

National Association of Securities Dealers, Inc.
Consolidated Statements of Income and
Members' Equity

Years Ended December 31
1992 **1991**

(In Thousands)

Revenue

Market information and transaction service fees	\$ 96,281	\$ 79,361
Nasdaq issuer fees	44,357	31,408
Member assessments	37,202	35,272
Registration and examination fees	34,770	28,739
Interest and other	28,547	23,803
Corporate finance fees	15,785	11,130
Arbitration fees	7,332	5,880
	<u>264,274</u>	<u>215,593</u>

Expenses

Salaries and employee benefits	108,219	96,846
Professional and other services	38,918	22,919
Depreciation and amortization	21,924	19,139
Office expense	18,907	17,101
Equipment maintenance and data communications	15,707	14,024
Travel and meetings	9,632	6,907
Publications, supplies and postage	6,660	4,654
Other	3,509	4,082
	<u>223,476</u>	<u>185,672</u>

Income before provision for income taxes

40,798 29,921

Provision for income taxes

5,743 4,454

Net income

35,055 25,467

Members' equity at beginning of year

184,961 158,494

Members' equity at end of year

\$ 220,016 \$ 184,961

See accompanying notes

National Association of Securities Dealers, Inc.

Consolidated Statements of Cash Flows

Years Ended December 31

1992 1991

(In Thousands)

Operating activities

Cash received from fees and assessments	\$ 251,821	\$ 199,100
Interest received from investments	12,756	10,038
Cash paid for operating expenses	(199,928)	(162,527)
Net cash provided by operating activities	64,649	46,611

Investing activities

Proceeds from redemptions of investments	40,750	45,000
Purchases of investments	(84,449)	(85,675)
Purchases of property and equipment	(19,120)	(10,220)
Net cash used in investing activities	(62,819)	(50,895)

Financing activities

Principal payments on obligations under capital leases	(997)	(1,611)
Net cash used in financing activities	(997)	(1,611)

Increase (decrease) in cash and cash equivalents	833	(5,895)
Cash and cash equivalents at beginning of year	10,603	16,498
Cash and cash equivalents at end of year	\$ 11,436	\$ 10,603

Reconciliation of net income to net cash provided by operating activities

Net income	\$ 15,055	\$ 26,467
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,924	10,139
Amortization of premiums and discounts on investments	19	(586)
Provision for losses on accounts receivable	1,032	1,460
Increase in allowances and other receivables	(183)	90
Increase in accounts payable and other liabilities	6,981	6,824
Increase in prepaids	(1,757)	(6,867)
Other	(688)	84
Net cash provided by operating activities	\$ 64,649	\$ 46,611

See accompanying notes.

National Association of Securities Dealers, Inc. Notes to Consolidated Financial Statements

December 31, 1992 and 1991

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., NASD Market Services, Inc. (MSI), and Nasdaq International, Ltd. (Nasdaq International) after elimination of all significant intercompany transactions.

NASD is a membership association established to regulate the Nasdaq and over-the-counter securities markets. Nasdaq, Inc. owns and operates the domestic and international electronic Nasdaq quote information system. MSI provides national market facilities to assist NASD in carrying out its regulatory responsibilities and for the benefit of NASD members and investors in their pursuit of efficient execution of securities transactions. Nasdaq International promotes the Nasdaq market worldwide and coordinates regulatory matters within the European community. As an association established to regulate the Nasdaq and the over-the-counter securities markets, the NASD's receivables are concentrated with firms in the broker/dealer industry.

On February 10, 1993, the Boards of Directors of Nasdaq, Inc. and MSI approved the merger of Nasdaq, Inc. with and into MSI effective no later than June 30, 1993. The NASD Board of Governors is expected to approve, at its March 1993 meeting, the merger of the two corporations and the transfer of NASD assets and liabilities related to issuer companies to the newly merged enterprise, effective concurrent with the merger date. The surviving wholly owned taxable subsidiary of NASD is expected to be renamed Nasdaq, Inc.

Cash and Cash Equivalents

Cash and cash equivalents include demand cash and all investments purchased with a remaining maturity of three months or less at the time of purchase.

Property and Equipment, Depreciation and Amortization

Property and equipment are recorded at cost. Equipment acquired under capital leases is recorded at the lower of fair market value or the present value of future lease payments. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the period of the applicable lease.

Software Costs

Purchased software is capitalized if it has a continuing value and is considered an integral part of purchased hardware. Software amortization is provided on the straight-line method over the estimated useful life of the related hardware. All other software development costs are charged to expense as incurred.

Income Taxes

NASD and Nasdaq, Inc. are tax-exempt organizations under the Internal Revenue Code Section 501(c)(6), and MSI and Nasdaq International are taxable entities. In 1992, the provision for federal and state taxes was \$3,875,000 and \$1,868,000, respectively.

National Association of Securities Dealers, Inc.

Notes to Consolidated Financial Statements

2 Major Business Segments

	NASD	Nasdaq	MSI	Consolidated
Year Ended December 31, 1992				
<i>(In Thousands)</i>				
Revenue	\$ 163,721	\$ 54,311	\$ 46,414	\$ 264,274
Expenses, including income taxes	147,869	43,067	38,455	229,219
Net income	\$ 15,852	\$ 11,244	\$ 7,959	\$ 35,055
Total assets	\$ 188,888	\$ 80,821	\$ 31,057	\$ 295,915
Members' equity	\$ 123,804	\$ 71,992	\$ 25,371	\$ 220,016
Year Ended December 31, 1991				
Revenue	\$ 132,442	\$ 47,361	\$ 35,957	\$ 215,593
Expenses, including income taxes	119,882	38,480	30,931	189,126
Net income	\$ 12,560	\$ 8,881	\$ 5,026	\$ 26,467
Total assets	\$ 161,848	\$ 68,365	\$ 27,880	\$ 255,241
Members' equity	\$ 107,952	\$ 60,748	\$ 17,412	\$ 184,961

Intercompany revenue, expenses, and receivables have been eliminated in determining the consolidated amounts.

3 Leases

Data processing, subscriber equipment, and software include the following amounts relating to leases which have been capitalized. The initial term of the capitalized leases is 60 months.

	Years Ended December 31	
	1992	1991
<i>(In Thousands)</i>		
Data processing equipment	\$ 1,535	\$ 6,270
Less accumulated depreciation	467	4,575
	\$ 1,068	\$ 1,695

National Association of Securities Dealers, Inc

Notes to Consolidated Financial Statements

3. Leases (continued)

NASD leases certain office space and equipment in connection with its operations. The majority of these leases contain escalation clauses based on increases in property taxes and building operating costs. Certain of these leases also contain renewal options. Future minimum lease payments under the capital leases and noncancellable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 1992:

Year Ending December 31	Capital Leases	Operating Leases
	(In Thousands)	
1993	\$ 359	\$ 9,130
1994	359	8,678
1995	359	7,548
1996	362	6,274
1997	—	5,221
Remaining years	—	25,375
Total minimum lease payments	1,439	\$ 62,226
Less: Amount representing interest	81	
Present value of net minimum lease payments	1,358	
Less: Amounts due in one year	324	
	\$ 1,034	

Rent expense for operating leases, net of sublease income, was \$9,833,000 in 1992 and \$9,273,000 in 1991.

4. Retirement Benefits

NASD maintains a noncontributory defined benefit pension plan for the benefit of all eligible employees. The benefits are based on years of service and the employee's average salary during the highest 60 consecutive months of employment.

NASD's funding policy is to contribute annually the minimum requirement under ERISA, subject to the full funding limitation imposed by the Internal Revenue Service. Contributions of \$51,600 and \$51,700 were required for 1992 and 1991, respectively. As of February 22, 1993, substantially all of the contributions have been funded.

The following table sets forth the plan's net pension cost for the years ended December 31, 1992 and 1991:

	1992	1991
	(In Thousands)	
Net pension cost consisted of the following:		
Service cost	\$ 3,130	\$ 2,475
Interest cost	2,769	2,556
Actual return on plan assets	(1,249)	(6,014)
Deferral of net plan asset (loss) or gain, and amortization	(1,761)	3,285
Net pension cost	\$ 2,889	\$ 2,302

National Association of Securities Dealers, Inc.

Notes to Consolidated Financial Statements

4. Retirement Benefits (continued)

The following table sets forth the plan's funded status and amounts recognized in NASD's financial statements at December 31, 1992 and 1991:

	1992	1991
	<i>(In Thousands)</i>	
Actuarial present value of benefit obligations		
Accumulated benefit obligation, including vested benefits of \$18,388 in 1992 and \$16,857 in 1991	\$ 22,489	\$ 20,557
Projected benefit obligation	\$ 38,549	\$ 35,185
Less plan assets at fair value, primarily common stocks		
U.S. government and agency bonds	30,601	30,625
	7,948	4,560
Unrecognized net asset	3,202	3,412
Unrecognized net gain	218	1,615
Prior service cost	(2,095)	(2,245)
Accrued pension cost	\$ 9,273	\$ 7,342

The discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 8.25 percent and 6 percent, respectively, at December 31, 1992, and 8.5 percent and 6 percent, respectively, at December 31, 1991. The expected long-term rate of return on plan assets was 10 percent for both 1992 and 1991. The unrecognized net asset is being recognized over 20 years.

NASD also maintains a savings plan for employees. Employees are eligible to participate after one year of service. Participation in the savings plan is voluntary. NASD makes a matching contribution of one-half of the first 6 percent of salaries contributed by covered employees. Savings plan expense for the years 1992 and 1991 was \$1,643,000 and \$1,460,000, respectively.

NASD plans to adopt Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-Retirement Benefits Other Than Pensions" (SFAS 106) in 1993. Adoption of SFAS 106 will not have a significant impact on the financial condition or operations of NASD.

5. Commitments and Contingencies

There are certain legal proceedings pending against NASD and its subsidiaries. Management believes, based on the opinion of counsel, that any liabilities arising from these proceedings will not have a material effect on the operations of NASD and its subsidiaries.

NASD Corporate Officers

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C. Richard Justice
Executive Vice President and Chief Technology Officer

James P. O'Donnell
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Member Services

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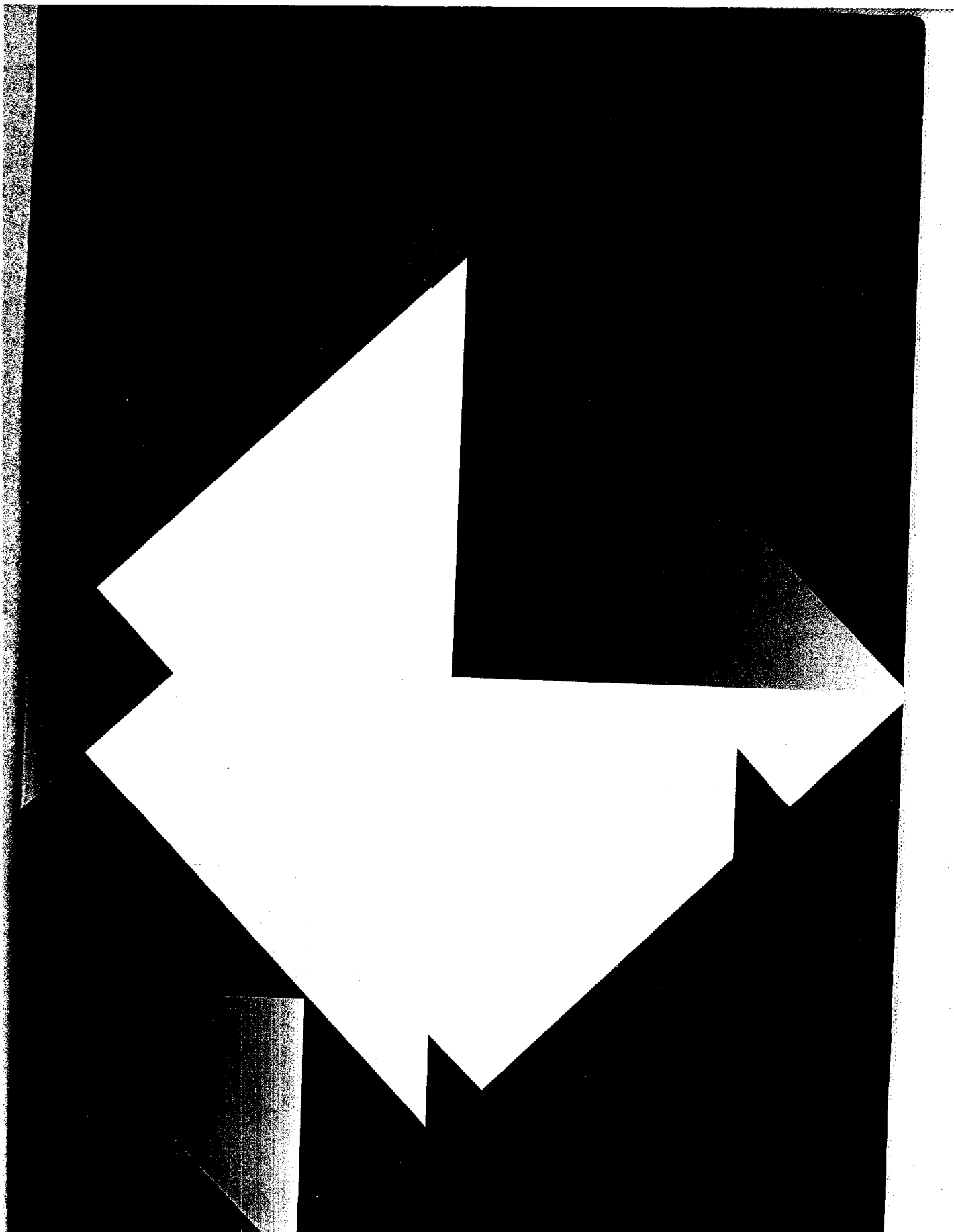
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Vice President
Computer Operations

Stephen D. Hickman
Corporate Secretary

*NASD Corporate Officers as of
January 31, 1993*



NASD[®]

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. 1735 K STREET, NW WASHINGTON, DC 20006-1500



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