

1985 ANNUAL REPORT



**NATIONAL
ASSOCIATION
OF SECURITIES
DEALERS, INC.**



*from national . . .
to international*

The National Association of Securities Dealers, Inc., is the not-for-profit, self-regulatory organization for the over-the-counter securities market. More than 6,300 broker-dealer firms — or virtually all firms that do a securities business with the public — belong to the NASD and agree to abide by its rules as a condition of membership. Nearly 360,000 employees of these organizations are registered with the NASD.

Through its self-regulatory activities and the activities of its subsidiary organizations, NASDAQ, Inc., and NASD Market Services, Inc., the NASD seeks to facilitate efficient financial markets for the benefit of investors, NASDAQ companies and NASD member firms.

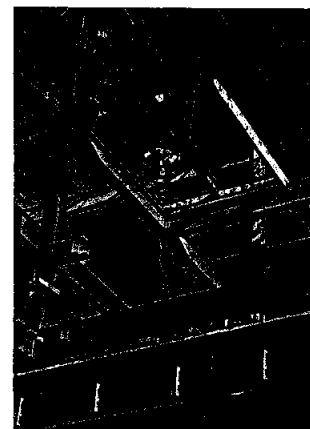
In keeping with the true spirit of self-regulation, the NASD is governed by a member-controlled Board of Governors. In addition, a nationwide system of committees conducts peer reviews of members' actions, develops rules and regulations, and designs new services for the marketplace.

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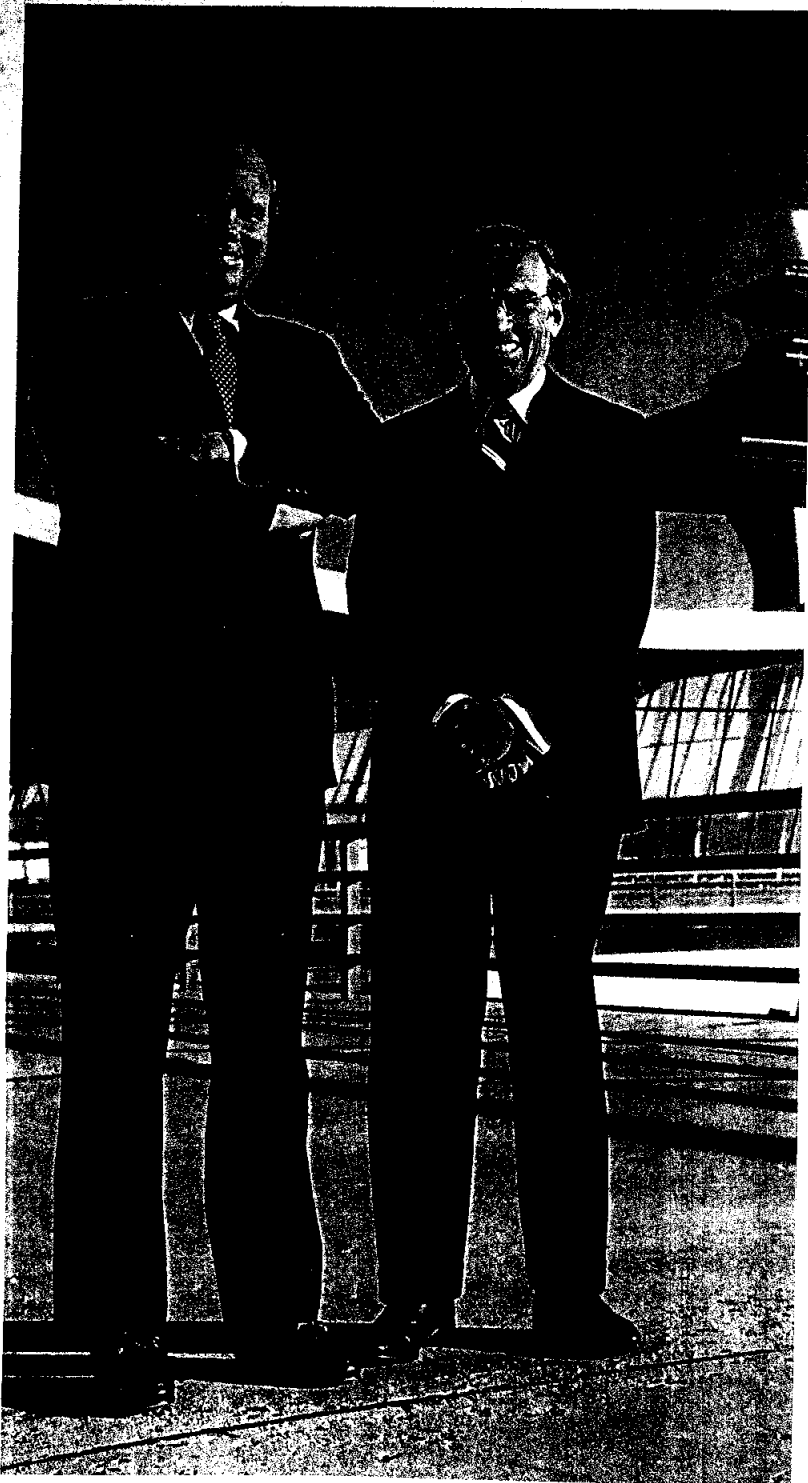
1985 HIGHLIGHTS

- *NASD membership reaches an all-time high of 6,307 member firms, branch offices climb to an unprecedented 15,375, and the number of registered principals and representatives soars to 357,133.*
- *A global equity-trading system moves one step closer when the NASD and the London Stock Exchange agree in principle to share quotations in a two-year pilot project.*
- *The NASD breaks ground on a \$17.3 million computer operations center in the Washington, D.C., area that will expand NASDAQ's single-day capacity to 200 million shares and provide the first complete backup computer communications facility of any securities market in the world.*
- *The NASD introduces the NASDAQ-100™ Index Option, based on the NASD's own capitalization-weighted index of 100 of the largest non-financial stocks on NASDAQ.*
- *NASDAQ share volume reaches 20.7 billion shares, a full 30 percent over record-breaking 1983; NASDAQ dollar volume of trading passes the \$233.5 billion mark.*
- *Ten states — Georgia, Montana, Maryland, Delaware, Indiana, Louisiana, Oregon, Kentucky, Maine, and New Jersey — take action to grant NASDAQ/NMS companies automatic exemptions from state securities registration requirements.*
- *Following Securities and Exchange Commission adoption of an NASD proposal amending criteria for admitting stocks into the NASDAQ National Market System, the securities in NASDAQ/NMS advance to 2,182, almost doubling 1984's year-end total of 1,180.*
- *The Small Order Execution System, operated by NASD Market Services, Inc., is extended to all NASDAQ securities, and the 500-shares-per-trade limit is raised to 1,000 shares for NASDAQ/NMS issues.*



Construction workers assemble steelwork for the NASD's new computer operations center, which will support NASD and NASDAQ operations.

CHAIRMAN'S & PRESIDENT'S REPORT



Peter D. Byrne, 1985 NASD Chairman (left), and Gordon S. Macklin, NASD President.

The year 1985 was one of substantial growth for the NASD and the NASDAQ market.

NASD membership continued to expand as our industry endeavored to provide investors with an ever-increasing range of financial services and investment products. Net increases of nearly 600 new NASD member firms, more than 1,000 new branch offices and in excess of 27,000 new registered representatives in 1985 reflect our industry's dynamic role in the nation's changing economy.

The NASDAQ market also continued to grow in 1985, setting many new records. By year end, the number of NASDAQ companies exceeded 4,100 and the combined market capitalization of their securities outstanding passed the \$306 billion mark. NASDAQ's 1985 share volume of 20.7 billion shares and dollar volume of \$233.5 billion far exceeded prior records set in 1983.

The NASDAQ Composite Index also performed strongly in 1985, outpacing all other leading stock market indices, including the Dow Jones Industrials, the S&P 500 and the NYSE Composite. In one year, it gained more than 31 percent.

In the past 12 months, the NASD took a number of important actions to prepare our market and organization for the future. A few deserve special mention.

In September, we broke ground for a new NASD computer operations center to expand NASDAQ's capability to handle the 200-million-share days of tomorrow,

as well as to continue research and development of future NASDAQ System enhancements. The center will also house the first complete backup computer communications facility of any securities market in the world to ensure continuous NASDAQ System service if our primary computer complex in Connecticut should become disabled.

The year also witnessed the introduction of the NASDAQ-100 Index™ and the trading of options on that Index via NASDAQ and the trading of a companion futures contract through the Chicago Board of Trade. These, our initial NASDAQ market derivative products, give investors and marketplace professionals more efficient risk-management tools and will serve to facilitate additional investment in the NASDAQ market.

During the past year, the global equity market of tomorrow, as well as NASDAQ's participation in it, began to take shape. World equity trading is rapidly moving beyond the talking stage and is now on the brink of becoming a reality. It will generate exciting new opportunities for investors, NASDAQ companies and NASD members.

The NASD ventured into the international arena this past year when it reached an agreement in principle with the London Stock Exchange to share quotations in nearly 600 world-class stocks in a two-year pilot project.

NASDAQ's link with London is a natural development because it responds to the needs of: (1) investors seeking global asset management; (2) issuers looking to

raise capital in overseas markets; (3) securities firms exploring an efficient means by which to participate in international trading. Through this arrangement, NASD and London firms will, for the first time, display their individual firm quotes on opposite sides of the Atlantic through linked information systems.

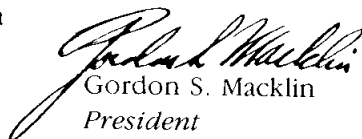
As we move into tomorrow's world of international trading, we will continue to expend our energies and dedicate our resources to ensure that all who deal in our market do so with confidence. Investor protection, market integrity and efficient services and systems are the foundations upon which today's NASD is built. Likewise, they will be the major underpinnings of the NASD's contribution to the emerging world market for equities.

As we look to the future and all that it holds, we wish to acknowledge the contributions in 1985 of the hundreds of men and women who gave of their time and their valuable talents to the work of the NASD and its subsidiary organizations. The continued contributions of these industry volunteers — coupled with the efforts of a dedicated and professional staff — will equip this organization to meet the many challenges that lie ahead.



Peter D. Byrne

1985 Chairman



Gordon S. Macklin

President

INTERNATIONALIZATION: AN ESSAY

The Emerging World Equity Market: The Next Dimension for NASDAQ

The equity markets of the world are rapidly moving beyond their national borders. Fueled by technology, the emerging global stock market is an innovative response to the worldwide needs of investors, issuers and securities firms.

Recent estimates put cross-border trading of equities at 10 to 12 percent of the \$1.8 trillion in aggregate 1985 equity trading in the major world markets. It is expected that this percentage will grow rapidly for several reasons.

First, investors from around the world are seeking global asset management. They are searching for promising investment opportunities in the securities of companies located throughout the industrialized world. They are diversifying their holdings among different countries, economies and currencies.

Second, many issuer companies want an international mix of shareholders, especially those who are likely to hold securities as long-term investments.

Third, securities firms are competing for new business opportunities. Already, U.S. firms have over 250 branches in 30 foreign countries, exclusive of Canada and Mexico, while more than 110 foreign firms have established branches in the U.S. Large firms are expanding their worldwide branch networks or acquiring others to enter into international securities

research, sales and trading. Medium-sized firms are forming partnerships with firms in other countries. Smaller firms are finding profitable niches abroad.

Seeing these developments, the markets are responding: linkages between national markets are being forged; private vendor organizations are speeding the international flow of market information; and more efficient and less costly methods of clearance and settlement of international trades are being developed.

The NASDAQ market is already the third-largest equity market in the world and a major force in international equity trading.

In 1985, trading of nearly 300 ADRs and foreign issues in the NASDAQ market aggregated 1.4 billion shares, with a dollar value of trading of \$12.5 billion. This represented nearly one-third of total U.S. activity in foreign equities. Concurrent with this development, foreign activity in NASDAQ issues is also increasing. This is demonstrated by the more than 14,500 terminals (up 35 percent over 1984) located in 36 foreign countries that now receive NASDAQ information and by the more than 350 foreign institutions that now hold NASDAQ stocks.

The building blocks for NASDAQ's expanded international role are now being assembled. The single most important building block being put into position at this time is



The cover of this year's annual report symbolically depicts the role of the NASDAQ System in providing NASD members, NASDAQ companies and investors with access to the emerging global equity market.

NASDAQ's agreement with the London Stock Exchange.

The NASDAQ/London initiative is an extremely important step in the evolution of international equity trading. It satisfies the basic need for solid international price quotations. More international linkages for NASDAQ on a larger scale are ahead. These will include new and expanded linkages of NASDAQ with private international information vendors who see a rapidly growing market for international price quotations.

As the quotation networks grow, wider dissemination of actual trading data will follow. Next, the global information network will be used to execute trades. International clearance and settlement linkages will develop quickly due to market pressures to reduce these costs. The requirements for clearance and settlement are likely to create much of the regulatory framework for the global equity market.

From the NASDAQ perspective, these developments offer opportunities, not only for the big multinational companies, the major securities firms and powerful financial institutions, but also for thousands of growth companies, for millions of investors, and for the economic growth of many countries.

In addition to its sheer size and its current international activities, the NASDAQ market can contribute to the emerging global equity market with its experience, with its technology, with its competitive multiple market-maker system and with its reputation for cooperative self-regulation.

1. Experience. NASDAQ's 15 years of experience will be helpful in accelerating the development of the global market. While streamlining the U.S. over-the-counter market, NASDAQ overcame problems of fragmentation, elusive quotation information and imperfect market-maker competition and regulation, problems that the world market must overcome.

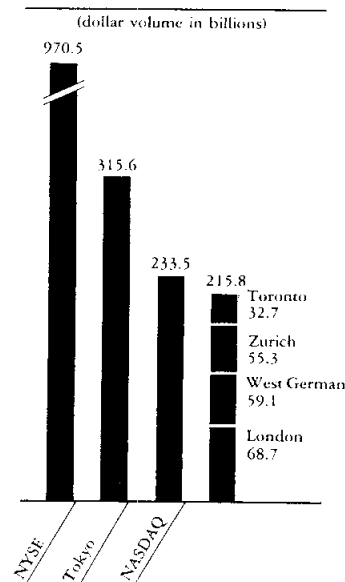
2. Technology. NASDAQ pioneered systems for connecting a geographically diverse market. As these systems are being emulated by London and studied by others, a global network of NASDAQ-compatible systems becomes a very real possibility.

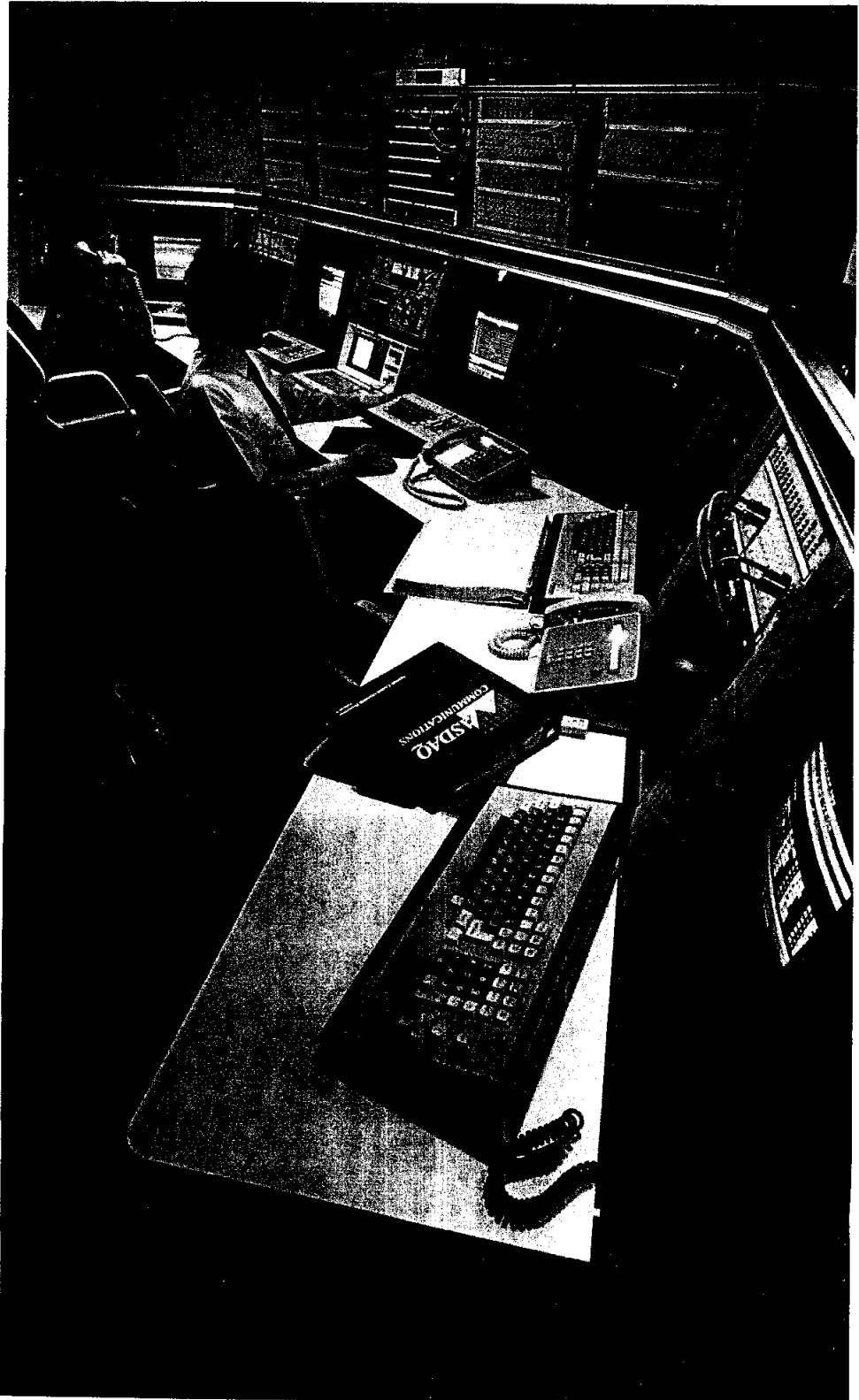
3. The competitive multiple market-maker system. This unique strength of the NASDAQ market has worldwide application. Competing market makers, geographically dispersed and linked by technology, can be close to the investors for whom they trade and to the companies whose securities they sponsor. This system is uniquely qualified to bridge the time, space, currency and regulatory differences among many countries.

4. Cooperative self-regulation. The type of self-regulation practiced by the NASD for nearly 50 years and applied effectively in the NASDAQ market for 15 years will be useful in harmonizing existing national patterns of securities activity into an international one.

The emerging world equity market is the next dimension for NASDAQ.

EQUITY TRADING
IN WORLD MARKETS



OPERATING REVIEW

NASDAQ's network control center monitors all communication lines accessing the system. A dial-in backup capability provides continuous transmission when the control center detects equipment malfunctions or weather problems.

Long-range strategic planning is a critical NASD activity. Carried out by the Board of Governors and coordinated by the Long-Range Planning Committee, it supports the NASD's corporate purpose, which the Board has defined as follows:

"To utilize the proven and successful methods of self-regulation and user-controlled automated systems to facilitate efficient financial markets for the benefit of investors, issuers and members, and thereby, the public interest."

Through its planning process, the NASD has established four major corporate objectives. These objectives are, in turn, pursued through an assortment of action programs. In this year's annual report, we review the NASD's major programs under each of the four objectives.

Continue to improve the quality of NASD regulatory programs.

In 1985, the initial phases of the NASD's Equity Audit Trail to monitor activity in the NASDAQ market came on-line. This, the latest of the NASD's automated surveillance tools, will provide a fully integrated data base of second-by-second quotation, transaction and clearing information for all NASDAQ securities on a firm-by-firm basis.

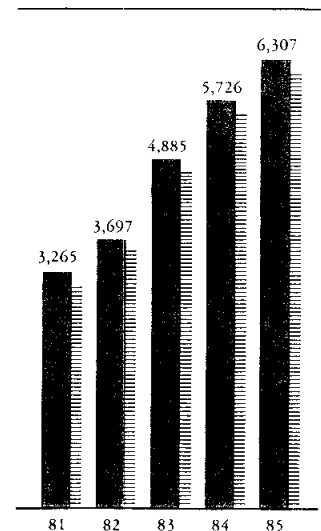
In 1985, the NASD adopted a series of corporate governance rules for NASDAQ/NMS companies and submitted them to the SEC for approval. Significant among these

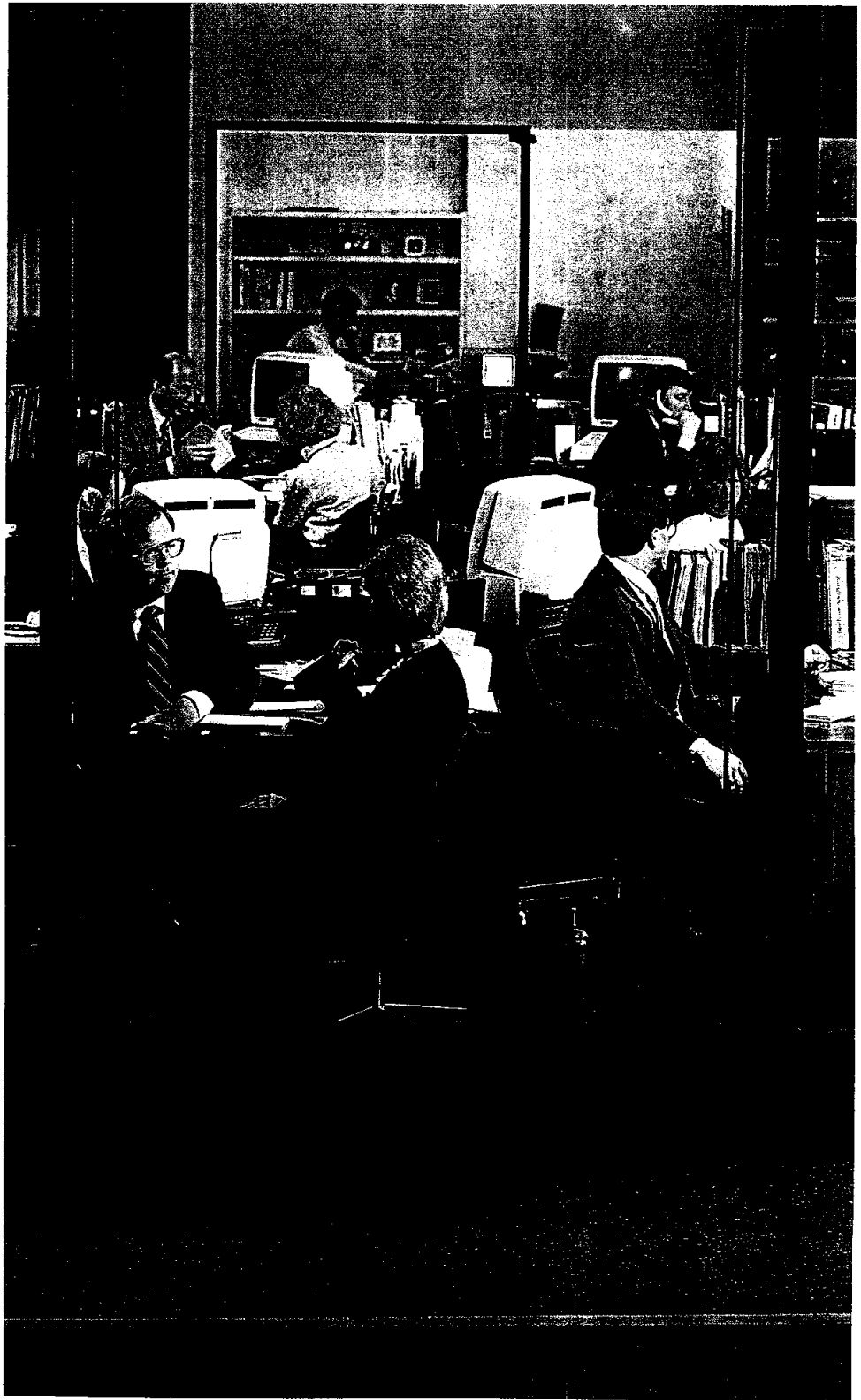
are new rules that would require each NASDAQ/NMS company to (1) maintain a minimum of two independent directors on its board and (2) establish and maintain an audit committee, the majority of which would be independent directors. Other newly adopted corporate governance rules concern the distribution of annual and interim reports, shareholder meetings, quorum requirements, solicitation of proxies, conflicts of interest, and listing agreements.

In 1985, the NASD took three actions in the area of short-sale regulation in the over-the-counter market. First, for purposes of surveillance and study, the NASD decided to require members to make monthly reports of aggregate short-interest positions in customer and proprietary accounts starting in early 1986. Second, to tighten record-keeping and delivery requirements, the NASD proposed rules requiring members to note on order tickets whether a customer's sell order is a long or short sale, and before accepting a customer's order to sell short, to determine that the shares can be delivered or borrowed in five business days. Third, the NASD Board retained former SEC Commissioner Irving M. Pollack to conduct a comprehensive study of short-selling practices.

In an effort to develop additional facts on the complex legal, economic and policy questions involved in the shareholder voting rights issue, the Board commissioned a study by University of Chicago law professor Daniel Fischel. The Fischel study is expected to produce

NASD MEMBER FIRMS





Growing investor participation in the NASDAQ market is responsible for many of the NASDAQ market records set in 1985.

valuable information on the voting rights issue and provide a basis for further Board action.

The NASD's Rules of Fair Practice received a thorough overhaul in 1985. The updated rules codify new procedures, set standards for new products, incorporate necessary amendments, clarify certain references and delete obsolete language.

Following SEC approval of rules requiring banks to conduct their securities activities through a broker-dealer registered under the Securities Exchange Act, subsidiary organizations of 12 banks became members of the NASD in 1985 and applications for another 88 were pending by year end. These firms are being admitted to membership subject to the same procedures, standards and monitoring as all other applicants and members.

In 1985, the NASD's new Market Surveillance Committee became operational. It serves as the central review body for matters developed by the Market Surveillance Section. Its powers are identical to those of a District Business Conduct Committee, and its area of responsibility is NASDAQ market-related NASD and SEC rules. Several major actions were taken by the Committee in 1985.

Anticipating the possibility of a future regulatory role, the Board established a Task Force on Investment Adviser Regulation. The Task Force is examining the implications and the work involved for the NASD if it accepts a request to assume responsibility for regulating investment advisers.

I ncrease the benefit and quality of NASD services.

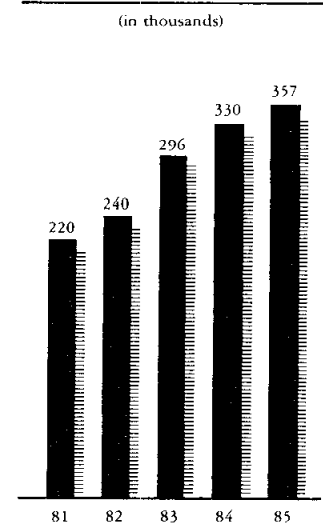
Introduced in 1984, the Small Order Execution System (SOES) was expanded in 1985 to include all NASDAQ issues, and the order limit for NASDAQ/NMS issues was raised to 1,000 shares. The 500-share limit for other NASDAQ issues remains unchanged.

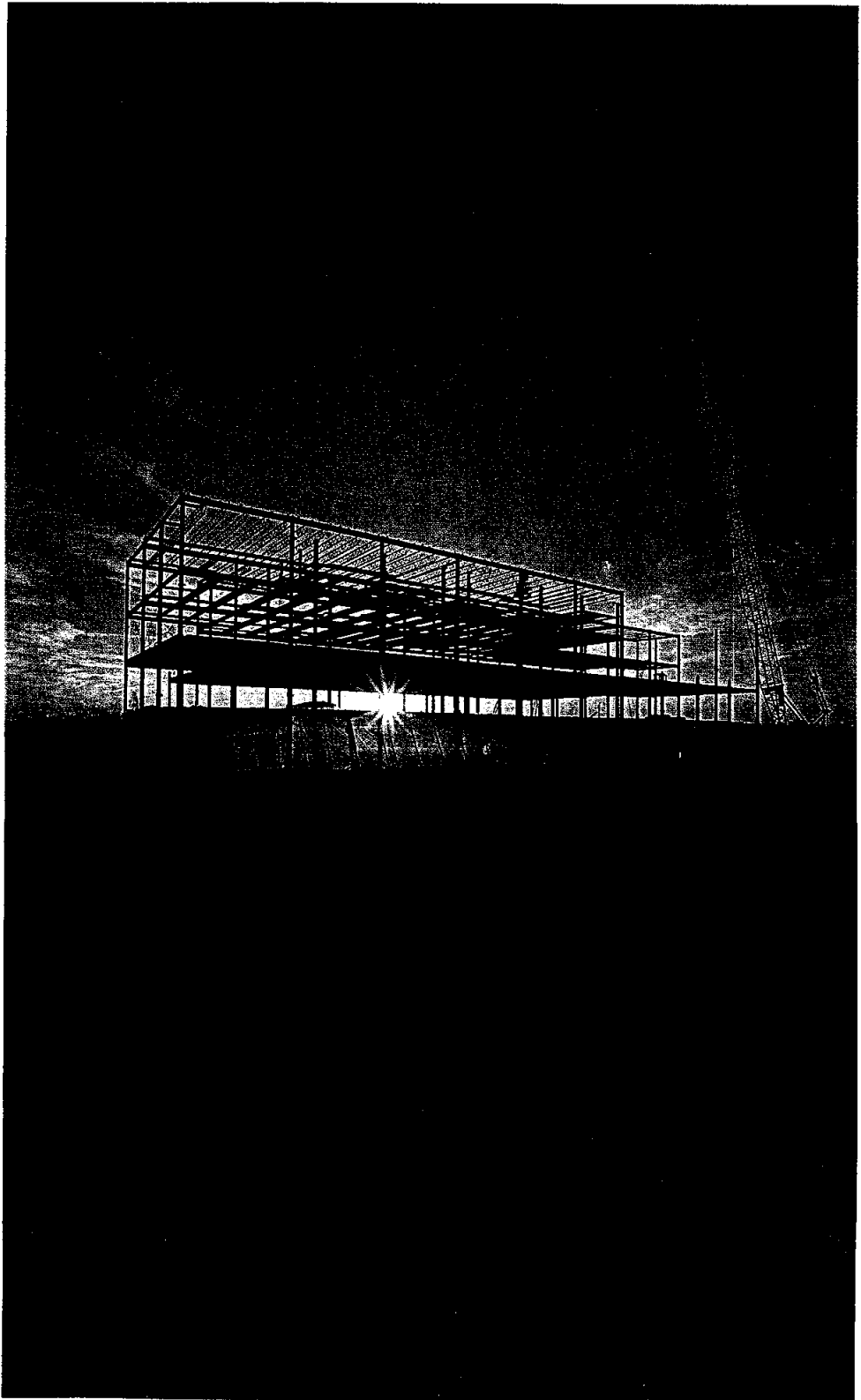
SOES diminishes the handling and processing burdens of small retail trades. Because all SOES trades are "locked in" — that is, they are automatically executed at the best price available in NASDAQ and automatically reported to NASDAQ and transmitted to a clearing corporation — it is a very efficient system. A new computer interface to allow NASD member firms to use automatic data processing for order routing has been developed to further improve SOES' efficiency.

A far-reaching step to increase the benefit and quality of NASD services was taken in September when the NASD broke ground on its new computer complex in Rockville, Maryland. This facility, scheduled to become operational in late 1986, will provide a second site with computer capacity to support NASDAQ volume of 200 million shares a day. The first complete backup computer communications facility in any securities market, it will provide for continued operation of the NASDAQ market if the primary computer complex in Trumbull, Connecticut, should become disabled.

The first intercontinental NASDAQ service will begin in the second quarter of 1986, when NASDAQ and the London Stock Exchange begin

REGISTERED REPRESENTATIVES





*Under construction in
Rockville, Maryland, the
NASD's new \$17.3
million complex will
provide the first complete
backup computer
communications facility
of any securities market.*

*It is scheduled for
completion in late 1986.*

exchanging and disseminating quotation information on some 600 of each other's securities. This link, which will lengthen the hours in the day that participants in the two markets have access to each other's live quotes, is expected to be the forerunner of other international linkages.

In September, the NASD introduced its first derivative product for the NASDAQ market, NASDAQ-100 Index™ Options. Soon thereafter, the Chicago Board of Trade, in partnership with the NASD, introduced NASDAQ-100 Index™ Futures. These instruments provide a means by which market makers and institutions may hedge their market risk. Also, by selling the Index, they have the opportunity to increase their returns.

The stage is now set for the introduction of options on NASDAQ/NMS equities. The initial pilot, scheduled for start-up during 1986, will feature side-by-side trading of options and their underlying equities by NASDAQ market makers.

I *mprove public, member and issuer understanding of the NASDAQ market and the NASD's services to this market.*

The mark of broad understanding of the NASDAQ market in 1985 was its volume of 20.7 billion shares, 30 percent more than in 1983, the previous record year. A daily volume record of 141.5 million shares was set on December 5, and average daily share volume in December was 106 million. At year end, the market value of all NASDAQ issues was

\$306.3 billion, the highest ever.

In the NASDAQ/NMS sector of the NASDAQ market, institutional participation was pronounced. Of the 13.2 billion NASDAQ/NMS shares traded in 1985, 5.4 billion shares — or more than 41 percent — were traded in blocks of 10,000 shares or more. The average block transaction exceeded 20,000 shares.

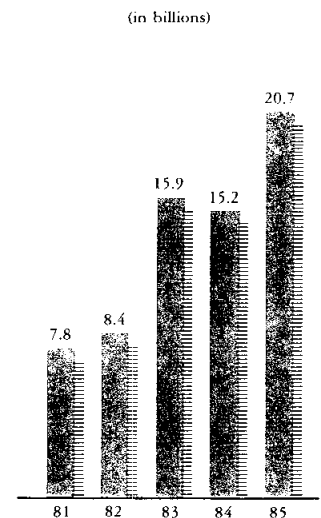
Public and member interest in NASDAQ was also reflected by the 136,500 quotation terminals — 11.5 percent more than in 1984 — receiving NASDAQ information. Some 14,500 of these terminals, an increase of 35 percent over the previous year, are now located in 36 foreign countries.

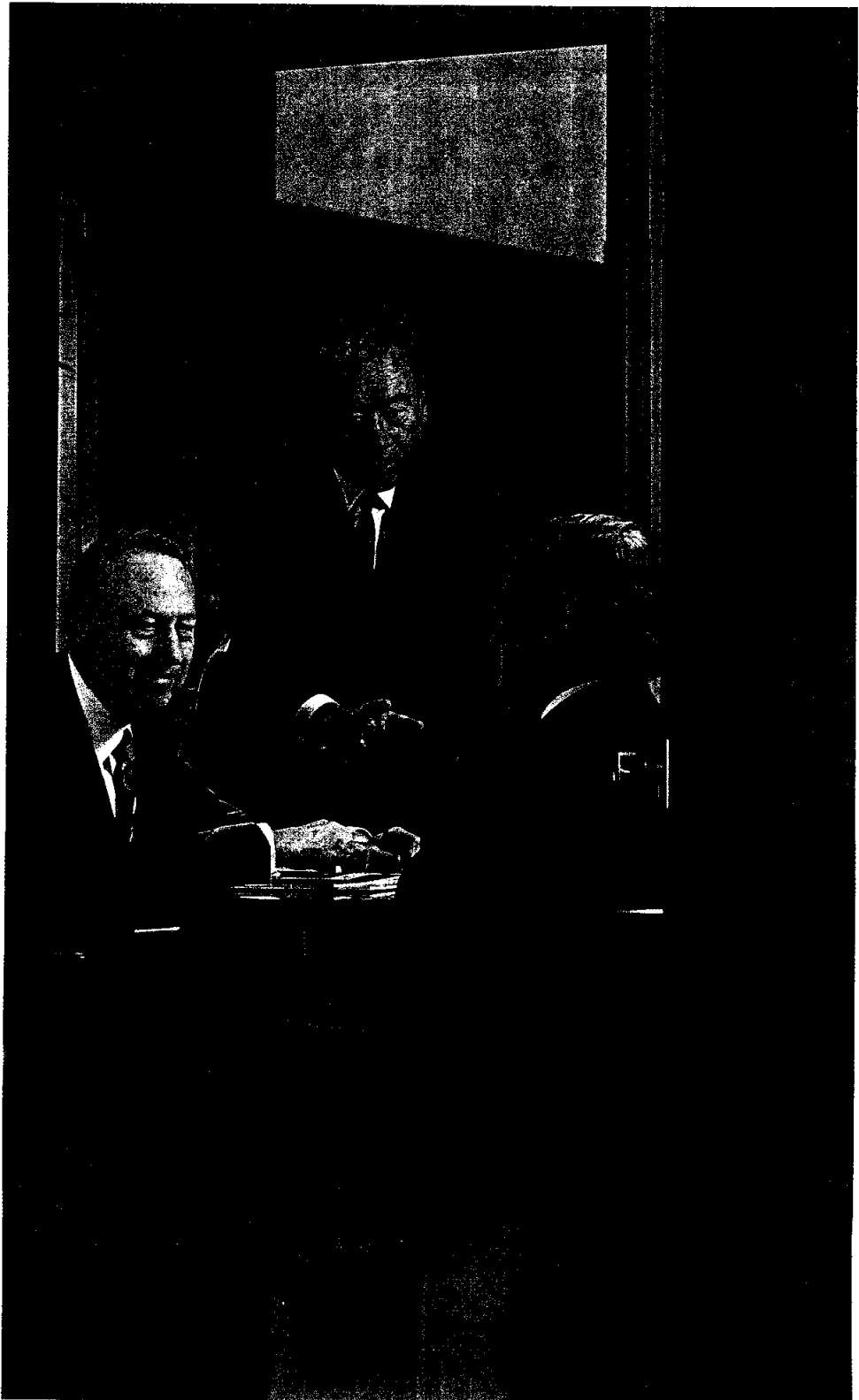
NASDAQ companies' understanding of the market in which their shares are traded is reflected in the growing number of exchange-eligible companies that choose to remain on NASDAQ. Today, over 700 NASDAQ companies meet the financial criteria for listing on the NYSE, and 1,800 could list on the AMEX.

Growing awareness of the NASDAQ market and its benefits is appearing in other markets as well. For example, during 1985, Sunair Electronics of Fort Lauderdale, Florida, and Medalist Industries of Mequon, Wisconsin, voluntarily delisted from the AMEX to enter NASDAQ/NMS. Sunair's reasoning: its stock would have "much broader support, competitive representation and liquidity in NASDAQ/NMS." Medalist's reasoning: its stock would have "greater visibility and sponsorship" due to NASDAQ's system of competing market makers.

Understanding of the overall

NASDAQ SHARE VOLUME





*Members of the NASD
Corporate Advisory
Board: (left to right)
Wilson C. Wearn, Chairman,
Multimedia, Inc.; William
G. McGowan, Chairman
and Chief Executive Officer,
MCI Communications
Corporation; and James
E. Thornton, Chairman
and Chief Executive
Officer, Network Systems
Corporation.*

NASDAQ market is facilitated by the 162 newspapers in the U.S. and abroad that publish NASDAQ/NMS and NASDAQ stock tables and feature NASDAQ articles. On television, *The Nightly Business Report*, which airs on 260 PBS stations, provides viewers with extensive NASDAQ market coverage. In April, the Financial News Network introduced a NASDAQ/NMS ticker tape that appears at the bottom of television screens during market hours.

A public reference room for information on NASDAQ companies opened at NASD headquarters in Washington, D.C., and a second is planned for New York City in mid-1986. The reference rooms, operated by Disclosure Information Group, make available SEC-required public documents filed by NASDAQ companies.

To further its communication with institutional investors, the NASD took several steps:

- Established an Institutional Committee comprised of leading portfolio managers.
- Discussed recent NASDAQ market developments and the new NASDAQ-100 Index™ Option at the Institutional Investor Annual European Conference in London. This was the NASD's second annual presentation.

To promote issuer understanding of the NASDAQ market, the NASD increased its staff of NASDAQ Corporate Consultants to eight. The consultants made 700 calls on NASDAQ companies, a 67 percent increase over 1984, offering regulatory updates and suggestions for improving relations with market

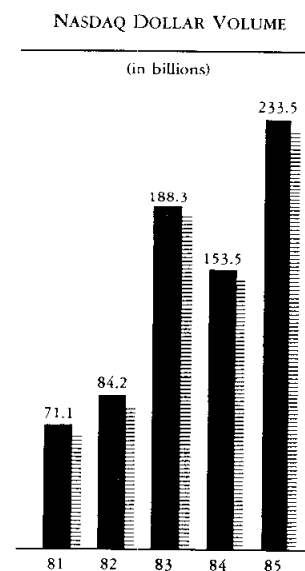
makers, securities analysts and investment bankers. In 1985, the NASD also conducted an Investor Relations/Market Maker Seminar in Irving, Texas, the first in a nationwide series for NASDAQ company executives.

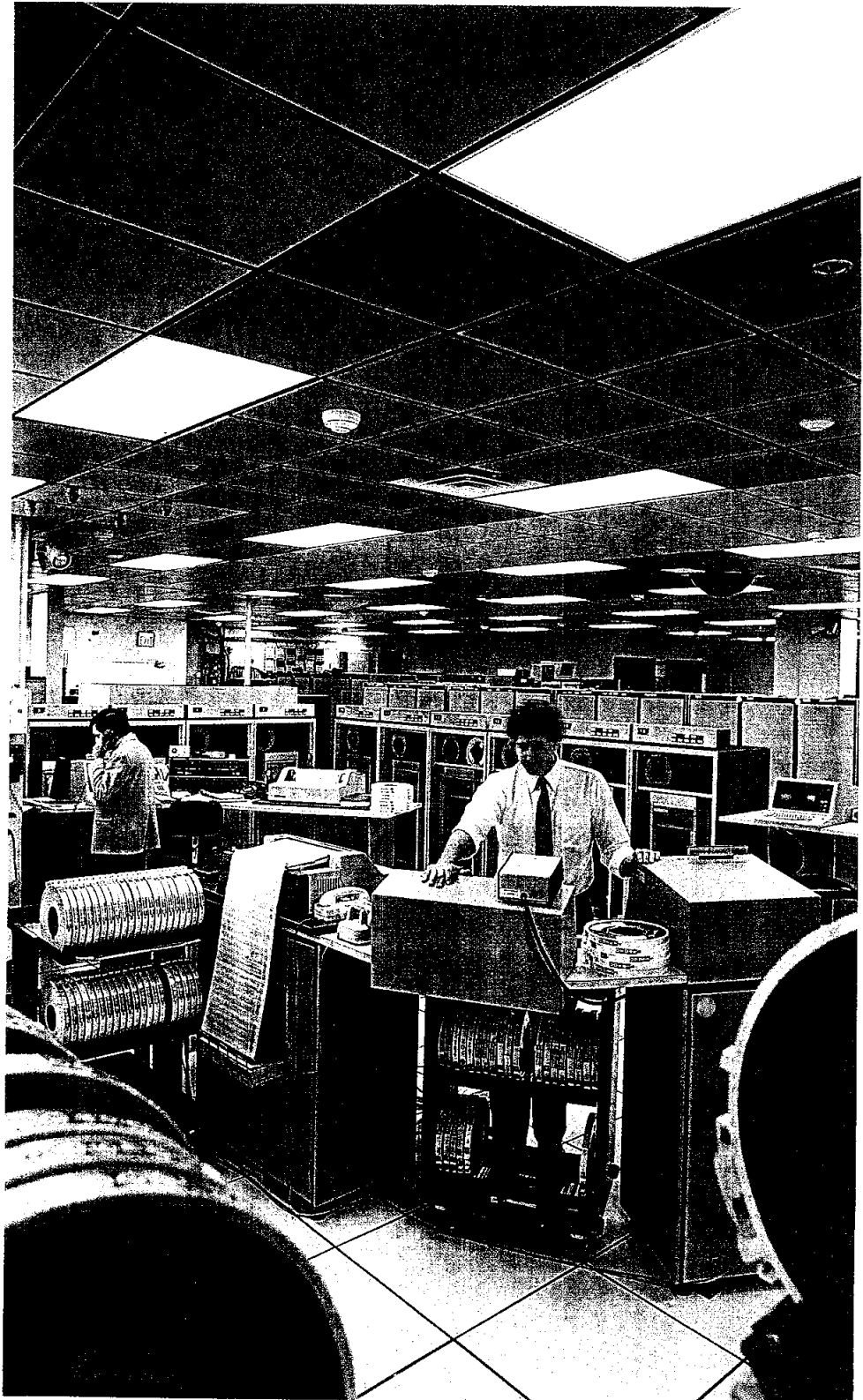
Ten states recognized the status of NASDAQ/NMS securities by granting them parity under their blue-sky laws with exchange-listed securities. More states are moving in this direction in accordance with a recommendation made in August by the National Conference of Commissioners on Uniform State Laws that all 50 states grant NASDAQ/NMS securities parity under state laws with issues listed on the major exchanges.

To encourage broader academic research and study of the NASDAQ market, the NASD is co-sponsoring a project at the University of Chicago's Center for Research in Security Prices. Entering its third and final year, the project will create a research-quality data base of historical prices for each NASDAQ stock since the inception of NASDAQ.

On three occasions in 1985, NASD officials testified before congressional committees. The topics addressed were: corporate governance standards, NASDAQ options and regulation of the market for government securities.

The NASD also submitted comment letters to the Securities and Exchange Commission on the NASDAQ/NMS designation rule, the internationalization of the securities markets and various other industry subjects.





In 1985, NASDAQ's central processing complex in Trumbull, Connecticut, handled an average of 1.5 million quote requests and updates each day, while maintaining an overall uptime rate of 99.2 percent.

Increase the cost effectiveness of NASD activities.

For the second consecutive year, the Board of Governors provided NASD members with a special reduction in their assessment charges relating to the basic membership fee, registered persons and gross income derived from transactions in over-the-counter securities. The reduction for the fiscal year ending September 30, 1985, was 50 percent of the basic assessment schedule.

In 1985, the NASD's computerized Central Registration Depository (CRD) welcomed the New York Stock Exchange as its newest participant. Since 1981, CRD has saved NASD members time and money by permitting them to register a person in multiple jurisdictions by filing a single form and by paying all fees with a single check. With the exception of Hawaii, all states plus the District of Columbia and Puerto Rico, all of the regional exchanges, the Chicago Board Options Exchange and now the NYSE participate in CRD.

CRD initiated further efficiencies by automating the processing of broker-dealer registration forms. In the near future, CRD will also implement centralized filings and payments for multiple broker-dealer registrations processed now by states.

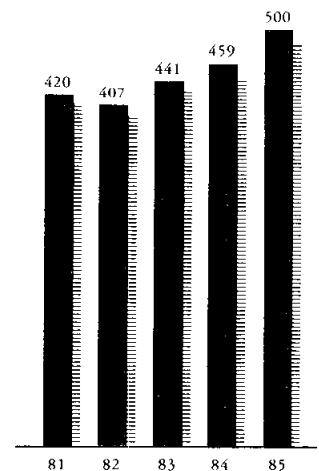
The NASD also improved its automated delivery of qualifications examinations to securities industry personnel on the PLATO System by increasing the number of testing centers and enhancing the centers' service quality.

NASDAQ subscribers increasingly took advantage of the computer-to-computer interface arrangement offered by the NASD which enables them to link their in-house systems with the NASDAQ System mainframe. Through a single set of entries, firms using this arrangement can route transaction data internally for recordkeeping purposes and to NASDAQ for trade reporting, clearance and settlement.

In 1985, the NASD began a pilot in which the non-NASDAQ terminals of members were linked to the NASDAQ System. The NASD is now developing a capability to allow members to use personal computers to replace present NASDAQ terminals. The NASD is also working with members to expedite their use of vendor-supplied work stations for traders.

Internally, the NASD implemented a series of programs that focus on cost awareness and cost savings. These programs are facilitated by new accounting and management systems that enable the NASD to better identify, allocate and control the cost of its operations. Further, to improve staff efficiency and effectiveness, innovative applications of these programs have made the personal computer an integral part of virtually all phases of NASD activity.

NASDAQ MARKET MAKERS

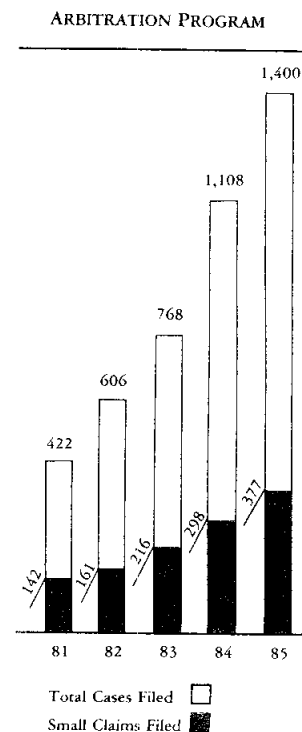




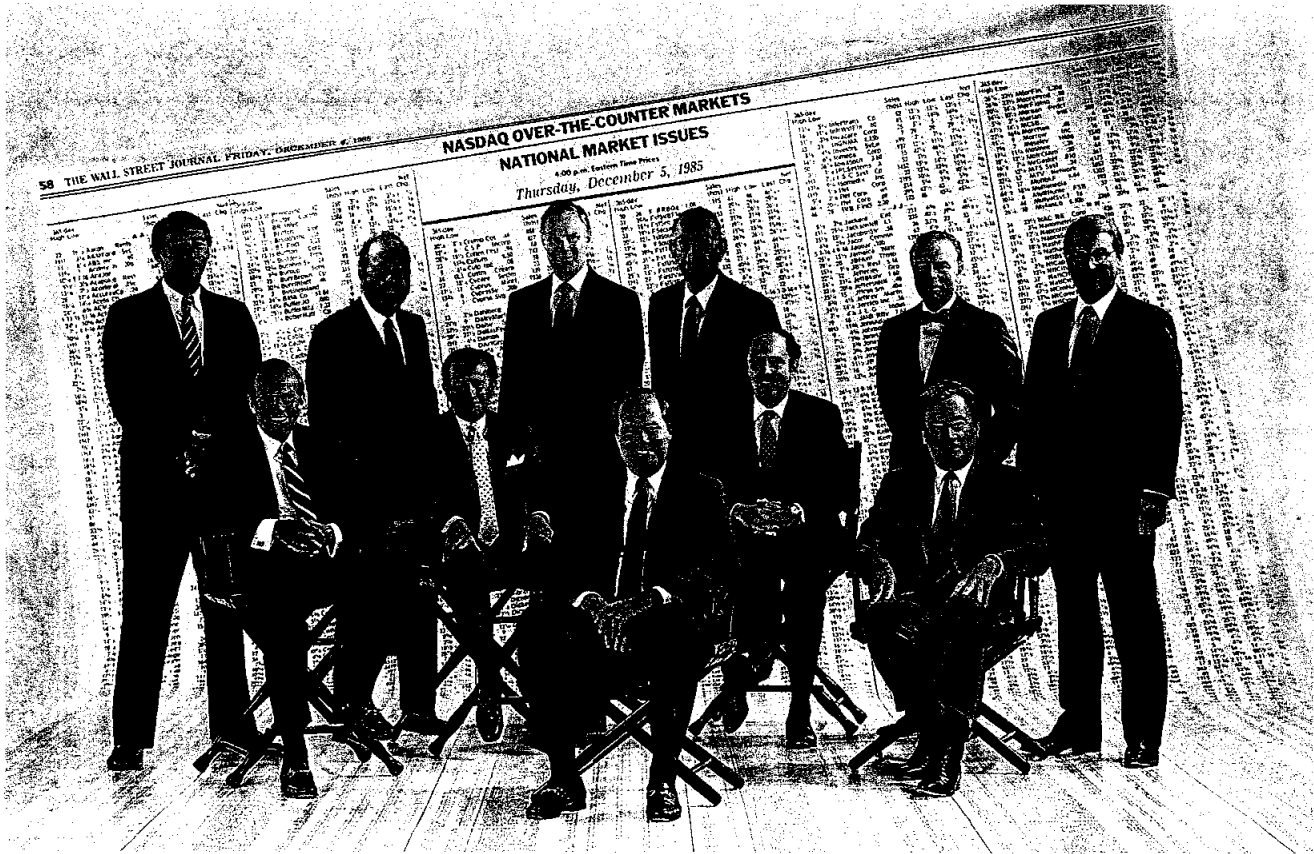
NASD Officers: (left to right) Murray L. Finebaum, 1986 Vice Chairman, Board of Governors; James M. Davin, 1986 Chairman, National Business Conduct Committee; David W. Hunter, 1986 Chairman, Board of Governors; Richard C. Romano, 1986 Vice Chairman, National Business Conduct Committee.

1985 Investor Protection Highlights

- *The NASD's 14 District Offices conduct 4,429 routine and special examinations and review 3,414 customer complaints and 1,459 other special sales-practice-related situations.*
- *As a result of the 530 formal disciplinary actions ordered, the NASD's District Business Conduct Committees render 289 disciplinary decisions; accept 138 letters of acceptance, waiver and consent; and accept 16 summary complaints.*
- *The NASD supervises the self-liquidation of five firms, averting the need for a SIPC trustee. A total of \$32 million is distributed with no losses to customers and broker-dealers.*
- *NASDAQ's automated on-line market surveillance systems trigger 11,807 price and volume alerts leading to 388 formal investigations. To provide NASDAQ companies with adequate time to disseminate material news, Market Surveillance institutes 830 quotation halts.*
- *The NASD administers more than 210,000 qualification examinations for itself, other self-regulatory organizations, the states, the SEC, the commodity exchanges and other certifying organizations.*
- *The Central Registration Depository processes 1.1 million individual registrations for the NASD, 49 states, the District of Columbia, Puerto Rico and six exchanges.*
- *The NASD reviews the underwriting arrangements of 2,586 corporate equity, debt and direct participation program offerings, for an aggregate total of \$112.7 billion, a record for dollar volume of corporate financing filings.*
- *Members file 17,070 pieces of advertising and sales literature for review, up 1,900 from 1984.*



NASD BOARD OF GOVERNORS



To Serve Until January 1986

(seated left to right)

GORDON S. MACKLIN
President and Member
of the Board

DOUGLAS E. DETATA
Prudential-Bache
Securities Inc.
San Francisco, California

PETER D. BYRNE
Dean Witter Reynolds Inc.
New York, New York
NASD Chairman, 1985

JAMES C. STONE, III
J.J.B. Hilliard,
W.L. Lyons, Inc.
Louisville, Kentucky

WILLIAM G. MCGOWAN*
MCI Communications
Corporation
Washington, D.C.

(standing left to right)

HERBERT A. SARKISIAN, JR.
Moors & Cabot, Inc.
Boston, Massachusetts

LEONARD MAYER
Mayer & Schweitzer, Inc.
Jersey City, New Jersey

J. PHILIP BOESEL, JR.
R.G. Dickinson & Co.
Des Moines, Iowa

ROLAND M. TRAFTON*
SAFECO Corporation
Seattle, Washington

JOHN F. COGAN, JR.*
The Pioneer Group, Inc.
Boston, Massachusetts

DAVID C. GROVE
Somers, Grove & Co., Inc.
Portland, Oregon

**Governor-at-Large*

NASD BOARD OF GOVERNORS



To Serve Until January 1987

(seated left to right)

B. LEE KARNs*
Comprehensive Care
Corporation
Newport Beach, California

DAVID W. HUNTER
Parker/Hunter Incorporated
Pittsburgh, Pennsylvania
NASD Chairman, 1986

JOHN B. LEVERT, JR.
Howard, Weil, Labouisse,
Friedrichs Incorporated
New Orleans, Louisiana
Vice Chairman-Finance, 1986

MURRAY L. FINEBAUM
Cantor, Fitzgerald
& Co., Inc.
Beverly Hills, California
Vice Chairman, 1986

ROBERT P. RITTEREISER
E.F. Hutton & Company Inc.
New York, New York

(standing left to right)

LARRY D. HAYDEN
Hayden Financial
Management, Inc.
Arvada, Colorado

BERNARD L. MADOFF
Bernard L. Madoff
New York, New York

ALAN B. LEVENSON*
Fulbright & Jaworski
Washington, D.C.

ALEX HAMMOND-CHAMBERS*
Ivory & Sime PLC
Edinburgh, Scotland

THOMAS J. ASHER
Robinson Humphrey/
American Express Inc.
Atlanta, Georgia

*Governor-at-Large

NASD BOARD OF GOVERNORS



To Serve Until January 1988

(seated left to right)

CHARLES E. ZIVNEY
Paine Webber Incorporated
Fort Worth, Texas

WILSON C. WEARN*
Multimedia, Inc.
Greenville, South Carolina

RICHARD C. ROMANO
Romano Brothers
and Company
Evanston, Illinois

JOHN NAISBITT*
The Naisbitt Group
Washington, D.C.

BILL T. WALL
Stern Brothers & Co.
Kansas City, Missouri

(standing left to right)

JAMES M. DAVIN
The First Boston
Corporation
New York, New York

JOSEPH R. HARDIMAN
Alex. Brown & Sons, Inc.
Baltimore, Maryland

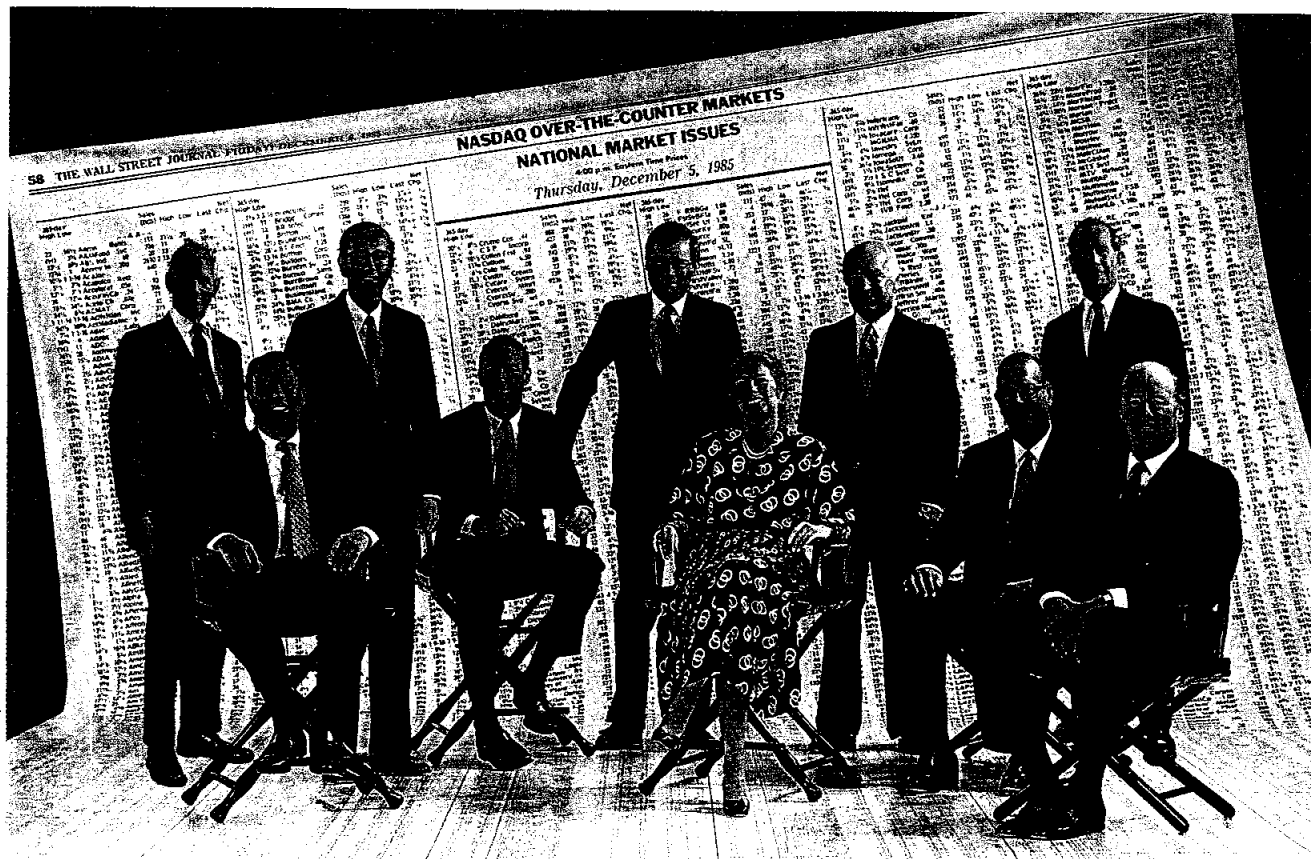
JOHN G. HIGGINS
Kidder Peabody & Co.
Incorporated
Boston, Massachusetts

THOMAS W. BORDEN
Stone & Youngberg
San Francisco, California

WALTER B. GERKEN*
Pacific Mutual Life
Insurance Company
Newport Beach, California

**Governor-at-Large*

NASD BOARD OF GOVERNORS



To Serve Until January 1989

(seated left to right)

THOMAS C. SULLIVAN*
RPM, Inc.
Medina, Ohio

VICTOR ELTING, III
The Chicago Corporation
Chicago, Illinois

JUDITH G. SHEPARD
Goldman, Sachs & Co.
New York, New York

LYNN P. REITNOUER
Crowell, Weedon & Co.
Los Angeles, California

JOSEPH V. MISSETT, III
Oppenheimer & Co., Inc.
New York, New York

(standing left to right)

GEORGE PUTNAM*
Putnam Group of Funds
Boston, Massachusetts

RICHARD L. HINTON
Campbell, Waterman Inc.
Seattle, Washington

ALLEN WEINTRAUB
Advest, Inc.
Hartford, Connecticut

DAVID L. BAKER
Baker & Co., Incorporated
Cleveland, Ohio

EDWARD E. PHILLIPS*
New England Mutual Life
Insurance Company
Boston, Massachusetts

**Governor-at-Large*

1985 NATIONAL COMMITTEES

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

EXECUTIVE

*Peter D. Byrne, Chairman
 *J. Philip Boesel, Jr.
 *John F. Cogan, Jr.
 *Douglas E. DeTata
 *Murray L. Finebaum
 *John B. Levert, Jr.
 *James C. Stone, III
 *Gordon S. Macklin, President

FINANCE

*J. Philip Boesel, Jr., Chairman
 *Peter D. Byrne
 *David C. Grove
 *David W. Hunter
 Peter K. Loeb
 *Bernard L. Madoff
 *Leonard Mayer
 *William G. McGowan
 *Herbert A. Sarkisian, Jr.
 *James C. Stone, III
 *Roland M. Trafton
 *Gordon S. Macklin, President
 Jack A. Schindel, Treasurer
 (Ex Officio)

NATIONAL BUSINESS CONDUCT

*Murray L. Finebaum, Chairman
 *John B. Levert, Jr., Vice Chairman
 *Thomas W. Borden
 *James M. Davin
 *Walter B. Gerken
 *Joseph R. Hardiman
 *John G. Higgins
 *John Naisbitt
 *Richard C. Romano
 *Bill T. Wall
 *Wilson C. Wearn
 *Charles E. Zivney

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*Peter D. Byrne, Chairman
 L. C. Petersen
 Ernest F. Rice, Jr.
 Carl P. Sherr
 Norman T. Wilde, Jr.
 *Gordon S. Macklin (Ex Officio)

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*James C. Stone, III, Chairman
 L. H. Bayley
 Philip J. Hoblin
 *David W. Hunter
 A. James Jacoby
 *Alan B. Levenson
 Peter K. Loeb
 *Leonard Mayer
 David W. Mesker
 John F. X. Peloso
 Anthony R. Pierno
 David L. Sandborg
 Walter N. Trulock, III

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Frank E. Witt, Chairman
 Robert Ferrentino
 *Murray L. Finebaum
 Joseph A. Gottlieb
 *Larry D. Hayden
 Nelson S. Kibler
 *Bernard L. Madoff
 Edward C. Ruff
 *James C. Stone, III

CORPORATE ADVISORY BOARD

*Wilson C. Wearn, Chairman
 E. Eugene Bishop
 *Alex Hammond-Chambers
 Preston B. Heller, Jr.
 *B. Lee Karns
 John C. Kikol
 John H. McConnell
 *William G. McGowan
 Roy H. Park
 William R. Thomas
 James E. Thornton
 *Roland M. Trafton
 Walker M. Treece

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 *J. Philip Boesel, Jr.
 Edmund J. Cashman, Jr.
 Donald W. Crowell
 *James M. Davin
 *Douglas E. DeTata
 William J. Grant, Jr.
 *Joseph R. Hardiman
 *David W. Hunter
 *Alan B. Levenson
 *John B. Levert, Jr.
 Joseph McLaughlin
 G. Peter O'Brien
 Norman H. Pessin
 *Herbert A. Sarkisian, Jr.

DIRECT PARTICIPATION PROGRAMS

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 Joseph W. Armbrust, Jr.
 L. H. Bayley
 *J. Philip Boesel, Jr.
 *John F. Cogan, Jr.
 C. Andrew Graham
 John J. Gray
 *David C. Grove
 Carl Hohnbaum
 Richard L. Howell
 J. Stephen Putnam
 *Herbert A. Sarkisian, Jr.
 William W. Stark, Jr.
 Stephen Treadway
 Stanley F. Witkowski

FIDELITY BONDING

L. H. Bayley, Chairman
 *Larry D. Hayden
 *Herbert A. Sarkisian, Jr.
 *Bill T. Wall

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Russell H. Baumgardner, Chairman
 Nancy M. Bacon
 Andrew M. Blum
 George Casey
 Bruce D. Cowen
 *Douglas E. DeTata
 Mat M. Johnson
 *B. Lee Karns
 Frank E. Lawatsch, Jr.
 H. Lawrence Parker
 John L. Watson, III
 William R. Woodworth

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James J. McCormack, Chairman
 *J. Philip Boesel, Jr.
 David B. Coates
 *Richard C. Romano
 *Bill T. Wall

INTERNATIONAL

*Bernard L. Madoff, Chairman
 *John F. Cogan, Jr.
 Peter J. DaPuzzo
 *Alex Hammond-Chambers
 *Joseph R. Hardiman
 *B. Lee Karas
 *John B. Levert, Jr.
 Bruce A. Mann
 *Robert P. Kittereiser
 Richard A. Smith
 John F. Wallace
 Sam H. Wolcott, III
 Alvin M. Zubasky

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John T. Johnson, Chairman
 Rex J. Bates
 David Broiner
 Terry W. Goodwin
 Raymond Kurtz
 Charles L. Mehlhouse
 Rupert M. Richards
 James F. Rothenberg
 Dennis G. Sherva
 Binkley C. Shorts

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 David A. Hughey
 *David W. Hunter
 Charles M. Kierscht
 Harry J. Lister
 W. Gary Littlepage
 Ronald P. Lynch
 Martin H. Proyect
 James S. Riepe
 John M. Smith
 Richard P. Strickler

LONG-RANGE PLANNING

Norman T. Wilde, Jr., Chairman
 *Peter D. Byrne
 Carl Hohnbaum
 Bruce A. Mann
 *William G. McGowan
 *John Naisbitt
 James W. Ratzlaff
 Robert P. Kittereiser
 Carl P. Sherr

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 James I. Berkowitz
 James E. Brucki, Jr.
 James Hageney
 John C. Kicol
 Alexander Lamont
 Walter Rosley
 William R. Rothe
 Patrick C. Ryan
 Owen L. Saddler, Jr.
 Basil G. Witt
 Arnold P. Wolter

MUNICIPAL SECURITIES

Stephen Kenny, Chairman
 Bill B. Beavers
 Bernard R. Bober
 William C. Boines
 *Thomas W. Borden
 W. Pat Connors
 Theodore Lisec
 John J. Lynch, Jr.
 *Richard C. Romano
 *Bill T. Wall
 *Charles E. Zivney

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 Timothy E. Barnes
 John E. Herzog
 Peter Madoff
 *Leonard Mayer
 John Palazzo
 James Quarto
 James B. Raphaelian
 Robert I. Schulman
 Judith G. Shepard
 Ray Skelton
 *James C. Stone, III
 John N. Tognino
 Kenneth J. Wessels

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David M. Underwood, Chairman
 Bruce Avedon
 Lewis W. Brothers, Jr.
 *John F. Cogan, Jr.
 *Larry D. Hayden
 *John G. Higgins
 *David W. Hunter
 Thomas J. McAllister
 Glenn R. Oxner
 Allan Pessin
 Judith G. Shepard
 *Bill T. Wall

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*David C. Grove, Chairman
 L. H. Bayley
 *J. Philip Boesel, Jr.
 Carl Hohnbaum
 Richard L. Howell
 William W. Stark, Jr.
 Stephen Treadway
 Stanley F. Witkowski

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*J. Philip Boesel, Jr., Chairman
 Ruth S. Block
 George E. Hartz
 *Larry D. Hayden
 James J. McCormack
 John F. Murray
 John States
 *James C. Stone, III
 William J. Szilasi
 Michael Unger

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Edmund J. Cashman, Jr., Chairman
 *Richard C. Romano
 B. Mills Sinclair
 *Roland M. Trafton
 Norman T. Wilde, Jr.

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*Bernard L. Madoff, Chairman
 *Murray I. Finebaum
 E. E. Geduld
 James Hageney
 *Leonard Mayer
 Jeremiah A. Mullins
 Hugh J. Quigley
 Rupert M. Richards
 William R. Rothe
 Norman Shapiro
 *Wilson C. Wearn
 Victor Wright

UNIFORM PRACTICE

*Leonard Mayer, Chairman
 Nicola L. Caporale
 Herbert I. Levitt
 Benjamin M. O'Callaghan
 James L. Owens

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John M. Smith, Chairman
 Lee Bodenhamer
 Robert E. Carlson
 *Walter B. Gerken
 W. Gary Littlepage
 John Longmore
 Jerold H. Rosenblum
 *Roland M. Trafton
 Edward N. Wadsworth

**Member, NASD Board of Governors*

1985 DISTRICT COMMITTEES

Members of the District Committees, who are elected by NASD member firms in their respective areas, supervise NASD programs in the Districts and serve on Business Conduct Committees. In this capacity, they review reports of NASD examiners, investigate complaints against members, conduct disciplinary proceedings and impose penalties for violations of federal and state laws and the NASD's Rules of Fair Practice. The Chairmen of the District Committees make up the Advisory Council to the Board of Governors.

DISTRICT 1 ■ Alaska, Idaho, Montana, Oregon and Washington ■ 201 Members, 896 Branches



Don D. Strand, Chairman
Blakely, Strand & Williams, Inc.
Portland, Oregon

Donna Price, *Vice Chairman*
KMS Financial Services, Inc.
Seattle, Washington

R. A. Adolphson
Foster & Marshall Inc.
Seattle, Washington

James A. Bishop
Smith Barney, Harris Upham & Co.
Incorporated
Seattle, Washington

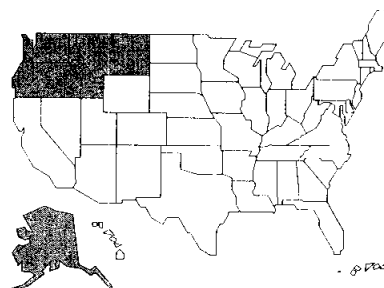
W. S. Buteux
Northwest Securities, Inc.
Spokane, Washington

Kenneth J. Carl
Carl & Company, Incorporated
Portland, Oregon

L. Bruce Madsen
D. A. Davidson & Co.
Great Falls, Montana

Earl C. May
May & Camp, Inc.
Lake Oswego, Oregon

R. H. Peterson
Peterson & Company, Inc.
Spokane, Washington



Bradford M. Patterson, *Director*
One Union Square, Suite 1911
Seattle, Washington 98101
(206) 624-0790

DISTRICT 2 ■ California, Nevada and Hawaii ■ 860 Members, 2,517 Branches



H. Michael Collins, Co-Chairman, left
San Diego Securities Incorporated
San Diego, California

William R. Dixon, Jr., Co-Chairman, right
Capital Concepts Investment Corp.
San Francisco, California

David H. Brazil
Bateman Eichler, Hill Richards, Incorporated
San Francisco, California

Douglas A. Campbell
D. A. Campbell Company, Inc.
Los Angeles, California

James P. Clifton
E. F. Hutton & Company Inc.
Los Angeles, California

Berkeley W. Johnston
Riordan, Johnston & Javadizadeh, Inc.
Pasadena, California

Barbara M. Lange
Equitec Securities Company
Oakland, California



Anthony W. Martin
Prudential-Bache Securities Inc.
Reno, Nevada

Stephen R. Miller
Dean Witter Reynolds Inc.
San Francisco, California

William M. O'Connor
Bancroft, O'Connor, Chilton & Lavell, Inc.
Los Angeles, California

Melvin L. Peterson
Emmett A. Larkin Company, Inc.
San Francisco, California

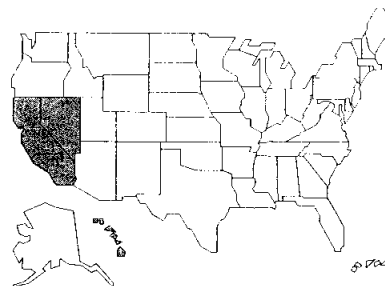
Frederick M. Roberts
F. M. Roberts & Company
Los Angeles, California

David C. Ruth
Titan Capital Corporation
Tustin, California

F. Van Kasper
Van Kasper & Company
San Francisco, California

Richard E. Waldron
The First Boston Corporation
Los Angeles, California

John B. Weingart
Smith Barney, Harris Upham & Co.
Incorporated
San Francisco, California



Theodore F. Schmidt, *Director*
425 California Street, Room 1400
San Francisco, California 94104
(415) 781-3434

Kye Hellmers, *Director*
727 W. Seventh Street
Los Angeles, California 90017
(213) 627-2122

DISTRICT 3 ■ Arizona, Colorado, New Mexico, Utah and Wyoming ■ 364 Members, 936 Branches


Reo B. Cutler, Chairman
Cutler Hunsaker Inc.
Salt Lake City, Utah

Thomas W. Schneider, *Vice Chairman*
Schneider Securities, Inc.
Denver, Colorado

Keith A. Cannon
Cannon Securities, Inc.
Salt Lake City, Utah

James Coughlin
Coughlin and Company, Inc.
Denver, Colorado

Stanley R. Fallis
Boettcher & Company, Inc.
Denver, Colorado

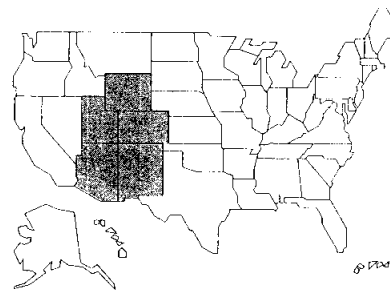
James M. Finn
A. G. Edwards & Sons, Inc.
Albuquerque, New Mexico

Robert W. Plenge
Plenge, Thomas & Company Incorporated
Phoenix, Arizona

George J. Potter
Potter Investment Co.
Salt Lake City, Utah

C. Dee Simpson
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Phoenix, Arizona

Robin M. Snider
Drexel Burnham Lambert Incorporated
Denver, Colorado



Frank J. Birgfeld, *Director*
1401 17th Street, Suite 700
Denver, Colorado 80202
(303) 298-7234

DISTRICT 4 ■ Kansas, Missouri, Nebraska and Oklahoma ■ 229 Members, 817 Branches


Robert L. Smart, Chairman
Smart, Moreland, Neuner & Soden,
Incorporated
Kansas City, Missouri

J. Jerry Dolan, *Vice Chairman*
R. Rowland & Co., Incorporated
St. Louis, Missouri

Peter C. Barnes
Kidder, Peabody & Co. Incorporated
Kansas City, Missouri

Craig L. Beach
George K. Baum & Company
Kansas City, Missouri

Ronald E. Buesinger
A. G. Edwards & Sons, Inc.
St. Louis, Missouri

W. David Holthouse
Smith Barney, Harris Upham & Co.
Incorporated
Kansas City, Missouri

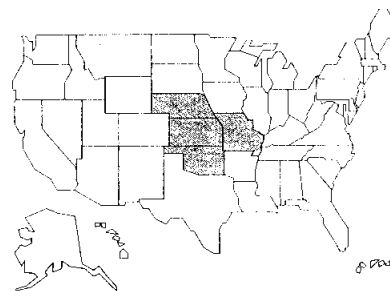
Cornelius W. Krentz
Krentz, Meyer & McClellan Investment
Corporation
St. Louis, Missouri

Rodney D. McWhinney
Waddell & Reed, Inc.
Kansas City, Missouri

Jerry P. Oakley
Stifel, Nicolaus & Company, Incorporated
Oklahoma City, Oklahoma

Frank A. Toplikar
Zahner and Company
Kansas City, Missouri

James T. Warren
PaineWebber Incorporated
Omaha, Nebraska



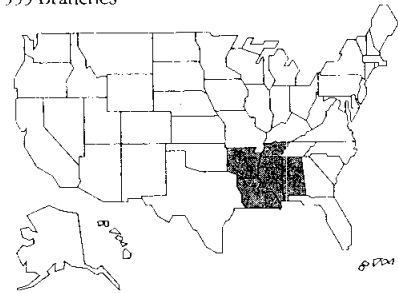
Jack Rosenfield, *Director*
12 Wyandotte Plaza
120 West 12th Street, Suite 900
Kansas City, Missouri 64105
(816) 421-5700

DISTRICT 5 ■ Alabama, Arkansas, Louisiana, Mississippi and Western Tennessee ■ 232 Members, 555 Branches



Clifton M. (Mike) Spruell, Chairman
 UMIC, Inc.
 Memphis, Tennessee
 Marvin G. Perry, *Vice Chairman*
 Berney Perry & Company
 Birmingham, Alabama
 William "Bo" Flanders, Jr.
 First Birmingham Securities Corporation
 Birmingham, Alabama

Philip Montelepre
 Montelepre Securities, Ltd.
 New Orleans, Louisiana
 Claude H. Paddock
 Morgan, Keegan & Company, Inc.
 Memphis, Tennessee
 Jerry Roberts
 Hill, Crawford and Lanford, Inc.
 Little Rock, Arkansas
 Michael B. Smuck
 Equity Group Investments, Inc.
 Metairie, Louisiana
 William L. Tedford, Jr.
 Stephens, Inc.
 Little Rock, Arkansas
 Kenneth P. Toler
 A. G. Edwards & Sons, Inc.
 Jackson, Mississippi



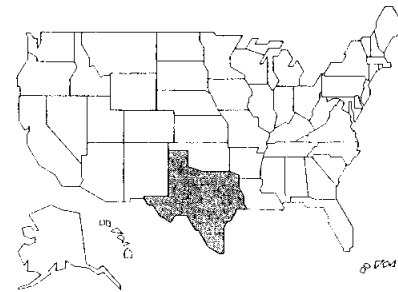
Edward J. Newton, *Director*
 1004 Richards Building
 New Orleans, Louisiana 70112
 (504) 522-6527

DISTRICT 6 ■ Texas ■ 462 Members, 969 Branches



David H. Rubin, Chairman
 Rotan Mosle Inc.
 Fort Worth, Texas
 Don A. Buchholz, *Vice Chairman*
 Southwest Securities, Inc.
 Dallas, Texas
 Thomas M. Anderlitch
 Rausher Pierce Refsnes, Inc.
 San Antonio, Texas

John C. Crank
 May Financial Corporation
 Dallas, Texas
 John M. Greer
 Greer Moreland Fosdick Shepherd Inc.
 Houston, Texas
 H. Malcolm Lovett, Jr.
 Lovett Mitchell Webb & Garrison, Inc.
 Houston, Texas
 Marshall C. Meece
 Merrill Lynch, Pierce, Fenner & Smith
 Incorporated
 Austin, Texas
 Robert S. Strevell
 American Capital Companies
 Houston, Texas
 Larry A. Weil
 Eppler, Guerin & Turner, Inc.
 Dallas, Texas



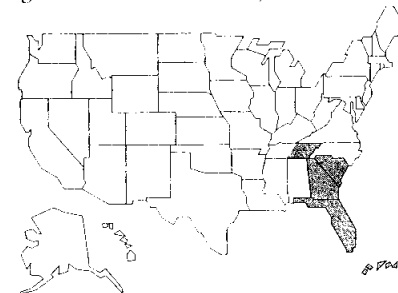
Peter M. Walker, *Director*
 Olympia & York Tower
 1999 Bryan Street, Suite 1450
 Dallas, Texas 75201
 (214) 969-7050

DISTRICT 7 ■ Florida, Georgia, South Carolina, Eastern Tennessee, Puerto Rico, Canal Zone and Virgin Islands ■ 600 Members, 1,890 Branches



B. H. Rutledge Moore, Chairman
 Johnson, Lane, Space, Smith & Co., Inc.
 Savannah, Georgia
 Alan D. Bush, *Vice Chairman*
 Alan Bush Brokerage Co.
 Boca Raton, Florida
 Thomas M. Ayres
 Cumberland Securities Company Inc.
 Knoxville, Tennessee

James R. Baynes
 The First Boston Corporation
 Atlanta, Georgia
 Maxwell E. Benson, Jr.
 Equitable Securities Corporation
 Nashville, Tennessee
 Henry T. Blackstock
 Blackstock & Co., Inc.
 Jacksonville, Florida
 William L. M. Knox, Jr.
 W. L. Knox & Company
 Atlanta, Georgia
 John S. McNally
 Dean Witter Reynolds Inc.
 Orlando, Florida
 Edgar M. Norris, Jr.
 Edgar M. Norris & Co., Inc.
 Greenville, South Carolina



Bennett Whipple, *Vice President, Director*
 250 Piedmont Avenue, N.E.
 Atlanta, Georgia 30308
 (404) 658-9191

DISTRICT 8 ■ Illinois, Indiana, Iowa, Michigan, Minnesota, North Dakota, South Dakota and Wisconsin ■ 780 Members, 2,508 Branches



C. Edward Fisher, Chairman
Kemper Financial Services, Inc.
Chicago, Illinois

John N. Knapp, *Vice Chairman*
Securities Corporation of Iowa
Cedar Rapids, Iowa

Eugene P. Albers, Jr.
Smith, Hague & Co., Incorporated
Detroit, Michigan

Jack A. Bloomfield
E. F. Hutton & Company Inc.
Milwaukee, Wisconsin

Donald L. Condon
Dain, Bosworth Incorporated
Minneapolis, Minnesota

Michael F. Dry
Freehling & Co.
Chicago, Illinois

Gary W. Griffin
Griffin, Kubik, Stephens & Thompson, Inc.
Chicago, Illinois

Conrad W. Koski
First of Michigan Corporation
Detroit, Michigan

Thomas J. McAllister
McAllister Financial Inc.
Indianapolis, Indiana

Sheldon M. Pekin
Mesirow & Company, Incorporated
Chicago, Illinois

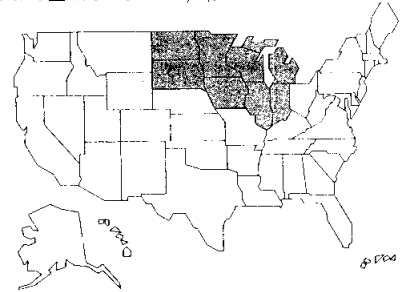
Robert S. Petersen, Jr.
William Blair & Company
Chicago, Illinois

George B. Steel, Jr.
Planned Investment Co., Inc.
Indianapolis, Indiana

John E. Sundeen
Robert W. Baird & Co. Incorporated
Milwaukee, Wisconsin

Michael D. Vick
M. B. Vick & Company
Chicago, Illinois

Kenneth J. Wessels
Piper, Jaffray & Hopwood Incorporated
Minneapolis, Minnesota



E. Craig Dearborn, *Director*
Three First National Plaza, Suite 1680
Chicago, Illinois 60602
(312) 236-7222

DISTRICT 9 ■ Kentucky and Ohio ■ 160 Members, 758 Branches



James C. Redinger, Chairman
McDonald & Company
Cleveland, Ohio

A. Edgar Aub, *Vice Chairman*
A. E. Aub & Co.
Cincinnati, Ohio

W. Michael Brady
Dean Witter Reynolds Inc.
Columbus, Ohio

Richard A. Evans
Vercor & Company, Inc.
Columbus, Ohio

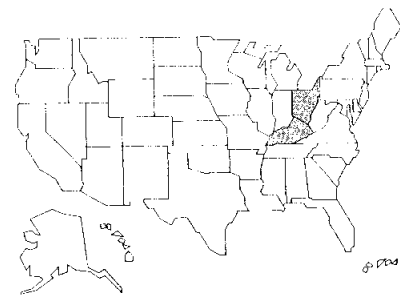
Dewey E. Hall
Prudential-Bache Securities Inc.
Columbus, Ohio

James A. Kaval
CLFS Securities, Inc.
Cleveland, Ohio

G. James McCloy
Cowen & Co.
Cincinnati, Ohio

Jack A. Moss
Prescott, Ball & Turben, Inc.
Louisville, Kentucky

W. Everett Thomas
The Ohio Company
Toledo, Ohio



George W. Mann, Jr., *Director*
1940 East Sixth Street, Fifth Floor
Cleveland, Ohio 44114
(216) 694-4545

DISTRICT 10 ■ Maryland, North Carolina, Virginia and The District of Columbia ■ 269 Members, 893 Branches


J. Murrey Atkins, Jr., *Chairman*
Interstate Securities Corporation
Charlotte, North Carolina

Coleman Wortham, III, *Vice Chairman*
Davenport and Co. of Virginia, Inc.
Richmond, Virginia

William F. Calliott
Investment Corporation of Virginia
Norfolk, Virginia

Bedford Chapin
Chapin, Davis and Company, Inc.
Baltimore, Maryland

John C. Engler
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Charlotte, North Carolina

Anthony J. Frank
Branch, Cabell & Company
Richmond, Virginia

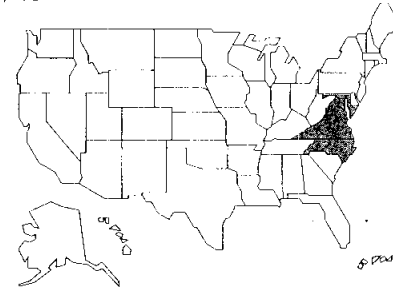
John G. Mergner
Riviere Securities Corporation
Washington, D.C.

Robert T. Reeves
Ferris & Company, Incorporated
Annapolis, Maryland

John P. Rodler
Folger Nolan Fleming Douglas, Incorporated
Washington, D.C.

Patrick C. Ryan
Johnston, Lemon & Co. Incorporated
Washington, D.C.

Frank H. Stringfellow
Jefferson-Pilot Investor Services, Inc.
Greensboro, North Carolina



Thomas P. Forde, *Director*
1125 15th Street, N.W.
Washington, D.C. 20005
(202) 728-3145

DISTRICT 11 ■ Delaware, Pennsylvania, West Virginia and New Jersey (except counties adjacent to New York City) ■ 350 Members, 829 Branches


William R. Radetzky, *Chairman*
Janney Montgomery Scott Inc.
Philadelphia, Pennsylvania

Francis C. Doyle, *Vice Chairman*
Butcher & Singer Inc.
Philadelphia, Pennsylvania

James J. Anfang
Cunningham, Schmertz & Co., Inc.
Pittsburgh, Pennsylvania

Edward T. Borer
Hopper Soliday & Co., Inc.
Philadelphia, Pennsylvania

Thomas J. Chanler
Boenning & Scattergood Inc.
Philadelphia, Pennsylvania

Philip S. Cottone
RESCORP, Inc.
Philadelphia, Pennsylvania

Arthur Judson, III
Collings Legg Mason, Inc.
Philadelphia, Pennsylvania

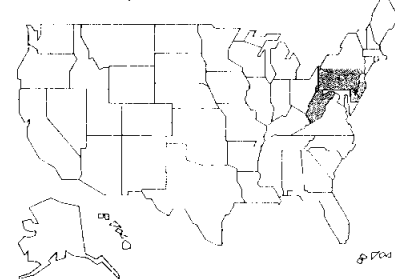
Francis J. Morrissey, Jr.
E. J. Morrissey & Co., Inc.
Philadelphia, Pennsylvania

Frank J. Murray, Jr.
Prudential-Bache Securities Inc.
Philadelphia, Pennsylvania

James H. Pyle
Elmer E. Powell & Company
Pittsburgh, Pennsylvania

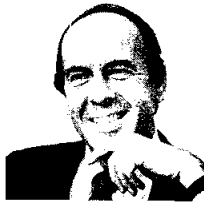
George G. Sofis
Arthurs, LeStrange & Short
McKeesport, Pennsylvania

Clarence Z. Wurts
Edward C. Rorer & Co., Inc.
Philadelphia, Pennsylvania



John P. Nocella, *Director*
1818 Market Street, 12th Floor
Philadelphia, Pennsylvania 19103
(215) 665-1180

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Cyrus J. Lawrence Incorporated
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Chapdelaine & Co.
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New York, New York

J. Kevin Kenny
J. J. Kenny Co., Inc.
New York, New York

Norman H. Pessin
Neuberger & Berman
New York, New York

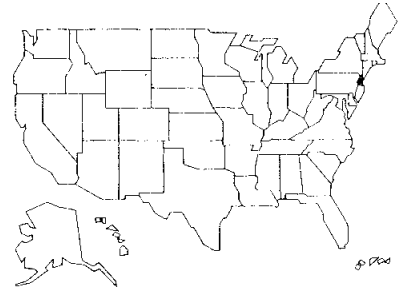
Louis J. Rich
Morgan, Olmstead, Kennedy & Gardner,
Incorporated
New York, New York

John N. Tognino
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
New York, New York

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Moore & Schley, Cameron & Co.
New York, New York

Bruce Tullo
E. F. Hutton & Company Inc.
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Richard B. Wigton
Kidder, Peabody & Co. Incorporated
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William S. Clendenin, *Vice President, Director*
Two World Trade Center
South Tower, 98th Floor
New York, New York 10048
(212) 839-6200

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Boston, Massachusetts

Gregory P. Plunkett, *Vice Chairman*
First New England Securities Corporation
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S. Paul Crabtree
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Richard J. Deagazio
Exchange Securities, Inc.
Boston, Massachusetts

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Colonial Investment Services, Inc.
Boston, Massachusetts

J. Donald Gracey
Travelers Equities Sales, Inc.
Hartford, Connecticut

David T. Griffith
M. Griffith, Inc.
Utica, New York

Vincent J. McCauley
Conning & Company
Hartford, Connecticut

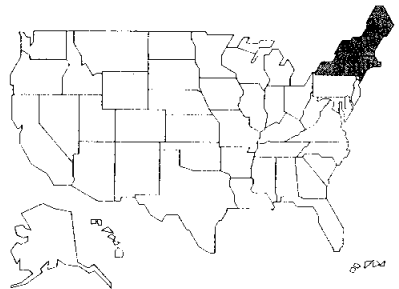
Daniel L. Murphy
Burgess & Leith Incorporated
Boston, Massachusetts

Daniel R. Overcash, Jr.
Bodell Overcash Anderson & Company, Inc.
Jamestown, New York

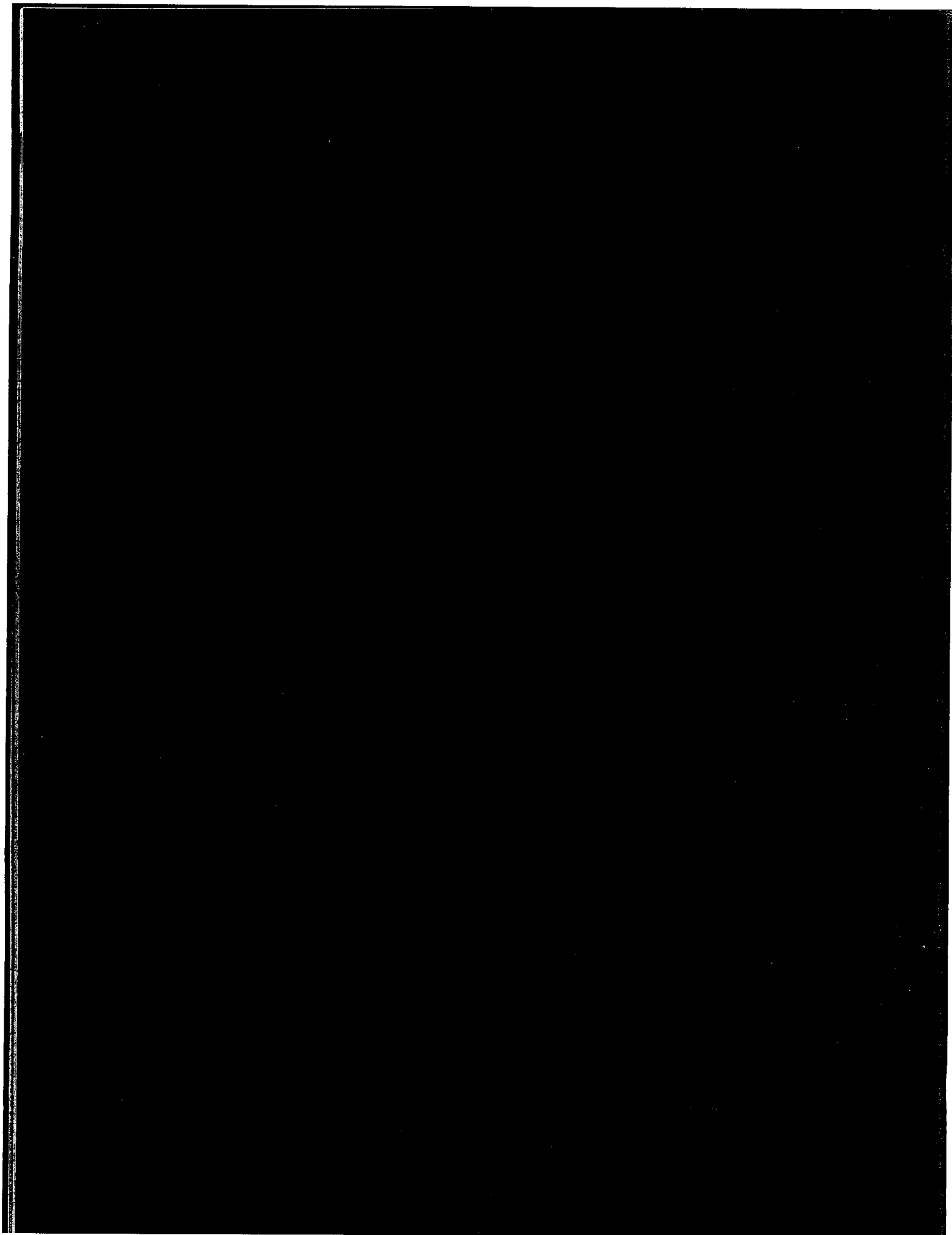
Frank D. Romano
Equity Services, Inc.
Montpelier, Vermont

Lewis J. Sperber
Sperber, Adams & Co.
Westport, Connecticut

Robert N. Unsworth
Brown, Lisle & Marshall Incorporated
Providence, Rhode Island



Willis H. Riccio, *Vice President, Director*
260 Franklin Street, 20th Floor
Boston, Massachusetts 02110
(617) 439-4404



CONSOLIDATED BALANCE SHEETS*National Association of Securities Dealers, Inc.*

<i>September 30</i> (in thousands)	1985	1984
ASSETS		
Current assets		
Cash	\$ 1,063	\$ 853
Marketable debt securities, principally U.S. Government, at cost (approximate market value for 1985: \$71,156; for 1984: \$57,083)	70,520	57,329
Receivables and other current assets	6,535	5,281
Total current assets	78,118	63,463
Fixed assets		
Land, buildings and improvements	10,272	9,544
Data processing, subscriber equipment and software	39,448	33,776
Furniture, equipment and leasehold improvements	6,727	5,124
	56,447	48,444
Less accumulated depreciation and amortization	28,412	20,323
	28,035	28,121
Other assets	2,535	1,779
	\$108,688	\$93,363
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 9,409	\$ 9,637
Deferred fee income and deposits	6,321	6,020
Current portion of obligations under capital leases	1,425	1,109
Note payable	1,600	
Total current liabilities	18,755	16,766
Obligations under capital leases	2,025	1,977
Other liabilities	1,374	1,145
Total liabilities	22,154	19,888
Equity	86,534	73,475
Commitments and contingencies		
	\$108,688	\$93,363

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

CONSOLIDATED STATEMENTS OF INCOME AND EQUITY

National Association of Securities Dealers, Inc.

Year Ended September 30 (in thousands)	1985	1984
INCOME		
NASDAQ and MSI service fees	\$36,077	\$31,254
Member assessments	19,065	20,257
Registration and examination fees	17,629	17,975
Interest and other	9,779	7,554
NASDAQ issuers fees	8,381	8,867
Corporate finance fees	4,682	3,968
Regulatory fees	1,730	1,603
	97,343	91,478
EXPENSES		
Salaries and employee benefits	41,856	35,475
Equipment maintenance and data transmission	9,947	8,909
Depreciation and amortization	8,212	8,410
Professional and other services	6,972	5,683
Office expense	6,885	5,161
Publications, supplies and postage	4,789	3,905
Travel, meetings and investigations	4,173	3,521
Interest and other	1,056	656
	83,890	71,720
Income before provision for income taxes and extraordinary item	13,453	19,758
Provision for income taxes	1,451	1,672
Income before extraordinary item	12,002	18,086
Extraordinary item — utilization of tax loss carryforward	1,057	1,496
Net income	13,059	19,582
Equity at beginning of year	73,475	53,893
Equity at end of year	\$86,534	\$73,475

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

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

National Association of Securities Dealers, Inc.

<i>Year Ended September 30 (in thousands)</i>	<i>1985</i>	<i>1984</i>
FINANCIAL RESOURCES WERE PROVIDED BY:		
Income before extraordinary item	\$12,002	\$18,086
Add items not affecting working capital		
Depreciation and amortization	8,212	8,410
Working capital provided by operations	20,214	26,496
Extraordinary item — utilization of tax loss carryforward	1,057	1,496
Increase in obligations under capital leases	1,473	
Increase in other liabilities	229	
	22,973	27,992
FINANCIAL RESOURCES WERE USED FOR:		
Additions to fixed assets, net	8,126	7,934
Decrease in long-term obligations under capital leases	1,425	1,109
Increase in other assets	756	199
Decrease in other liabilities		27
	10,307	9,269
INCREASE IN WORKING CAPITAL	\$12,666	\$18,723
ANALYSIS OF CHANGES IN WORKING CAPITAL		
Increase (decrease) in current assets		
Cash	\$ 210	\$ (111)
Marketable debt securities	13,191	21,661
Receivables and other current assets	1,254	1,843
	14,655	23,393
Decrease (increase) in current liabilities		
Accounts payable and accrued expenses	228	(3,155)
Deferred fee income and deposits	(301)	(1,461)
Current portion of obligations under capital leases	(316)	(54)
Note payable	(1,600)	
	(1,989)	(4,670)
INCREASE IN WORKING CAPITAL	\$12,666	\$18,723

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 1985 AND 1984

National Association of Securities Dealers, Inc.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Business Segments

The consolidated financial statements include the accounts of the National Association of Securities Dealers, Inc. (NASD) and its wholly owned subsidiaries, including NASDAQ, Inc. and NASD Market Services, Inc. (MSI), after elimination of all significant intercompany transactions. The consolidated financial statements have been prepared on the accrual basis of accounting and conform to generally accepted accounting principles.

NASD is a membership association established to regulate the over-the-counter securities market.

NASDAQ, Inc. owns and operates the nationwide, electronic NASDAQ quote information system.

MSI provides national market facilities to assist the NASD in carrying out its regulatory responsibilities and for the benefit of NASD members in their pursuit of efficient execution of securities transactions.

Depreciation and Amortization

Fixed assets are depreciated on a straight-line basis over useful lives as follows:

Buildings	30 to 38 years
Building improvements	10 years
Data processing, subscriber equipment and software	4 to 6 years
Furniture and equipment	4 to 10 years
Leasehold improvements	Term of lease

Equipment acquired under capital leases is amortized on a straight-line basis over the terms of the leases.

Software Costs

Purchased software, developed by others, is capitalized if it has a continuing value and is considered an integral part of purchased hardware. All other software development costs are charged to expense as incurred.

Income Taxes

NASD and NASDAQ, Inc. are tax-exempt, not-for-profit organizations. MSI is a taxable entity and recognizes certain expenses, principally start-up expenditures and depreciation, in different periods for income tax purposes than for financial reporting purposes. Investment tax credits, to the extent available, are accounted for under the flow-through method.

NOTE 2 — BUSINESS SEGMENTS

(in thousands)	NASD	NASDAQ	MSI	Consolidated
<i>1985</i>				
Income	\$59,293	\$28,919	\$11,067	\$ 97,343
Expenses, including income taxes	52,888	24,942	8,390	84,284
Net income	\$ 6,405	\$ 3,977	\$ 2,677	\$ 13,059
Total assets	\$76,738	\$27,503	\$ 4,746	\$108,688
Equity	\$63,649	\$22,509	\$ 1,528	\$ 86,534
<i>1984</i>				
Income	\$59,282	\$25,788	\$ 8,682	\$ 91,478
Expenses, including income taxes	44,394	24,346	5,430	71,896
Net income	\$14,888	\$ 1,442	\$ 3,252	\$ 19,582
Total assets	\$68,796	\$24,069	\$ 3,285	\$ 93,363
Equity (deficit)	\$57,243	\$18,532	\$(1,149)	\$ 73,475

Intercompany billings, payables and receivables have been eliminated from the consolidated financial data.

National Association of Securities Dealers, Inc.

NOTE 3 — CAPITALIZED LEASES

Data processing, subscriber equipment and software at September 30, 1985 and 1984 includes the capitalization of computer leases of \$7,870,000 and \$6,233,000, respectively. Amortization expense was \$1,258,000 and \$1,075,000 in 1985 and 1984, respectively, and related accumulated amortization at September 30, 1985 is \$4,526,000. The initial terms of the leases are 60-76 months. Minimum lease payments are \$1,794,000 per year in 1986, \$1,412,000 in 1987, \$623,000 in 1988, \$255,000 in 1989 and \$165,000 in 1990. The present value of future minimum lease payments is \$3,450,000 resulting in imputed interest of \$799,000.

NOTE 4 — NOTE PAYABLE

In 1985, MSI obtained an unsecured \$4,000,000 bank line of credit with interest at the lower of the prime rate or a rate tied to certificate of deposit rates, adjusted weekly. The agreement terminates on September 30, 1986, when all outstanding amounts are due in full. At September 30, 1985, \$1,600,000 was outstanding under this agreement at an interest rate of 8.95%. The average rate charged during 1985 was 8.87%. The line of credit is guaranteed by the NASD.

NOTE 5 — RETIREMENT BENEFITS

In October 1984 the NASD adopted a 401(k) savings plan, in addition to the existing savings plan. Eligibility for both plans is based upon length of service, and participation is voluntary. Savings plan expense for the years 1985 and 1984 was \$604,000 and \$458,000, respectively.

NASD maintains a non-contributory defined benefit pension plan for the benefit of all eligible employees. Current service costs are funded as they accrue. Unfunded prior service costs are being funded over 30 years.

Pension expense for the years 1985 and 1984 aggregated \$2,344,000 and \$1,963,000, respectively. A comparison of accumulated pension plan benefits and net pension plan assets as of the most recent valuation dates is presented below:

January 1 (in thousands)	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	\$ 5,309	\$4,426
Nonvested	2,086	1,572
	\$ 7,395	\$5,998
Net assets available for plan benefits	\$11,402	\$9,404

The average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7% for 1985 and 1984.

NOTE 6 — INCOME TAXES

The income tax provision for the years ended September 30, 1985 and 1984 consisted of the following:

(in thousands)	1985	1984
Current expense		
Federal	\$ 192	\$ 139
State	324	37
Deferred benefit	(122)	
Charge equivalent to benefit of net operating loss carryforward	1,057	1,496
Total provision for income taxes	\$1,451	\$1,672

The net operating loss carryforwards from prior years were fully utilized in 1985.

Investment tax credit carryforwards for financial reporting purposes at September 30, 1985, were \$219,000. If not used, the credits will expire in 1999 and 2000.

National Association of Securities Dealers, Inc.

NOTE 7 — COMMITMENTS AND CONTINGENCIES

In connection with its operations, NASD incurred office and equipment rental expense of \$4,557,000 and \$2,980,000 during the years ended September 30, 1985 and 1984, respectively. Minimum lease payments for the succeeding fiscal years are as follows: \$3,373,000 in 1986, \$2,042,000 in 1987, \$2,025,000 in 1988, \$1,934,000 in 1989, \$1,890,000 in 1990 and \$6,440,000, in aggregate, from 1991 through 1995. No lease extends beyond 1995. The majority of these leases contain escalation clauses based on increases in property taxes and building operating costs.

The NASD has entered into contracts to purchase land and an office building to be constructed in Rockville, Maryland, at an approximate cost of \$17,500,000. Payment is expected to be made on or before October 15, 1986. NASDAQ has entered into contractual agreements for the purchase of computer equipment and for the expansion of its computer facilities. At September 30, 1985, the amounts outstanding under these agreements were approximately \$3,020,000 and \$939,000, respectively.

There are legal proceedings pending against the NASD separately or with others. Management believes, based upon the opinion of counsel, that liabilities arising from these proceedings, if any, will not have a material effect on the NASD.

REPORT OF INDEPENDENT ACCOUNTANTS

*To the Board of Governors of
the National Association of Securities Dealers, Inc.*

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and equity and of changes in financial position present fairly the financial position of the National Association of Securities Dealers, Inc. and its subsidiaries at September 30, 1985 and 1984, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements 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.

Price Waterhouse

Washington, D.C.
December 20, 1985

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NASD

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(202) 728-8000