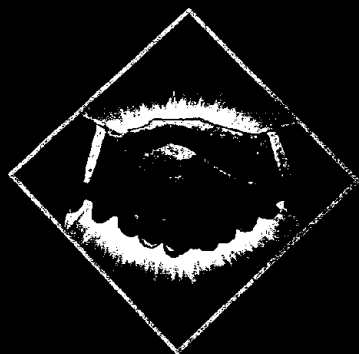
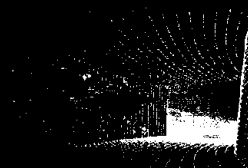
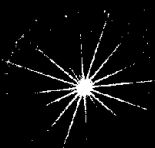


Creativity of Growth Companies
Vision of Investors
Commitment of Member Firms



NASD National Association of Securities Dealers, Inc.

1992 ANNUAL REPORT

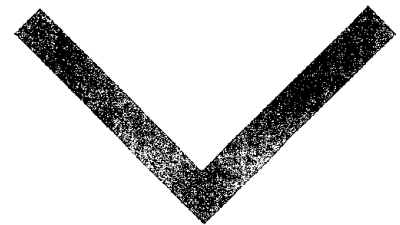
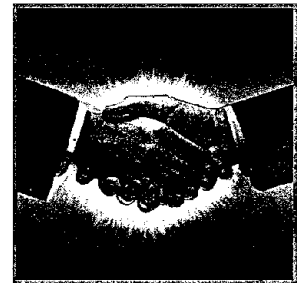
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NASD® Mission

Our mission is to facilitate capital formation in the public and private sectors by developing, operating, and regulating the most liquid, efficient, and fair securities markets for the ultimate benefit and protection of the investor.



NASD

1992 Statistical Highlights

Established under authority granted by the 1938 Maloney Act Amendments to the Securities Exchange Act of 1934, the NASD is the self-regulatory organization of the securities industry responsible for the regulation of The Nasdaq Stock Market™ as well as the vast over-the-counter securities market and the many products that are traded in it. The NASD is the largest self-regulatory organization in the United States, with membership including virtually all broker/dealer firms in the nation doing a securities business with the public. Under Securities and Exchange Commission (SEC) oversight and the direction of the Board of Governors, a nationwide system of NASD committees composed of securities professionals conducts peer reviews of members' business activities, develops rules and regulations, and designs and operates marketplace services and facilities. The NASD carries out its regulatory responsibilities through member education; on-site examinations of member firms to determine their compliance with federal securities laws and NASD rules and regulations; continuous automated surveillance of the markets it operates; the registration and testing of securities professionals; the

review of members' advertising and sales literature; the review of underwriting arrangements proposed by members in connection with new securities offerings; cooperative programs with governmental agencies and

industry organizations to solve problems affecting investors, public companies, and member firms; and services such as arbitration that enable investors and members to resolve disputes.

Membership

5,254 member firms
33,484 branch offices
426,979 registered
representatives

Compliance

3,109 main and branch
office examinations
conducted
4,407 customer complaints
resolved

Disciplinary Actions

907 formal complaints
filed
409 disciplinary decisions
rendered
226 settlement offers
accepted
331 acceptance, waiver
and consent
proceedings
resolved
62 firms expelled from
membership
491 individuals barred
from the industry
11 firms suspended
from membership
191 individuals suspended

Automated Market Surveillance

5,839 price and volume
alerts
96 formal investigations
conducted

28 cases referred to the
SEC

Arbitration

4,379 cases filed
4,375 cases closed
2,513 disputes resolved
between parties
without arbitration
310 industry cases
arbitrated
1,562 customer cases
arbitrated
821 cases decided in
favor of customer

Qualifications

206,774 registered
representative and
principal tests
administered

Advertising

31,991 filings reviewed
4,361 spot checks
conducted
1,236 investigations
conducted

Corporate Financing

2,349 underwriting
arrangements
reviewed
\$207.8 billion of public
offerings reviewed

NASDAQ

1992 Statistical Highlights

The Nasdaq Stock MarketSM, the premier securities market operated and regulated by the NASD, is the largest electronic, screen-based market in the world. Using advanced computer and telecommunication

technologies to unite its participants, Nasdaq enables securities firms to execute transactions for investors and for themselves from anywhere they are located within an environment of real-time trade

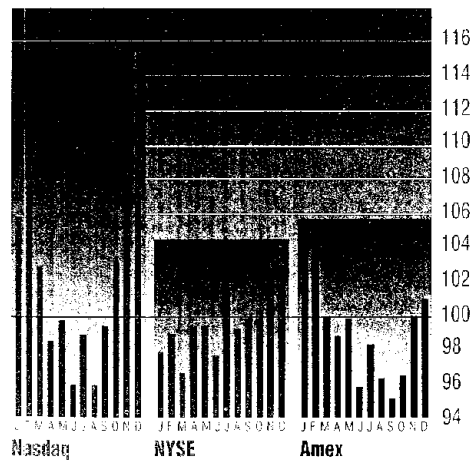
reporting and automated market surveillance. In addition to its sophisticated technology, Nasdaq is distinguished from exchanges by its open competition: multiple market makers in each Nasdaq security actively compete with one another for orders. Known for its innovative, forward-looking growth companies, Nasdaq has two tiers: Nasdaq National MarketSM, with more than 2,800 of Nasdaq's larger companies whose securities are typically more actively traded; and The Nasdaq SmallCap MarketSM, with almost 1,300 smaller, emerging growth companies. Founded in 1971, Nasdaq today accounts for nearly one half of all equity shares traded in our nation each day. More companies—domestic and foreign—now list their securities on Nasdaq than on all other U.S. stock markets combined. The fastest growing securities market in the country, Nasdaq in 1992 saw its share volume rise 17.3 percent and dollar volume grow 28.4 percent. The Nasdaq Composite closed 1992 at a record high, up 15.5 percent from the previous year, compared to the Dow Jones Industrial Average increase of 4.2 percent and the Standard & Poor's 500 gain of 4.5 percent.

Market Data

Annual Share Volume	48.5 billion
Annual Dollar Volume	\$890.8 billion
Average Daily Share Volume	190.8 million
Average Daily Dollar Volume	\$3.5 billion
Market Capitalization	\$615.1 billion
Companies Listed	4,111
Issues Listed	4,758
Market Makers	475
Foreign Securities and American Depositary Receipts	275
International Share Volume	2.54 billion
International Dollar Volume	\$31.6 billion

1992 Composite Index Performance

As Percent of 1991 Close





FROM The Chairman & The President

If we could somehow catch a glimpse of securities markets around the world, we would see firsthand an unprecedented transformation in the way stocks are bought and sold. Traditional methods of trading securities using floor-based facilities are rapidly giving way to networks of thousands of computer screens over which securities firms can literally buy and sell securities from virtually any vantage point.

The leader in pioneering these technologically advanced, screen-based securities markets is the NASD. It ushered in the era of electronic trading with its launch of The Nasdaq Stock Market in 1971. Today, NASD markets are emulated throughout the world. Long-existing and newly established markets understand that computer technology makes participation in screen-based markets easy. They also see the precision with which an electronic market can be regulated.

NASD markets do more than just use technology. They unite the creativity of growth companies in bringing new and unique products and services to their customers, the vision of investors in pursuing promising investment opportunities to create and build wealth, and the commitment of our member firms in offering quality services to finance businesses and facilitate investment. These are market forces that supply, channel, and use capital to generate economic growth and create jobs.

While technology has made NASD markets possible, competition among members is their foundation. With their competing multiple market makers, NASD markets embody competition in their very structure. Competition inspires market participants to innovate, to improve quality, and to be efficient. More than ever before in our country's history, we need to nurture competition within and among our financial markets to excel in the global marketplace.

This blend of technology and competition, coupled with effective regulatory programs to ensure fairness for all participants, has been the success formula for The Nasdaq Stock Market. As measured by the dollar volume of equity trading, Nasdaq is now the world's second largest stock market, a distinction it achieved as it continued throughout 1992 to shatter records it established just the year before.

Nasdaq set new annual share and dollar volume records as well as the single day trading record when 327.8 million shares were traded on January 9. The Nasdaq Composite also hit new highs and closed the year up 15.5 percent, outpacing the Dow Jones Industrial Average and the S&P 500 Index by a factor of more than 3 to 1. Another record was tied when the dollar volume of the 432

initial public offerings listed on Nasdaq in 1992 surpassed \$11.2 billion. Finally, the dollar volume of trading of American Depositary Receipts and foreign issues listed on Nasdaq surged to an all-time high in 1992, exceeding the prior record set in 1990.

The year 1992 was also a productive regulatory year for the NASD. A number of initiatives focusing on market quality were completed and others moved closer to becoming a reality. Real-time trade reporting for The Nasdaq SmallCap Market was implemented, while substantial progress was made toward improved market liquidity for issues during the "cooling off" period prior to secondary offerings, adoption of a short-sale rule for Nasdaq National Market securities, and implementation of a new surveillance and quotation system for high-yield bonds.

Regulatory initiatives directed at business practices included the adoption of collateralized mortgage obligation advertising standards; new limitations on mutual fund asset-based sales charges; and partnership rollup criteria for member firm participation. These and other regulatory actions are discussed more fully in the Review of Operations.



Joseph R. Hardiman, President and Chief Executive Officer, (left), and Charles B. Johnson, 1992 Chairman, (right).

Concurrently, an active program of inspections and enforcement was aggressively pursued to promote member compliance with NASD rules and federal securities laws, as recorded in the Statistical Highlights.

For the future, we pledge to continue our efforts to enhance market quality on behalf of investors, issuers, and member firms as we all do our part to contribute to the sustained long-term growth of our nation's economy.

Charles B. Johnson
1992 Chairman

Joseph R. Hardiman
President and Chief Executive Officer

For Companies, Investors, And Member Firms

In a free enterprise economy, market forces not only create economic growth, they improve the quality of the market. The free interplay of market forces encourages innovation in the market to accommodate the diverse requirements of its participants. Market forces, in turn, give rise to new efficiencies, often through the use of new technologies. A free economy also encourages the innovative spirit that drives development of new products and services.

Securities markets themselves operate in the mainstream of the free enterprise system with their own set of market forces — companies, investors, member firms — driving their evolution toward what delivers the best value. In the last two decades, the advent of competition among securities markets has given rise to alternative market structures, increased efficiency, and a wide range of new and innovative marketplace products and services.

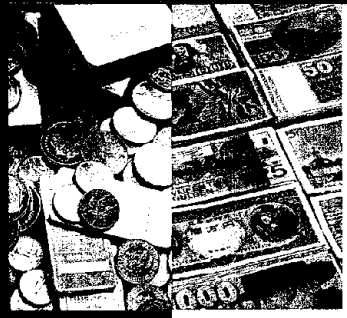
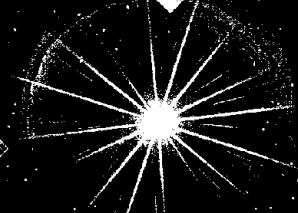
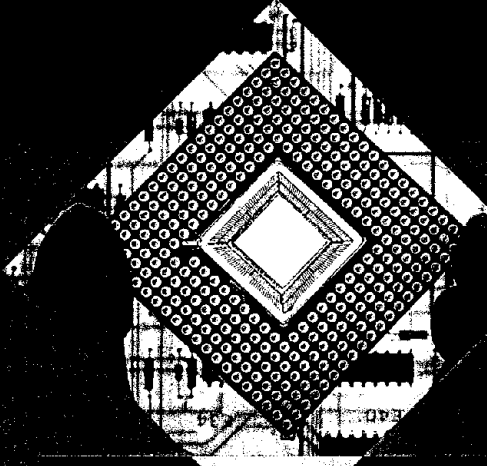
Which of today's securities markets best serves its customers? It is one whose design and mechanics of operation bring together market forces in a mutually sustaining environment that fulfills the needs of each of the participants. The Nasdaq Stock Market is that kind of securities market.

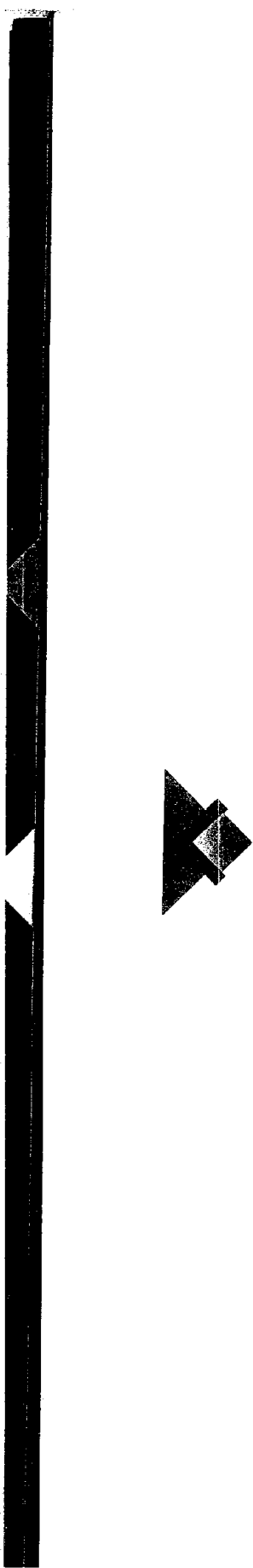
The Market of the Future

The most recent advance in the evolution of the modern securities market is the screen-based market. Because of the telecommunications revolution, market participants no longer need to congregate in the same place to communicate with each other to trade securities. Rather, they can quote prices over a computer screen and negotiate transactions either by computer or over the telephone from anywhere in the world.

CREATIVITY

of Growth Companies





Nasdaq, the foremost example of the screen-based market, has all the regulatory attributes of conventional floor-based exchanges, including real-time trade reporting and automated market surveillance. As a screen-based market, Nasdaq provides other advantages to public companies, investors, and member firms that are simply unavailable on a floor-based exchange.

Uniting Market Forces

Above all, Nasdaq facilitates the working of market forces by *uniting* rather than *managing* them. In fact, the structure of The Nasdaq Stock Market permits a purer interaction of market forces at work. The result is the opportunity for optimum market quality, and the beneficiaries are the market participants themselves.

By its very nature, Nasdaq embodies those market qualities most desired by market participants. Wherever possible, the NASD works to enhance those qualities, as it did in 1992 through market improvements, system enhancements, and regulatory initiatives.

Competition

The most effective securities market incorporates competition into its very structure. Competition will reveal demand for capital, for a security, or for customers and respond to it.

Because Nasdaq employs a multiple market-maker structure—each stock having more than one dealer posting buy and sell quotes—all the dealers maintaining a market in a security compete for orders through price and service. In this way, competition in The Nasdaq Stock Market, as in our nation's economy, encourages the best price and service.

In 1992, the average Nasdaq stock had 11 market makers, while the more active had as many as 58. By contrast, an exchange has but one specialist for each listed stock.

Efficiency

An efficient securities market allows market forces to interact freely and with minimal interference. Buy and sell quotations that indicate the size and depth of a market are crucial to the many decisions that issuers, investors, and member firms will make when acting in the market.

Because Nasdaq is a screen-based market, the bid and offer quotes of each market maker in a given security appear on the Nasdaq screen. These quotes *are* The Nasdaq Stock Market. There are no intermediaries. On the exchanges, all bids and offers in a stock are consolidated into the quote of a single specialist. The specialist alone views all of the buy and sell interest in a security and then formulates a single public quote that *represents* the market. In Nasdaq, all market-maker bids and offers are broadcast for all market participants to see.

Transparency

By disseminating trading data as quickly and completely as possible, a transparent securities market reveals the activity of market forces in a timely fashion to those who need to respond to it.

Communication in a screen-based market like Nasdaq is accomplished through the application of information-age technologies—telecommunications and computers—resulting in the fastest possible real-time transmission of market information.

The Nasdaq National Market, the market of choice of over 2,800 companies, has had real-time reporting of transaction and volume information since its inception 10 years ago. In 1992, the NASD extended real-time trade reporting to the 1,300-company Nasdaq SmallCap Market, thereby providing investors with more complete and more timely information on these securities.





Liquidity

By enabling market participants to buy and sell securities readily, a liquid securities market not only satisfies the demand of the investor and aids the position management of the market maker, it also helps to make the issuer's securities more attractive to the marketplace. In effect, liquidity enables market forces to proceed uninterrupted. The greater the liquidity of a security, the more of it that can be bought or sold with little or no change in price. A liquid market also enables participants to continue to trade in periods of intense activity when either buy or sell orders overwhelmingly dominate.

For stocks of comparable market-value ranges, statistical analyses conducted during 1992 using independent Media General Financial Services Corporation data indicate that Nasdaq National Market stocks are more liquid than comparable stocks traded on the major exchanges. This superior liquidity is primarily the result of Nasdaq's multiple market-maker structure, according to Professors John Groth and David Dubofsky of Texas A & M University in a study published in 1992. They point out that the total amount of aggregate capital competing dealers provide to maintain the market of a stock often exceeds the resources of the single exchange specialist.

The multiple market-maker system employed by Nasdaq also gives it the capacity to absorb large increases in volume without the trading halts common to exchanges. The more available capital a market has to support trading, the greater a market's depth and liquidity.

During 1992, the NASD took a step to increase the liquidity of the Nasdaq National Market by submitting to the SEC for approval a rule to permit market makers that are also syndicate members to engage in passive market making during the "cooling off" period prior to a secondary offering. This rule would not only enhance liquidity, but also ensure that share price levels are determined by market forces unaffected by the forced withdrawal of syndicate members from the market.

VISION of Investors



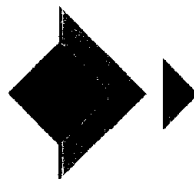


Fairness

The structure, rules and regulations, and enforcement programs of a fair securities market do not favor one market participant over another. Only then can participants be assured that market activity is actually reflecting the true state of the market and that their initiative is earning its just reward.

The Nasdaq Stock Market's listing and maintenance standards, corporate governance requirements, disclosure rules, and trading regulations are all formulated and enforced to provide a fair market for all participants. Nasdaq operates one of the world's most advanced computer-based surveillance systems to monitor market activity. Nasdaq automated market surveillance can identify not only the exact time of every trade in any security to the second but also the exact terminal from which the trade was made. Such centralized market surveillance, in conjunction with regular on-site sales-practice reviews of member firms, assures investors that Nasdaq is rigorously and systematically monitored to provide an equitable environment for securities transactions.

To prevent what Nasdaq companies sometimes perceive as predatory short selling that adversely reflects on a company's performance or potential, in 1992 the NASD proposed to the SEC a short-sale rule for the Nasdaq National Market. This rule would provide investors with the functional equivalent of the "tick test" employed by the exchanges.



Access

In the ideal trading environment, there are no restrictions or artificial impediments to access to the market. Geographic location, however dispersed or remote, should pose no obstacle to direct participation. Nor should participation be restricted because the place where the market happens to operate is inherently limited in size.

Electronic telecommunications and computer technology allow Nasdaq to integrate information and market participants in the broadest economic sense. The Nasdaq market system allows people

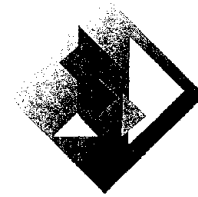
to participate on equal terms as dealers, brokers, or investors anywhere they happen to be located. The "trading floor" can be as large as the earth itself. When entered into the market system, quotation, trade-price, and volume information are immediately and simultaneously available to all participants. Indeed, most trade executions are automatically accomplished quickly and efficiently within the electronic network.

Because access to Nasdaq is not constrained by any restrictions of physical space, the number of market maker and broker (order entry) participants is not limited in number or location. Broker/dealers in Boise, Dallas, London, New Orleans, and New York City have equal access to Nasdaq market information and the Nasdaq market itself in a matter of seconds. Moreover, this access is available to any NASD member willing to meet the regulatory and capital requirements applicable to system users.

Capacity

The modern securities market requires sufficient capacity from both a quantitative and qualitative standpoint. The market's systems must accommodate normal trading volume as well as periods of unusually heavy activity. At the same time, the market must adapt to the latest developments in communications technology to provide its participants the opportunity to take advantage of the most advanced information and trading services.

Nasdaq is a securities market whose very foundation is technology. It has always used advanced computer facilities to provide participants the highest level of service and cost effectiveness. Already the leader in the application of advanced technology to securities trading, Nasdaq took a major step into the future in 1992 by beginning a multi-year project to enhance its current technology with a more advanced computer and network environment to accommodate anticipated growth. Nasdaq's mainframe computers, communications network, and trading terminals will be replaced by new systems that will provide a platform for sophisticated trading and information services at the same time that they handle even greater trading volume.





Versatility

With the recent proliferation of securities products, a modern securities market must accommodate investor demand and market-maker convenience by offering facilities for buying and selling a wide range of securities products.

A variety of securities are already listed on The Nasdaq Stock Market. They include common and preferred stocks, bonds, convertible bonds, American Depositary Receipts, ordinary shares of foreign companies, units, rights, warrants, and limited partnership interests. As a practical matter, there are no limits to the types of products that can be traded in a multiple-dealer environment using a screen-based trading system.

In 1992, the SEC approved an NASD proposal to allow index warrants based on established domestic or foreign stock market indexes to be traded on Nasdaq, which should increase market participants' opportunities for risk management.

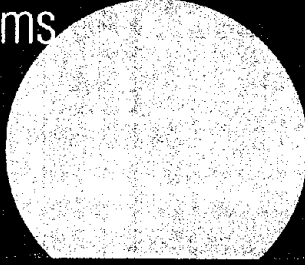
Embracing a Global Economy

We are indeed on the verge of a true global economy. No single major country can act without all others feeling the effects. No significant business can make an economic decision without considering its global context. The stock market of the future must be structured to evolve as advances in computer and telecommunications technology bring the world even closer together. It must be a market that will allow all market forces to compete fairly and efficiently, simultaneously, anywhere, anytime.

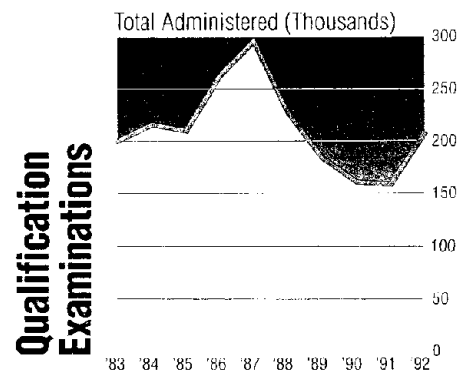
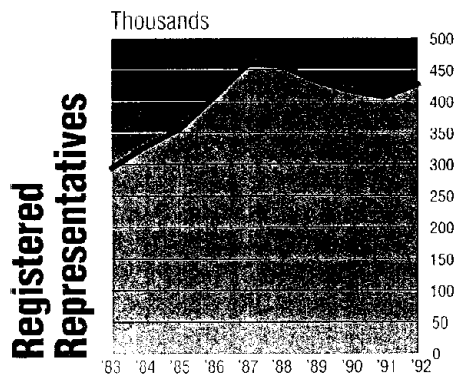
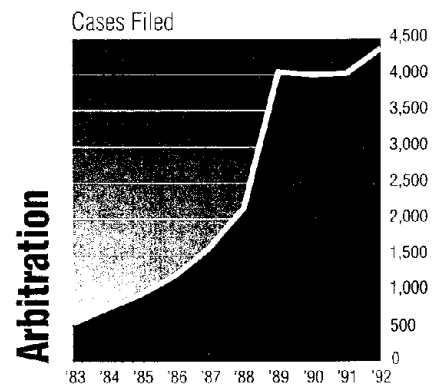
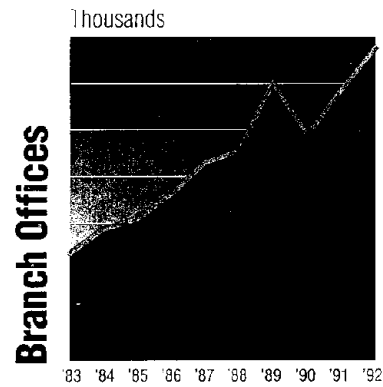
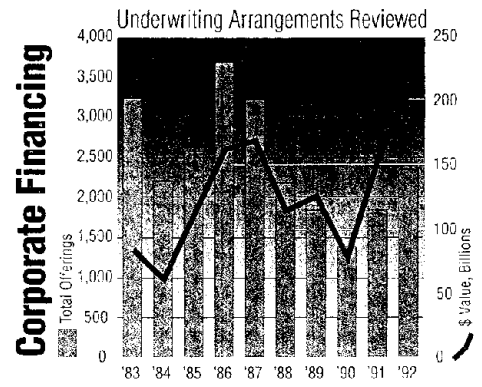
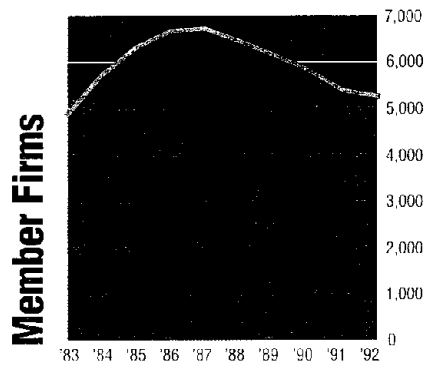
Nasdaq is continuing to evolve into that future.

COMMITMENT

of Member Firms

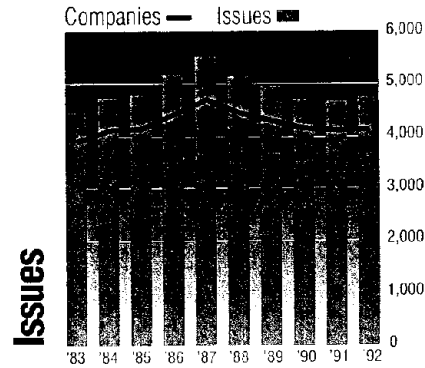
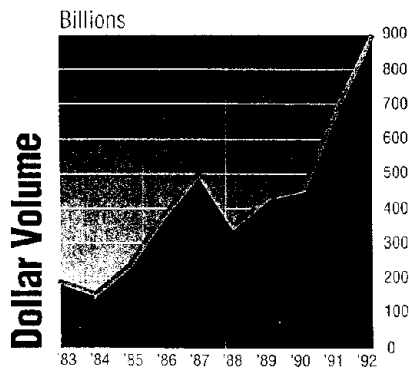
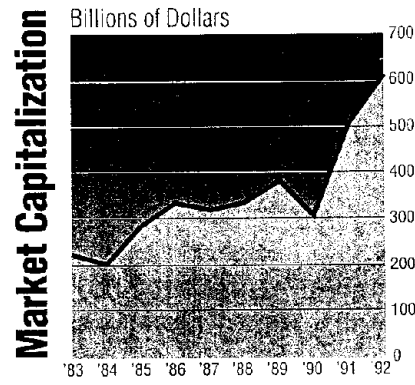
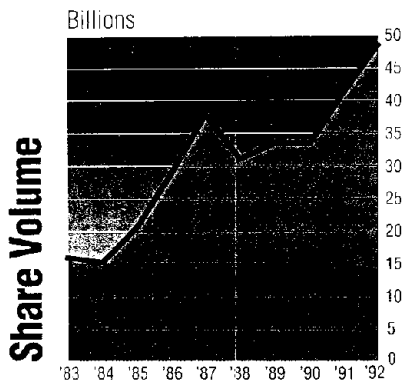
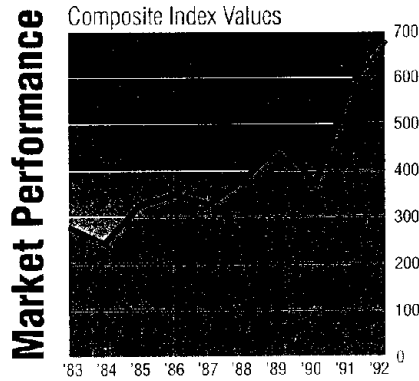
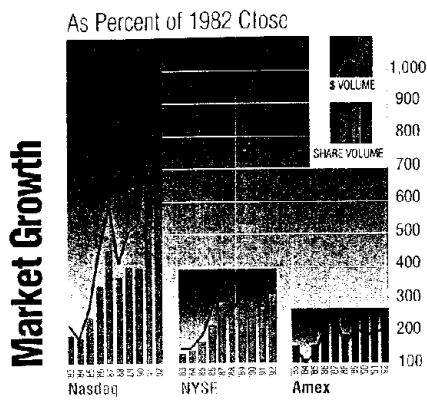


NASD 10-Year Review



NASDAQ

10-Year Review



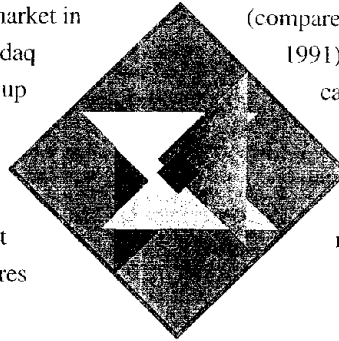
1992

Review of Operations

Market Performance

Nasdaq Record Dollar Volume Gains Second Place Worldwide

The Nasdaq Stock Market, well established as the fastest growing equity market in the United States, reinforced its world-class stature in 1992 with another record-setting performance. On the basis of dollar volume of equity trading, Nasdaq is now the second largest stock market in the world. Dollar volume on Nasdaq soared to \$890.8 billion in 1992, up from \$693.9 billion in 1991, a 28.4 percent increase. Nasdaq share volume rose sharply to a record 48.5 billion, a 17.3 percent increase over the 41.3 billion shares traded in 1991.



Nasdaq Composite Advances on Strength Of Financial Services Sectors

The Nasdaq Composite Index closed 1992 at 676.95, leading all other major U.S. indexes with a 15.5 percent gain as compared to the Dow Jones Industrial Average, up 4.2 percent; the S&P 500, up 4.5 percent; the NYSE Composite, up 4.7 percent; and the Wilshire 5000, up 6.2 percent. The major industry categories that propelled Nasdaq's advance in 1992 were banking, which rose 52 percent during the year; other financial services, 40.7 percent; and insurance, 33.7 percent.

The market capitalization of Nasdaq companies grew 21 percent during 1992 to \$615.1 billion.

This growth is reflected in the fact that, by the end of the year, 103 companies had surpassed the \$1 billion market value mark. Microsoft Corporation was the market-value leader at \$23 billion as of December 31 (up from \$19.5 billion at the end of 1991), followed by Intel Corporation at \$17.9 billion (compared with \$9.9 billion at the end of 1991), and MCI Communications Corporation at \$10.4 billion (compared with \$7.8 billion at year-end 1991). Over the past decade, the market capitalization of the top 10 Nasdaq companies grew from \$22.1 billion in 1983 to \$99.2 billion in 1992, an increase of nearly 350 percent.

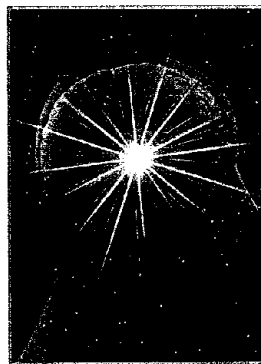
Market Quality And Services

Nasdaq to Install New Computer System to Handle Future Growth and Support Advanced Trading Services

To remain a leader in the application of advanced technology to securities trading, The Nasdaq Stock Market began implementing a technology migration program to replace its mainframe computers, telecommunications network, and trading terminals with a more advanced system. The new technology will handle anticipated increases in normal volume as well as periods of unusually heavy activity in the

foreseeable future. It will also provide a platform for advanced trading and information services. The new telecommunications network will have five times the capacity of the current network and be flexible enough to support the new sophisticated trading functions delivered by a new trading terminal. This new machine, Nasdaq Workstation II™, uses faster chips of larger capacity and a new software with a windows configuration. The windows software enables traders to customize their screens: at any time they can select which trading functions and data feeds to display as well as their location on the screen.

The new technology will benefit Nasdaq companies and member firms alike, first, by providing the same high level of performance reliability as Nasdaq's share volume continues to grow, and, second, by supplying the advanced technology that supports future trading services member firms will expect and rely on. The NASD's internal information systems, as well as those supporting the Central Registration Depository, will also be upgraded to enable the NASD to provide member firms and others who rely on industry data with continued timely, efficient service.



NASD Emphasizes Competition Among Securities Markets as Source of Efficiency And Quality Service in its Comment on SEC "Market 2000" Study

Responding to an SEC request for comment on its "Market 2000" study, the NASD submitted a letter whose proposals were based on the premise that competition among securities markets, within a regulatory framework ensuring fairness to investors, is the primary source of market

efficiency and quality customer service. Accordingly, the NASD:

- noted that competition for and dispersal of order flow for exchange-listed stocks are a natural result of differing execution needs of diverse customers and should be continued and supported, instead of forcing U.S. investors to seek such innovation and diversity abroad;
- requested that off-board trading restrictions be removed, especially during after-hours trading;
- proposed that proprietary trading systems be subject to a regulatory framework more equitable to self-regulatory organizations (SROs) that nevertheless neither stifles the innovative developers of these systems nor unduly burdens the SROs charged with surveiling them;
- endorsed increased disclosure to investors of payment or other inducements for order flow so that they can make informed decisions when placing orders;
- supported inclusion of all exchange-listed securities in the Intermarket Trading System linkage to ensure fairness and efficiency among competing exchange markets and third market makers; and,
- called for an end to the New York Stock Exchange's Rule 500, its delisting rule, as an unfair barrier to competition for listings when Nasdaq imposes no similar restrictions on its companies.

Real-Time Trade Reporting Begins For The Nasdaq SmallCap Market

On June 15, 1992, real-time trade reporting began for The Nasdaq SmallCap Market. A feature of the Nasdaq National Market since its inception in 1982, the reporting of trades within 90 seconds of their execution makes uniform a superior standard of transparency for the entire Nasdaq market. Such increased price visibility generally expands the universe of investors in a security and should therefore provide increased liquidity for the stocks of The Nasdaq SmallCap Market.

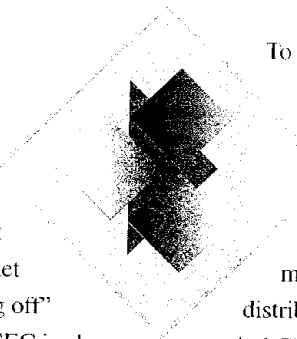
Passive Market Making Proposed for Market-Maker Underwriters During Secondary Distribution "Cooling Off" Periods

The NASD submitted to the SEC a petition to allow market makers that are also syndicate members in a secondary offering of Nasdaq National Market securities to engage in passive market making during the two-day "cooling off" period preceding the offering. The SEC is also considering the proposal in relation to all Nasdaq SmallCap Market securities that meet the specified criteria. SEC Rule 10b-6 currently requires market makers participating in the distribution to withdraw from the market during the "cooling off" period. Passive market makers would be permitted to stay in the market provided that they do not enter a bid or effect a purchase at a price exceeding the highest bid displayed by independent market makers not participating in the offering.

Passive market making is expected to enhance liquidity prior to a secondary offering and ensure that share price levels are determined by market forces unaffected by the required withdrawal of

syndicate members from the market. Passive market making is also expected to help alleviate the negative impact of Rule 10b-6 on the cost of capital for companies involved in secondary distributions and to reduce market volatility prior to the offering. At the same time, the proposed amendment would preserve the intent of the original rule to prevent market manipulation.

The petition proposes quantitative standards for determining eligible market makers, eligible securities, the volume that can be executed, the size of the displayed quotation, the opening bid, and criteria for lowering and raising bids, to ensure that all eligible market makers follow rather than lead the market.



To simplify excused withdrawals from market making required by Rule 10b-6, the NASD has also sought SEC approval of a proposal to delete automatically from the market the quotations of all market makers participating in the distribution during the "cooling off" period. The proposal is intended to provide a safeguard or backup for the internal compliance procedures of member firms to avoid inadvertent violations of the rule.

Real-Time Trade Reporting Proposed for OTC Bulletin Board®; SEC Designation as Qualified Electronic Quotation System Sought

The NASD filed for SEC approval a proposal to implement real-time trade reporting for the OTC Bulletin Board® and will seek designation of the service under Securities and Exchange Act Section 17B as a qualified electronic quotation system for penny stocks. With real-time trade reporting, the Bulletin Board will have satisfied all requirements for Section 17B qualification,

including display of firm quotations for a minimum unit of trading. Real-time trade reporting will increase the usefulness of the service to investors and traders as well as enhance the NASD's surveillance capabilities. SEC designation also will facilitate member firms' compliance with certain penny-stock disclosure rules. These trade-reporting procedures will extend as well to member firm's transactions in OTC equity securities that are eligible for, but not currently quoted on, the Bulletin Board.

Fixed Income Pricing System Developed, Rules Approved; Implementation Scheduled For Third Quarter 1993

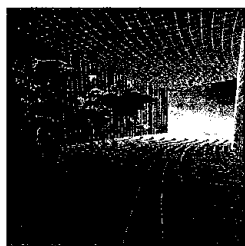
The SEC approved rules passed by the NASD Board for operation of the Fixed Income Pricing System (FIPS), an automated surveillance and quotation system for high-yield bonds developed by the NASD, which will begin operation in the fall of 1993. The NASD developed FIPS to enhance surveillance of all high-yield, fixed-income securities and to increase the transparency of the most liquid segment of the high-yield bond market.

FIPS will collect audit trail information relating to all transactions in high-yield, fixed-income securities. Members will submit trade reports at the end of the day for regulatory purposes containing price, volume, contra party (only if broker or dealer), broker or dealer status, and time of execution.

FIPS will also operate as an electronic screen-based quotation system for the 50 most active high-yield bonds. Time of operation will mirror equity markets, 9:30 a.m. to 4 p.m., Eastern

Time. Bonds must meet specific criteria for listing, maintenance, and exit from the system, and each bond will have a specific symbol. Minimum quotation size for FIPS display is 100 bonds, and quotations must be firm for one side.

FIPS will collect and disseminate to the public hourly high and low execution prices and accumulated daily volume on the top 50 most active bonds. Brokers and dealers trading these bonds must report trades within five minutes after execution throughout the trading day. Eventually, FIPS will include a trade-execution capability, similar to SelectNetSM.



NASD Clarifies Markup/Markdown Procedures

In response to requests from members for a comprehensive NASD statement on markup/markdown policies and procedures for equity transactions with customers in which the firm is a

principal, the NASD issued a special *Notice to Members* on this subject. The *Notice* contains guidelines for ensuring that such critical issues as prevailing market price, market-maker status, market environment for a security, and validation of quotations are routinely and consistently considered.

Membership Approves Short-Sale Rule to Curb Predatory Short Selling

By a 4-to-1 ratio, NASD members overwhelmingly approved the new short-sale rule for Nasdaq National Market securities. The rule, which awaits SEC approval, would establish a "bid test" designed to provide at least equivalent protection to issuers and investors from inappropriate short selling in the Nasdaq market as on an exchange.

The new rule would prohibit short sales at or below the current inside bid when the inside bid is lower than the preceding bid. Under the rule as proposed, qualified market makers—those registered and consistently making markets in Nasdaq securities for 20 business days—would be exempt from the bid test to provide adequate liquidity for their market-making activity.

The permanent market-maker qualification standards, based on amount of time at the inside bid or offer, average spread, quote changes in relation to executions, and proportional volume, would not go into effect until one year after the bid test is implemented.

SEC Approves Nasdaq National Market Standards and Regulatory Framework For Index Warrants

The SEC approved an NASD proposal to include index warrants based on an established domestic or foreign stock index on the Nasdaq National Market. Warrants must be cash-settled, unsecured obligations of the issuer with a term between one and five years, either American-style (exercisable throughout their life) or European-style (exercisable only on their expiration date). To protect investors, issuers must exceed Nasdaq National Market financial criteria and have assets in excess of \$100 million. Each warrant issue must have a minimum public distribution of one million warrants, with a minimum of 400 public holders and an aggregate market value of \$4 million.

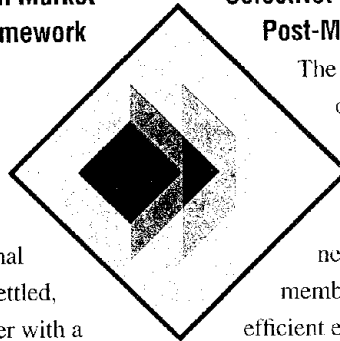
In addition, the SEC approved the rules and procedures developed by the NASD to govern and monitor the trading of these products. They include certain existing options standards and rules that now apply to index warrants, namely:

- standards governing the suitability of recommendations by brokers to their customers concerning index warrants;
- written authorization for discretionary accounts and approval of discretionary transactions by branch office managers or registered options principals;
- the development and implementation of written supervisory procedures for accounts engaging in index warrant transactions; and,
- the distribution of a risk disclosure statement to accounts engaging in index warrant transactions.

SelectNetSM Hours Expanded In Pre- and Post-Market Sessions

The NASD extended SelectNet hours of operation through a pre-market session, 9 to 9:30 a.m., and a post-market session, 4 to 5:15 p.m. SelectNet is a screen-based negotiation service that allows members to obtain fast, low-cost, and efficient execution of orders in Nasdaq securities.

In approving the NASD proposal, the SEC said that the additional hours will “be a positive enhancement inasmuch as it will permit NASD members to accomplish lay-off or positioning trades and execute customer limit orders during the off-hour sessions.” During these supplementary sessions, member firms can use SelectNet’s fully automated trading, negotiating, and reporting features, by-passing all telephone contact.



Business Practices

Revised Sanction Guidelines To Be Available to Public

The NASD has revised its sanction guidelines covering the most common violations and has compiled them in a new publication to be made available to member firms and the investing public. These guidelines present the basic considerations for deciding the gravity of the offense. Rather than prescribing fixed penalties for particular violations, these guidelines provide a reference point to enable the disciplinary committees of the NASD to achieve greater consistency, uniformity, and fairness when imposing sanctions.

New Limitations Set on Mutual Fund Asset-Based Sales Charges To Protect Investors

The NASD has broadened the existing cap on mutual fund fees to cover all sales-related expenses, extending an existing cap to cover so-called asset-based sales charges. Previously, mutual funds could use up to 1.25 percent of a fund's assets annually for sales expenses. These asset-based fees could escape the 8.5 percent cap on upfront, or "load," fees. To help protect investors from excessive charges, the NASD has imposed an annual limit and rolling cap on total sales charges, including the asset-based fees.

The annual limit is 0.75 percent of net assets, with an additional 0.25 percent permitted as a service fee (paid member firms to compensate for providing ongoing service to shareholders). The rolling cap on sales charges is 6.25 percent of new sales, plus interest, for funds that charge a service fee, and 7.25 percent, plus interest, for funds that do not have a service fee. In addition,

any fund with a front-end, deferred, or asset-based sales charge is now prohibited from calling itself "no load," except for those funds with no front-end deferred loads and with asset-based sales or service fees that do not exceed 0.25 percent of net assets.

Class Action Suits Excluded From Arbitration Proceedings; Administration of Complex, Protracted Cases Under Review

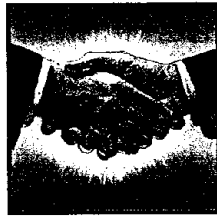
To ensure that customers have access to the courts in appropriate cases, the NASD now excludes class-action matters from its arbitration proceedings and requires that pre-dispute arbitration agreements entered into by member firms and their customers contain a notice that class-action matters may not be arbitrated.

Member firms may not compel arbitration against a customer who is a member of a class action unless class certification is denied, the class is decertified, the customer is excluded from the class, the customer either elects not to participate in the class action, or the customer has

complied with the court-imposed conditions for withdrawing from the class.

The NASD is currently reviewing means of improving the administration of complex, protracted arbitration cases. The number of these cases has recently increased. In these deliberations the NASD is working with the industry and representatives of the investing public.

The NASD sponsors the largest arbitration forum for securities cases of any securities industry self-regulatory organization or the American Arbitration Association. The NASD handles on average some 64 percent of all cases per year; the next largest forum handles 22 percent.



CMO Advertising Standards Adopted, Prefiling Now Required

The NASD Fixed Income Securities Committee formulated advertising standards for collateralized mortgage obligations (CMOs) to ensure that investors are provided with full and fair disclosure regarding this highly complex, and increasingly popular, investment product. These standards specify that advertisements should:

- *not* include comparisons with other investment products because they may imply falsely that CMOs are a comparable alternative to, for instance, certificates of deposit, when they do not in fact offer the same level of safety and guarantee of interest and principal;
- provide the final maturity date;
- describe the initial issue tranche; and,
- disclose the prepayment assumptions used to calculate the yield and explain that the anticipated yield and life of the security will fluctuate depending on the actual prepayment experience and current interest rates.

Prefiling of advertisements for both corporate and government agency CMOs is now required of all member firms for one year beginning November 16, 1992, after which the NASD Fixed Income Committee will review the rule's impact. Member firms must file CMO advertisements with the NASD Advertising Department for approval 10 days before first use. If disapproved by the NASD, the advertisement may not be published or circulated until the member makes the specified

changes and resubmits the advertisement for approval.

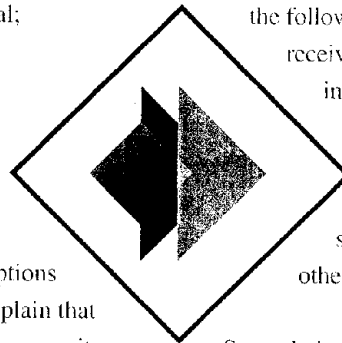
Investor Protection Rules Proposed For Partnership Rollups

The NASD proposed for SEC approval criteria that must be satisfied for member firms to participate in the rollup (reorganization or combination) of one or more limited partnerships and for the resulting new securities (in the restructured partnership or a new entity) to qualify for listing on the Nasdaq National Market.

First, the general partners or sponsors proposing the rollup must provide limited partners one of the following alternatives: the right to receive compensation based on an independent appraisal of partnership assets; the right to receive or retain a security with rights, privileges, and preferences similar to their partnership units; or other comparable rights.

Second, the terms of the transaction may not unfairly reduce or abridge the voting rights of investors; investors may not be required to bear an unfair portion of the rollup transaction costs; and there must be appropriate restrictions on the conversion of general partner or sponsor compensation resulting from the rollup.

Because partnership rollups are actually merger and acquisition transactions, the NASD has obtained clarification from the SEC in a "no-action letter" of when member firms may provide voting advice to limited partners on the merits of a particular partnership rollup transaction without such advice requiring a proxy solicitation under SEC Rule 14a-9. The SEC stated that a member firm may contact limited partners to provide



voting advice under Rule 14a-9 if the member firm has had a business relationship with the customer; discloses any significant relationship with the issuer, its affiliates, or with an interested shareholder, or any material interest in the rollup; does not receive special compensation for the advice (other than from the customer); and does not provide advice on behalf of anyone actively soliciting proxies in the rollup.

General Standards Proposed For Communications About Investments

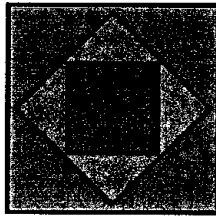
The NASD circulated for member comment a proposal to incorporate into the Rules of Fair Practice certain portions of the former *Guidelines Regarding Communications With the Public About Investment Companies and Variable Contracts* as standards for communication about all types of investment products. These standards would require member firms to ensure that:

- a statement adequately balances potential risks with potential benefits, because the same statement may be misleading in one context while being perfectly appropriate in another;
- the level of explanation or detail necessary to prevent information from being inadequate or misleading is appropriate for the intended audience and the member firm's ability to restrict the communication to them;
- statements are clear and free of complex or overly technical explanation;
- material information is not delivered in legends or footnotes;

- investments are not termed "tax free" or "tax exempt" if tax liability is merely postponed or deferred, and that applicable tax liabilities are clearly disclosed;

- comparisons are clear, fair, balanced, and include any material differences between the subjects being compared, such as liquidity, safety, investment objectives, and fees; and,

- there are no predictions or projections of future performance on any basis, including past performance (hypothetical illustrations of mathematical principles such as dollar-cost averaging, however, are not considered projections of performance).



NASD Suspension Powers Broadened

For violations of securities rules and regulations, the NASD received SEC approval to impose suspensions on registered representatives or member firms that would terminate on the performance of a specific act. This option is in addition to the option of imposing a suspension for a specific period of time, but it does not preclude imposing both kinds of suspensions simultaneously. Among other things, the NASD could direct that an individual requalify by examination, or a firm institute additional safeguards, or both individual and firm pay an arbitration award or a specific sum to a customer for losses sustained as a result of violations.

In this way, contingent suspensions may, in cases involving customer loss, provide an incentive to respondents to make restitution. Customers may then be able to avoid a separate arbitration or court proceeding to obtain damages.

1992 NASD Board of Governors

The Board of Governors represents the interests of the NASD's principal customer groups as it determines policy for the regulatory and market operation activities of the organization. The Board consists of Governors elected by member firms from 11 districts throughout the United States and Governors-at-Large selected by the Board from among investors, Nasdaq-listed companies, insurance company members, underwriters of investment company shares, the securities industry at large, and related professions, such as accounting, business education, and law. The President of the NASD, who is selected by the Board, serves as a continuing member of the Board. With the exception of the President, all Board members serve without compensation for three-year terms. The Chairman of the Board is elected annually.



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4. **Robert I. Kleinberg**, Oppenheimer & Co., Inc., New York, New York
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6. **James M. McMullan**, William Blair & Company, Chicago, Illinois
7. **Robert M. Balentine**, Balentine & Company, Atlanta, Georgia
8. **Philip S. Cottone**, Rutherford, Brown & Catherwood, Inc., Wayne, Pennsylvania, *NASD Vice Chairman-Finance, 1992*
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10. **Robert Cohn**,* Octel Communications Corporation, Milpitas, California
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16. **Fredric M. Roberts**, F.M. Roberts & Co., Inc., Los Angeles, California, *NASD Chairman, 1993*
17. **Joseph R. Hardiman**, NASD President and Chief Executive Officer, Washington, D.C.
18. **Richard J. DeAgazio**, Boston Capital Services, Inc., Boston, Massachusetts



19. **Peter B. Madoff**, Bernard L. Madoff Investment Securities, New York, New York, *NASD Vice Chairman, 1993*

20. **J. Bruce Llewellyn**,* The Philadelphia Coca-Cola Bottling Company, New York, New York

21. **William H. Richardson**, Trubee, Collins & Co., Inc., Buffalo, New York

22. **Thomas R. Powers**,* Transamerica Fund Management Company, Houston, Texas

23. **David Brooke**,* J O Hambro & Partners Limited, London, England

24. **John C. Burton**,* Columbia University Graduate School of Business, New York, New York

25. **Stephen J. Friedman**,* The Equitable Life Assurance Society of the United States, New York, New York

26. **Jerry L. Williams**, Baird/Williams Securities, Tampa, Florida

27. **Richard M. DeMartini**,* Dean Witter Financial Services Group Inc., New York, New York
NASD Vice Chairman-Finance, 1993

Not present for photo:

Francis J. Gaudette,* Microsoft Corporation, Redmond, Washington

Joseph J. Grano, Jr.,* PaineWebber Incorporated, Weehawken, New Jersey

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1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27

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Charles H. Salisbury, Jr.
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* Member, NASD Board of Governors

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Northern California (the counties of Monterey, San Benito, Fresno, and Inyo, and the remainder of the state north or west of such counties), northern Nevada (the counties of Esmeralda and Nye, and the remainder of the state north or west of such counties), and Hawaii; 289 members, 2,274 branches

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Rupert H. Johnson, Jr.
Steven N. Machtinger
Michael A. Nielsen
Loren L. Obley
Richard A. Smith

District 2

Southern California (that part of the state south or east of the counties of Monterey, San Benito, Fresno, and Inyo) and southern Nevada (that part of the state south or east of the counties of Esmeralda and Nye); 439 members, 2,799 branches

Ronald J. Consiglio, *Chairman*
Alan D. Browning, *Vice Chairman*
Paul Arentsen
Stephen Y. Ascher
George H. Casey
Steven R. Fletcher
Barbara A. Kelley
J. Terry Maxwell
Alfred E. Monahan
Charles A. Partain

District 3

Alaska, Arizona, Colorado, Idaho, Montana, New Mexico, Oregon, Utah, Washington, and Wyoming; 349 members, 3,770 branches

Todd M. Milliken, *Chairman*
Steven R. Larson, *Vice Chairman*
Vincent J. Asaro
Burton L. Beahm
James C. Cobig
Donald Eder
J. Wendell Garrett
Dan Mauss
Robert V. McCullough
Burton F. Mugavero
Martin O. Nelson, Jr.
George N. Raines, Jr.
Daren J. Shaw

District 4

Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota; 283 members, 3,137 branches

Kenneth A. Bretthorst, *Chairman*
Neil T. Douthat, *Vice Chairman*
John K. Boyd, III
Mary Alice Brophy
Carol S. Bunch
Cynthia M. Carlson
Thomas J. Davidson
Robert H. Gales
Anthony L. Guerrero
Eric M. Hender

Robert T. Slezak
Steven B. Vecchio

District 5

Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Oklahoma, and Tennessee; 251 members, 2,104 branches

Warren A. Stephens, *Chairman*
Robert H. Young, Jr., *Vice Chairman*
Gerald B. Brenzel
Lester Adron Crews
E. Douglas Johnson, Jr.
Robert W. McInnes
Douglas W. McQueen
Allen B. Morgan
Louis B. Todd, Jr.
Miguel Uriá

District 6

Texas; 331 members, 1,694 branches

David M. Glatstein, *Chairman*
Edward R. Anderson, *Vice Chairman*
George R. Dullnig
Lewis B. Fisher, Jr.
Ira H. Green
Robert G. Gunn, III
Joan L. Lavell
William J. Mosley
Michael J.C. Roth

District 7

Florida, Georgia, North Carolina, South Carolina, Puerto Rico, the Canal Zone, and the Virgin Islands; 417 members, 3,693 branches

S. Rawls Fortenberry, *Chairman*
H. Keith Brannemer, Jr., *Vice Chairman*
W. Dennis Ferguson
Andy R. Fernandez
William G. Jahnés
Robert Harris Kremer
Bert C. Madden
G. Bruce McPherson, Jr.
Mary Allison Mullis
Raymond H. Smith, Sr.
Grady G. Thomas
E. James Wisner

District 8

Illinois, Indiana, Michigan, Ohio, Wisconsin, and part of upstate New York (the counties of Monroe, Livingston, and Steuben, and the remainder of the state west of such counties); 706 members, 6,437 branches

G. Donald Steel, *Chairman*
James C. Bylenga, *Vice Chairman*
Russell Broeden, III
Timothy A. Carr
Mary Lee Corrigan
John H. Finn, III
Myles M. Gordon
Timothy P. Henahan
Paul E. Murin, Jr.
J. Will Paull
Gerald E. Pelzer
Larry E. Peters
William A. Rogers
Richard J. Sillitoe
Rodney E. Trautvetter
Richard M. Wachterman
Thomas B. Watterson

District 9

Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia, and southern New Jersey (the counties of Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean, and Salem); 405 members, 2,851 branches

K. Philip Dresdner, *Chairman*
Bonnie K. Wachtel, *Vice Chairman*
James W. Brinkley
Carlton M. Collins
John N. DiPucci
Samuel D. Ewing, Jr.
Michael C. Foley
Alexander I. Heckman
John P. Hughes
Robert B. Leahy
Jay W. Lewis
Dale A. Pope
H. Rodney Scott
Gilbert S. Simons

District 10

The five boroughs of New York City and the adjacent counties in

New York (the counties of Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester) and northern New Jersey (the state of New Jersey, except for the counties of Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean, and Salem); 1,318 members, 2,493 branches

O. Ray Vass, *Chairman*
Jonathen Auerbach, *Vice Chairman*
Lionel C. Bandler
Richard F. Brueckner
Vincent Buchanan
Alan L. Davidson
Anthony T. Geraci
John C. Gieseá
Richard Harriton
Dennis C. Hensley
Peter T. Kujawaki
Richard G. McDermott, Jr.
Alan Maxwell
Edward Necarsulmer
Hans Reich
Herbert Schweitzer
Richard A. Topp

District 11

Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, and New York (except for the counties of Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester; the counties of Monroe, Livingston, and Steuben; the remainder of the state west of such counties; and the five boroughs of New York City); 466 members, 2,232 branches

Henry L. Schmelzer, *Chairman*
Gary H. Sherr, *Vice Chairman*
Julian F. Baum, Jr.
Paul G. Cuomo
Dana C. Djerf
James M. Dolan
William D. Hogan
Kristin L. Hunnibell
Gerald Powers
Todd A. Robinson
Charles F. Spooner, Jr.

NASD Subsidiaries

Boards of Directors

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New York, New York

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Mayer & Schweitzer, Inc.
Jersey City, New Jersey

Norman H. Pessin
Neuberger & Berman
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DuWayne J. Peterson
DuWayne J. Peterson Associates
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Securities
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Mel Taub
Smith Barney, Harris
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New York, New York

Jerry L. Williams*
Baird/Williams Securities
Tampa, Florida

* Member, NASD Board of
Governors

Consolidated Financial Statements

Management Report on Financial Operations

Revenues of \$264.3 million in 1992, increased 22.6 percent from 1991's \$215.6 million. The \$48.7 million revenue gain resulted from a variety of factors, including increased participation in and use of services and information of The Nasdaq Stock Market (Nasdaq), an historic level of initial public offerings spurred by favorable equity market conditions, and growth in securities industry registration and qualification activities. Market information and transaction fees rose \$16.9 million or over 21 percent. Nasdaq's record trading volume of 48.5 billion shares surpassed that of 1991 by nearly 17 percent, and automated system trades, particularly those related to the SelectNet service, rose 30 percent from the previous year. Market participation represented by retail representative and dealer market information terminals rose 5 percent and 10.5 percent,

respectively, over 1991. Nasdaq issuer fees accounted for \$12.9 million of the increased revenues, reflecting the dollar volume of initial public offerings/listing on Nasdaq at more than one and one-third times the 1991 level, as well as the effect of a higher fee schedule for annual listing on Nasdaq. Registration and examination fees rose a total of \$6 million or 21 percent, reflecting a spurt in general securities representative and other qualifying examinations (34 percent and 23 percent, respectively). Fees for review of underwriting arrangements jumped \$4.7 million or nearly 42 percent as the dollar volume of public equity and debt offerings spiraled by \$52.7 billion or 34 percent. Member regulatory fees related to clearing activities and interest revenue surpassed 1991 levels by \$1.5 and \$1.4 million, respectively, attributable to higher trading volume and increased levels of NASD investment capital.

Expenses in 1992 nearly matched the rate of increase in revenue, rising 20.4 percent or \$37.8 million over 1991. The cost growth was represented primarily by significant increases for media advertising and the development of other marketing and analytical

services designed to increase the recognition and image of The Nasdaq Stock Market and its listed companies. Other material increases related to staff compensation and benefits and technology restructuring. Direct expenses attributable to programs on behalf of Nasdaq issuer companies, including media advertising, rose \$12.4 million in 1992. These programs were funded by the associated Nasdaq issuer revenues. Staff compensation and benefits increased \$11.4 million or nearly 12 percent, as employee levels rose an average of 2 percent from 1991; merit, incentive pay, and higher benefit costs accounted for the remaining increase. Staff growth primarily occurred in the information technology, corporate services, and regulation units. During 1992 the NASD undertook the first full year of its multi-year technology migration program to establish a technical architecture and system development environment aimed at materially improving the responsiveness, flexibility, and integration of its multitude of market and corporate systems for the benefit of users. In 1992 the NASD incurred \$7.8 million for this program compared to \$1.5 million in 1991.

Consolidated income for the NASD and its wholly owned subsidiaries in 1992 of \$40.8 million, before provision for income taxes, was \$10.9 million or more than one-third higher than 1991. Net income of \$35.1 million was \$8.6 million higher than the earlier year.

Working capital of \$172.4 million jumped sharply from \$128.2 million at the end of 1991. This heightened liquidity will be instrumental in funding the capital requirements associated with the NASD and Nasdaq technology migration as well as other strategic and tactical initiatives necessary to fulfill the commitment of the NASD to provide investors, companies, and members with access to the most liquid, efficient, and fair securities markets.

Management Report on Financial Reporting Responsibility

Management is responsible for the preparation and the accuracy and objectivity of the consolidated financial statements of the National Association of Securities Dealers, Inc. (NASD) and its subsidiaries. This responsibility includes the selection of accounting procedures and practices, which are in accordance with generally accepted accounting principles. The consolidated financial statements have been prepared in conformity with these procedures and practices and have been applied on a consistent basis. These consolidated financial statements reflect informed judgments and estimates, which management believes to be reasonable, in the determination of the amounts used in the accounting and reporting process.

The NASD maintains an effective system of internal accounting controls that is periodically modified and improved to correspond with changes in NASD's operations. This system of internal controls is designed to provide assurance that the assets of the NASD are safeguarded against loss from unauthorized use or disposition and that the books and records from which the consolidated financial statements were prepared, properly reflect the financial transactions of the NASD. Important elements of the internal control system include capital and operating budgets, which are subjected to continuous review throughout the year; an organizational structure providing segregation of duties; established policies and procedures; careful selection and training of qualified personnel; and a program of periodic internal audits developed and carried out by NASD's independent auditors. It should be recognized that even an effective internal controls system, no matter how well designed, can provide only reasonable assurance with respect to the preparation of reliable financial statements; further, because of changes in conditions, internal control

system effectiveness may vary over time. It is management's opinion that the system of internal control as of December 31, 1992, is effective in providing reasonable assurance that the consolidated financial statements are free of material misstatement.

The Board of Governors establishes directives for its Audit and Finance Committees, which monitor the accounting and financial operations of the NASD through the review and discussion of periodic financial plans and current operational results, proposed changes, if any, in significant accounting policies, reports prepared by the NASD's independent auditors covering the basis of their engagement and an annual review of their independence, and all other financial or accounting matters. The Audit and the Finance Committees (with the exception of the NASD President) consist exclusively of external governors who have, in the opinion of the Board of Governors, no association or relationship that would interfere with the exercise of independent judgment as a committee member.

The NASD's independent auditors, Ernst & Young, have conducted an audit in accordance with generally accepted auditing standards of the consolidated financial statements of the NASD for the years ended December 31, 1992 and 1991. Their audits included a review of internal accounting controls and appropriate tests of transactions to the extent they considered necessary to form an opinion on the fairness of the consolidated financial statements. Representatives of Ernst & Young have met with NASD management and with members of the Audit Committee of the Board of Governors with and without management present to discuss the results of their audits and other accounting, auditing, and financial matters.

Report of Ernst & Young, Independent Auditors

Board of Governors
National Association of
Securities Dealers, Inc.

We have audited the accompanying consolidated balance sheets of the National Association of Securities Dealers, Inc., and subsidiaries as of December 31, 1992 and 1991, and the related consolidated statements of income and members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the National Association of Securities Dealers, Inc., and subsidiaries at December 31, 1992 and 1991, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst & Young

Washington, D.C.
February 22, 1993

Audited Consolidated Financial Statements

National Association of Securities Dealers, Inc.

Consolidated Balance Sheets

	December 31,	
	1992	1991
	(In Thousands)	
Assets		
Current assets		
Cash and cash equivalents	\$ 11,436	\$ 10,603
Investments, principally U.S. Government securities, at amortized cost (quoted market value \$200,435 and \$157,328 at December 31, 1992 and 1991, respectively)	194,165	150,490
Receivables and other current assets	20,830	16,004
Total current assets	226,431	177,097
Property and equipment		
Land, buildings, and improvements	35,008	24,587
Data processing, subscriber equipment, and software	36,680	22,667
Furniture, equipment, and leasehold improvements	41,084	34,384
	112,772	81,638
Less accumulated depreciation and amortization	(46,551)	(36,455)
	66,221	45,183
Other assets		
	2,365	2,264
	\$295,915	\$245,241
Liabilities and members' equity		
Current liabilities		
Accounts payable and accrued expenses	\$ 11,633	\$ 11,001
Deposits and deferred revenue	10,107	10,924
Current portion of obligations under capital leases	3,820	3,720
Total current liabilities	25,560	25,645
Obligations under capital leases	1,034	1,131
Accrued pension costs	9,273	7,742
Other liabilities	14,528	10,936
Total liabilities	40,395	45,454
Members' equity	220,016	199,787
	\$295,915	\$245,241

See accompanying notes.