizes the services of NASD employees. In addition, NASD provides NCC/NSCC regulatory services relating to NASD members who are also members of NCC/NSCC. Such regulatory services include periodic examination of the books, records and operations of NCC/NSCC members; monitoring and investigating the financial and operating condition of members and new applications for membership; and appraising NCC/NSCC of unusual market conditions which affect securities cleared by NCC/NSCC. Of the regulatory fees paid by NCC to NASD in 1977, \$600,000 was authorized by a resolution of the Board of Directors in November 1976 for regulatory services performed prior to October 1975. In addition, NASD bills NASDAQ, Inc. and NCC/NSCC for other expenses incurred on their behalf. Billings from NASD during 1978 and 1977 for these activities are summarized as follows:

	Billings from NASD for year ended September 30,	
	1978	1977
NASDAQ, Inc.	\$1,215,000	\$1,185,000
NCC, regulatory fees		\$ 765,000
NSCC, regulatory fees	\$ 783,000	\$ 403,000
NCC, other	\$ 50,000	\$ 69,000

Unpaid receivable (payable) balances of NASD at September 30, 1978 and 1977 with NASDAQ, Inc., NCC and NSCC are summarized as follows:

	NASD receivable (payable) at September 30,	
	1978	1977
NASDAQ, Inc.	\$ (64,399)	\$105,169
NCC	\$ 2,674	\$ 9,578
NSCC	\$237,281	\$142,675

**Note 4—Mortgage Payable**

NASD's land and buildings are pledged as security for a 5 1/2% mortgage. The mortgage loan is payable through 1985 in equal monthly instalments of principal and interest at \$13,326.

**Note 5—Note Payable**

All assets of the NASDAQ system are pledged as security for a 10 1/2%

note, the principal of which is payable in annual instalments of \$2,000,000 through 1981. Interest is payable quarterly and the note is guaranteed by NASD. In connection with this guarantee NASD has pledged \$4,500,000 of investment securities as collateral. Under the provision of the note agreement, NASD is required to maintain consolidated working capital of the lesser of \$4,500,000 or 125% of the outstanding principal balance of note. The agreement provides that working capital, for purposes of the agreement, is to include the securities pledged by the NASD and is not to be reduced by the current portion of the note payable. In addition, NASD is required to maintain a consolidated tangible equity of at least \$7,500,000. The note agreement contains other restrictive covenants relating to, among other things, additional indebtedness, dividends and transactions with affiliates.

**Note 6—Investment in National Clearing Corporation (NCC)**

In January 1977, NCC's stock clearing operations were consolidated with those of the clearing subsidiaries of the New York Stock Exchange, Inc. and the American Stock Exchange, Inc. into the National Securities Clearing Corporation (NSCC).

Pursuant to the plan of consolidation, NCC obtained a one-third ownership interest in NSCC and a \$600,000 note (which was paid on September 15, 1977) in exchange for substantially all of its net assets of \$900,000. NSCC also assumed responsibility for NCC's leases and contracts pertaining to clearing operations.

A summary of NCC's operations and financial position for 1978 and 1977 is as follows:

	Summary of Operations	
	Year ended September 30, 1978	1977
Revenue, including investment income of \$29,300 and \$35,000	\$ 29,382	\$2,488,778
Operating expenses including regulatory fee to NASD of \$764,612 in 1977	61,043	3,043,163
	(31,661)	(554,385)
Provision for income taxes		1,500
Net loss	(31,661)	(555,885)
Deficit at beginning of year	(1,107,106)	(551,221)
Deficit at end of year	<u>\$(1,138,767)</u>	<u>\$(1,107,106)</u>

Substantially all of NCC's operating loss for the year ended September 30, 1977, relates to NCC's clearing operations for the three-month period ended December 31, 1976 which was prior to the merger of its clearing operation into NSCC.

**Condensed Balance Sheets**

	September 30,	
	1978	1977
Current assets	\$ 48,907	\$ 627,530
Investment in NSCC, at cost	300,000	300,000
	<u>\$ 348,907</u>	<u>\$ 927,530</u>
Current liabilities	\$ 2,674	\$ 24,636
Stockholder's Equity	346,233	902,894
	<u>\$ 348,907</u>	<u>\$ 927,530</u>

During the year ended September 30, 1978, NCC paid NASD \$525,000, which represented the return of a portion of NASD's original investment.

The investment in NSCC is carried at cost since that corporation is controlled by the users of the clearing facilities and does not intend to pay dividends to its shareholders.

**Note 7—Investment in Depository Trust Company**

Pursuant to a plan to diversify the ownership of Depository Trust Company (DTC) among various self-regulatory and other organizations, in October 1975, NASD acquired 8% of the outstanding shares of DTC from the New York Stock Exchange. Entitlement to own shares of DTC is redetermined each year based on usage of its facilities. Since 1975, NASD has incurred minor gains and losses when necessary to adjust its holdings to its redetermined entitlement. Currently, NASD owns 6.3% of the outstanding shares of DTC.

**Note 8—Commitments**

In connection with the operations of its district offices, NASD leases office space in various locations. Rental expense amounted to \$1,113,000 and \$784,000 for the years ended September 30, 1978 and 1977, respectively. Minimum lease payments for the succeeding fiscal years are as follows: \$869,000 in 1979, \$633,000 in 1980, \$327,000 in 1981, \$224,000 in 1982, \$184,000 in 1983 and \$215,000 from 1984 through 1987. No lease extends beyond 1987. The majority of these leases contain escalation clauses based on increases in property taxes and building operation costs.

On February 9, 1976 NASDAQ, Inc. entered into an agreement under which Bunker Ramo performs certain services relating to the operation of the NASDAQ system. Minimum annual payments under this agreement for the succeeding fiscal years will be \$3,855,000 in 1979, \$3,300,000 in 1980 and \$2,340,000 in 1981. This agreement expires June 30, 1981, but may be terminated by NASDAQ, Inc. upon six months notice or by either party under certain other conditions. NASDAQ, Inc. incurred office and equipment rental expenses of \$548,000 and \$168,000 for the years ended September 30, 1978 and 1977, respectively. Minimum commitments for these expenses for the succeeding fiscal years are as follows: \$626,000 in 1979, \$604,000 in 1980, \$582,000 in 1981, \$522,000 in 1982 and \$325,000 in 1983.

**Note 9—Litigation**

The NASD has been named separately or with others, in several legal actions in which damages of substantial or as yet unspecified amounts are claimed. Certain of these actions allege violations of the anti-trust laws or the failure of the NASD to take appropriate action in the exercise of its regulatory responsibility. Counsel for the NASD advises that, although the NASD has meritorious defenses to all the pending litigation, the outcome of the litigation cannot be predicted.

## Purposes of the NASD

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To promote the investment banking and securities business

To standardize its principles and practices

To promote high standards of commercial honor and to promote among members observance of Federal and State securities laws

To provide a medium through which the membership may consult with governmental and other agencies

To cooperate with governmental authority in the solution of problems affecting this business and investors

To adopt and enforce rules of fair practice in the securities business

To promote just and equitable principles of trade for the protection of investors

To promote self-discipline among members

To investigate and adjust grievances between the public and members

*Front cover photograph  
shows headquarters of*



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