NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1980 Annual Report
MARKET SURVEILLANCE kept pace with the record activity, with (Pages 10–11)

4,147 on-line computer notifications of price parameter breaks
3,592 on-line and routine surveillance reviews of unusual activity
73 formal investigations

as did BROKER/DEALER SURVEILLANCE, with (Pages 12–13)

2,179 main office routine examinations
125 firm audit & operational examinations
537 special examinations
315 branch office examinations
259 formal inquiries and complaints

The most significant market information improvement since the start-up of the NASDAQ System in 1971 was the display of inside quotations—the highest bids and the lowest offers—in July 1980. This sharply narrowed the published spreads (left) and increased visibility (right) for NASDAQ securities. (Page 4)

A $10 million upgrade of the NASDAQ System got underway, to increase the capacity and efficiency of the OTC market and to provide it with new surveillance and clearing services. (Pages 8–9)
CORPORATE OFFERINGS
(millions of dollars)

<table>
<thead>
<tr>
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DIRECT PARTICIPATION PROGRAMS
(millions of dollars)

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As corporate offerings reached new record levels, the landmark SEC approval of the NASD's "Papilsky" rules package preserved and reaffirmed the fixed price distribution system. (Page 16)

NASD membership and Registered Representatives rose significantly for the first time in years, and the Central Registration Depository moved to the verge of 1981 implementation. (Page 17)

Automating 70% of the qualifications examinations administered by the NASD made testing more expeditious for securities professionals. (Page 17)

For National Market System development, an NASD subsidiary invested $2.5 million in a Computer Assisted Execution System (CAES) and a Switch linking the OTC and exchange markets. (Pages 6-7)
1980 will be remembered as a year of record prices and volume for NASDAQ securities coupled with a record level of activity within almost every area of NASD responsibility. While the single most significant development of the year may well be the reaffirming of the fixed price distribution system of underwriting, there were many actions taken during the year which will prepare the NASD to operate and regulate the over-the-counter market of the future.

NASDAQ

In the NASDAQ System, the six-year bull market climbed to new price and volume highs. The NASDAQ Composite Index was up 34% over 1979; the previous record year, and volume rose 83%. This price performance topped that of the NYSE Composite Index by 12%, and NASDAQ share volume grew to nearly 60% of NYSE share volume. The number of NASDAQ quoted companies rose to 2,800, 300 more than in 1979 and the highest level since 1974.

The most significant NASDAQ development of 1980 was the introduction of inside quotations, the highest bids and lowest offers on NASDAQ securities, onto the desk-top terminals of Registered Representatives and into newspapers throughout the nation. Inside quotations dramatically narrowed the published spreads on 85% of NASDAQ securities and made more visible the quality of the markets which have long existed for NASDAQ securities.

Plans were completed during the year for a $10 million upgrade of virtually all the facilities connected to the NASDAQ System. The System’s new central computers, when they are fully installed in 1981, will have twice the memory capacity and twice the speed of the ones they replace; the new NASDAQ terminals will have eight times the display capacity of the old ones, and the reliability of the entire System will be greatly enhanced.

CORPORATE FINANCING

Over $2.7 billion of corporate offerings, also a record level, were filed by members with the NASD during the year. This compares to $1.25 billion in 1979. Filings of direct participation programs amounted to $6.6 billion, nearly double the level filed in 1979.

In addition to reviewing the underwriting terms of offerings filed, the NASD conducted seminars in four cities throughout the country on due diligence investigations. Over 400 securities professionals attended the seminars, which should serve to improve members’ knowledge of their responsibilities in this area.

The most far-reaching development in 1980 relating to corporate financing was the SEC’s approval of the Association’s so-called “Papisky” rules which preserve and reaffirm the fixed price distribution system of underwriting. Resolution of the questions relating to the Association’s underwriting rules was an important achievement brought about by a superb cooperative effort involving the Securities Industry Association as well as the SEC and the NASD.

SURVEILLANCE

In keeping with the record level of activity during the year, NASD Market Surveillance set a record of 3,600 reviews of unusual activity in NASDAQ securities, compared to 1,300 in 1979. Meaningful progress was made in the establishment of timely quotation halls in conjunction with the release of important news by NASDAQ companies. There were 532 quotation halls initiated during the year, in contrast to 482 in 1979.

Broker-dealer surveillance, in which more than half of the industry representatives serving on Association committees are directly engaged, substantially exceeded previous levels in terms of the number and scope of on-site examinations of member firms. Particular effort was directed in 1980 to branch office examinations and anti-fraud activity.

The surveillance capabilities of the NASD will be substantially elevated as a result of the work initiated this year to construct a Market Information Data Access System, called MIDAS, that will provide instantaneous access to historical quotations of all market makers in NASDAQ securities.

NATIONAL MARKET SYSTEM

Adoption by the SEC in July 1980 of Rule 19c-3, which allows exchange members to make off-board markets in securities listed on an exchange after April 26, 1979, is a major step in the evolving National Market System. However, after six months of experience with Rule 19c-3, it is evident that the experiment is proceeding slowly, as many of us predicted. More OTC market makers terminate their sponsorship of a security when it lists because nearby all currently functioning automated routing systems direct order flow in listed securities only to exchange brokers.

NASDAQ Market Services, Inc., a subsidiary of the

James F. Keegan, Chairman

Gerhard S. Macklin, President
Association, committed $2.5 million to build a message switch and Computer Assisted Execution System (CAES) which will give off-board market makers the rapid and economical access to retail order flow that is needed to compete with exchanges. A CAES pilot linkage between market makers and retail order departments will become operational in early 1981, and a linkage between CAES and the Intermarket Trading System of the exchanges is to follow.

MEMBERSHIP
The Association's membership grew to 2,933 firms, 132 more than in 1979 and the largest number since 1975, while the number of Registered Representatives rose to 191,000, 13,000 more than in 1979 and also the highest since 1975.

During the year, development of the battery of qualifying tests needed to cover the full range of members' business activities was completed. Further, 70% of the examinations taken by candidates were administered on the automated PLATO System.

As a result of an historic cooperative agreement between the NASD and the North American Securities Administrators Association, construction was initiated on the Central Registration Depository (CRD), with start-up scheduled for April of 1981. This System will provide for the licensing and registration of representatives with exchanges, the NASD and participating states through a single form and a single check mailed to the NASD. Implementation of CRD will greatly reduce members' costs for bringing new personnel into a productive state.

MANAGING 1981
Based on the accomplishments and initiatives taken during the past year, 1980 can be viewed as one of the most significant in the forty-one years of the Association's existence. Substantial progress was made toward preparing the over-the-counter market and the NASD for the increasingly complex challenges of the future. Continued progress, as with progress in the past, will be the product of the skills and time commitment of those who participate in the Association's activities. An important step was taken in late 1980 with the creation of four more Governor-at-Large positions on the Board of Governors. These new positions will be filled in future years by outstanding representatives from such industry-related professions as accounting and the law, as well as additional executives of NASDAQ quoted companies. The expertise of such Governors-at-Large, together with the talent and dedication of the hundreds of industry volunteers who guide the affairs of the NASD, gives us every reason to face the future with confidence.

Respectfully submitted,

James F. O'Keeghan, Chairman
Gordon S. Markkin, President
The Record Year for NASDAQ Securities

Three major developments accentuated the activity records.

Inside Quotations

Inside quotations on NASDAQ securities—the highest bids and the lowest asks—replaced the Representative Bid/Ask quotations in July. Inside quotations benefited issuers and investors more than any market information improvement since the start-up of the NASDAQ System in 1971, by narrowing published spreads.

<table>
<thead>
<tr>
<th>Published Spreads on NASDAQ Securities after Inside Quotations</th>
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<tbody>
<tr>
<td>NARROWED</td>
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<tr>
<td>UNCHANGED</td>
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<tr>
<td>WIDENED</td>
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... and by heightening the newspaper visibility of NASDAQ securities.

Higher Qualification Standards

Higher qualification standards for NASDAQ securities were proposed by the Association, doubling the present entry requirements to $2 million in total assets and $1 million in capital and surplus, and raising the requirements for continued quotation by 50%. The proposal, which requires SEC approval, would lift NASDAQ qualification standards to ongoing economic realities.

Voluntary Display of Size

The voluntary display of size by NASDAQ market makers, along with their quotations, was under consideration at the end of 1980. This enhancement would allow market makers to commit themselves to a minimum of 500,000 shares that they would purchase or sell at the published size. The SEC would benefit because market maker competition would become more intense, and orders could be executed faster. Since more information on market maker bids and offers would be displayed on NASDAQ screens.

In 1980, the six-year bull market for NASDAQ securities reached all-time record levels.

- The NASDAQ Composite Index closed 1980 at 402.34, up 34% for the year and 240% since the end of 1974.

- NASDAQ share volume of 6.69 billion shares was 8.1% higher than in 1979 and better than 5 1/2 times the volume in 1974, and

- The market value of the 2,700 domestic common stocks on NASDAQ at the end of the year was $122 billion, compared to a market value of $92 billion for 2,375 stocks in 1979.

The great growth in NASDAQ share volume brought it to nearly 50% of the volume on the NYSE and to over four times the volume on the AMEX.

<table>
<thead>
<tr>
<th>NASDAQ &amp; the Exchanges 1980 Share Volume</th>
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<tbody>
<tr>
<td>NASDAQ</td>
</tr>
<tr>
<td>AMEX</td>
</tr>
<tr>
<td>NYSE</td>
</tr>
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</table>
NASDAQ Company Involvement in the NASD

Company Representation on NASD Board

The role of NASDAQ-quoted companies in the NASD, steadily on the increase since 1975, continued to expand in 1980. J.M. Hill, President of Rangaire Corporation, was elected to the NASD Board as a Governor-at-Large for 1981–84. Also, the membership of the Association approved a proposal to add four Governors-at-Large to the Board from NASDAQ companies and accounting and legal and other professions involved with the OTC market.

1980 NASDAQ Company–NASD Consultations

To bring NASDAQ companies up to date on developments and opportunities in the market for their securities, the Association in October conducted its annual program of NASDAQ Company–NASD Consultation meetings in Chicago (above) and 13 other cities across the country. Attendance consisted of 579 executives from 442 companies. Topics discussed were (1) how progressive NASDAQ companies attract investors (2) how market makers select their favorite NASDAQ securities (3) NASDAQ’s six-year bull market (4) market surveillance (5) corporate responsibility.

Corporate Consultants’ Program

Three NASDAQ Corporate Consultants were appointed during the year, Douglas H. Curtis (in picture above) for the Midwest, Raymond J. Kiernan for the Southeast and Lewis M. Weston for the Northeast.

The Corporate Advisory Committee

Mr. Hill assumed the Chairmanship of the Corporate Advisory Committee, which played a key role in the introduction of insider quotations and the proposals for higher qualification standards and the display of size. The Committee also developed NASD policy in the corporate governance area, positions on SEC regulatory proposals and Association services to NASDAQ companies (right). In 1981, the Committee will be enlarged to broaden the geographic and industry category representation of companies.

Their function is to advise NASDAQ companies on how best to maximize the benefits of the services which the NASD, the NASDAQ System and the OTC market provide. Companies drew extensively on the consultants’ services.
The NASD strongly endorsed an experiment in competition between OTC market makers and exchanges. The experiment began in July, when SEC Rule 19c-3 permitted the OTC departments of exchange member firms to make off board markets in listed securities, which had previously been forbidden by exchange rules. The securities involved were those listed after April 26, 1979.

As had been anticipated, the experiment proceeded slowly. A year and a half of Securities Act of 1933 eligible securities. Off board volume in these securities was 1.16% of the consolidated volume.

Both exchange member and non member market makers limited their participation in the experiment because the automated order routing system of the exchanges temporarily gave floor specialists a competitive advantage. It was easier and more economical for order departments to access these systems, so that where off board market makers offered the same or even a better price, their orders, if they were not likely to get sufficient order flow.

Response: CAES

To strengthen the competitive position of market makers, NASD Market Services, Inc. put in place a message switching computer (opposite page), which will operate a new Computer Assisted Execution System (CAES). CAES will permit broker dealers to execute transactions over the counter, as economically as they are handled on an exchange.

In 1981, CAES will become operational in a pilot program between the upstairs order books of the 14 exchange member firms and fourteen off board market makers for retail order flow in 1000 and over listed securities.

Computer Assisted Execution System (CAES)

Proposed ITS Link

Beyond this pilot linkage, an automated connection between the CAES and the Interstate Trading System of the stock exchanges was explored by the NASD and the NYSE. This would open the way to broad competition between off board market makers and exchange specialists.
A $12.5 Million Upgrading of OTC Facilities

The sophisticated message-switching computer whose control panel is shown above, is part of the $2.5 million investment by NASD Market Services, Inc. in CAES and in the linkage of the OTC and listed markets. The much larger investment of $10 million by NASDAQ, Inc. will totally renew and expand the NASDAQ System (next pages) with more powerful, reliable central computers, network controls, concentrators and 1,700 NASDAQ terminals on NASDAQ's 3,300 mile-long trading floor.
Network Control Panel for upgraded NASDAQ System provides early warning of troubles in telephone lines and terminals of the System and pinpoints problems that have arisen.

New Central Computer will meet demands of far higher share days on the NASDAQ System, and also support CAES, the ITS interface, MIDAS (Page 11), TARS (Page 13) and CRD (Page 17).

New NASDAQ Terminal for market makers and financial institutions can display eight times the information on securities and operate at twice the speed of the one it replaces.
Procedure

With a combination of electronic tools and professional analysts, NASD Market Surveillance seeks to deter and detect manipulative practices and insider trading in NASDAQ securities. The NASDAQ computer is programmed with price parameters for NASDAQ securities; when a security breaks those parameters, the computer immediately notifies Market Surveillance and the analysts go to work to determine whether the unusual behavior of the stock was the result of legitimate market forces or improper activity.
For NASDAQ Securities

Statistics

During the intense market activity of 1980, NASD Market Surveillance

— Responded to 4,141 on-line notifications from
  the NASDAQ computer of price parameter breaks,
  compared to 1,600 such notifications in 1979;

— Completed 3,592 on-line and routine reviews of
  unusual activity, compared to 2,270 in 1979;

— Conducted 73 formal investigations of possibly
  improper activity, compared to 50 in 1979, and

— Received 24 of its formal investigation reports to
  NASD District Offices, the NASD’s Anti-Fraud Section
  and to the SEC, for further investigation and discipli-
  nary action, where appropriate, compared to 23 such
  referrals in 1979.

Nine disciplinary actions on cases developed by Mar-
ket Surveillance became final.

Quotations Halts

The quotations halt procedure is an integral part of
NASDAQ Market Surveillance activity. Under the proce-
dure, quotations are halted on a security while impor-
tant news about its issuer, which could affect the

price of the stock, is being disseminated. The halt
gives investors the opportunity to make decisions on
the basis of fair and equal access to the news.

There were 552 quotations halts in 1980, compared
to 482 in 1979. The great majority of the halts were
initiated with the full assistance of NASDAQ-quoted
companies, who are aware that the procedure pro-
tects their relations with investors and market makers.

The MIDAS Touch

As a result of developmental work in 1980, the battery
of NASD Market Surveillance tools will be augmented
in 1981 by the Market Information Data Access Sys-
tem (MIDAS). MIDAS will provide on-line access to an
historical data base of minute-by-minute market
maker price movements, which will be very helpful in
precisely reconstructing and analyzing market activity
under investigation.
Examination Program

In meeting the Association's responsibilities for investor protection, the District Offices across the country completed 2,179 main office routine, 125 financial and operational, 537 special (or "for cause") and 315 branch office examinations. All member firms designated by the SEC to the NASD for financial responsibility purposes were given at least one main office routine examination during the year.

Disciplinary Actions

After review of all the examination reports, the thirteen District Business Conduct Committees (Pages 20-24) filed 252 formal and 7 summary complaints and accepted 57 Letters of Admission, Waiver and Consent (compared to 252 complaints and 59 letters in 1979). These actions resulted in the expulsion of 4 firms (15 in 1979), the barring of 52 individuals (90 in 1979), the suspension of 3 firms (6 in 1979) and the suspension of 39 individuals (54 in 1979).

Self-Liquidation

In the year, the Association monitored the successful self-liquidation of five member firms designated to it for financial responsibility purposes. Since the inception of the program in 1975, the self-liquidation of 20 firms has led to the distribution of some $56 million to customers and broker/dealers.

SIPC Referrals & Trustees

Two SIPC trustees were appointed for broker/dealers designated to the NASD, and five altogether. In addition, six firms were on report to SIPC at year end thus being in or approaching financial difficulty.
Free-Riding Questionnaires

Because of the rebirth of the hot new issue market, free-riding questionnaires for 78 issues were authorized and nearly 3,000 copies of the questionnaires forwarded to members. In 1979, questionnaires were sent for only 20 issues.

Customer Complaints

In the year, 1,071 customer complaints were received and 984 resolved. In 1979 and 1978, customer complaints received were 816 and 575, respectively.

Anti-Fraud Section

The Anti-Fraud Section opened seven new investigations during the year and referred seven cases to the District Offices. Since September 1980, the Section has been working with the NASD's Denver office and the SEC Division of Enforcement on investigations of several speculative new offerings.

Trade Acceptance & Reconciliation Service (TARS)

To facilitate clearing during high market activity, NASD Market Services, Inc., developed the concept of an automated OTC trade data reporting system, which will make possible comparison of trades through the NASDAQ System. The Trade Acceptance & Reconciliation Service (TARS) is to be implemented in a joint effort with the National Securities Clearing Corporation (NSCC).
Corporate Financing

A Dramatic Increase

Corporate financing activity of NASD members and investors in 1980 increased even more dramatically over 1979 than did activity in NASDAQ securities. Public offerings of corporate debt and equity securities filed with the NASD had two-and-a-half times the dollar value of such offerings in the previous year, and the value of direct participation programs and REIT filings was 80% higher. The Association's Corporate Financing Department reviewed these offerings to determine the fairness and reasonableness of the underwriting terms and arrangements.

Corporate Offerings

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<td>1976</td>
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<td>460</td>
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Direct Participation Programs and REITs

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“A Clearer Outlook

The overall outlook for future underwriting activity was clarified in December 1980, when the fixed price distribution system was reaffirmed as a result of SEC approval of the NASD's so-called "Papilsky" rule package. (See Page 14.)

No Filing of Private Offerings

The specific question of whether private offerings of direct participation programs would have to be filed with the NASD was resolved. A study of 1,415 private offerings showed that their underwriting arrangements and levels of compensation did not vary significantly from those normally found in public offerings, and that only a small percentage of the offerings studied posed any regulatory problems. The Association therefore decided not to require the filing of these offerings on an ongoing basis.

“Due Diligence” Seminars

To reduce compliance problems with offerings, which the Corporate Financing Department reviews, the Association in the Summer of 1980 sponsored four seminars—in Chicago, Denver, Los Angeles, and New York—on "due diligence" investigations. A hundred representatives of NASD member firms, prominent securities attorneys and specialists in underwriting discussed the legal and practical aspects of these investigations, particularly in connection with direct participation programs.

Three Regulatory Changes

Three changes in the NASD's rules pertaining to corporate financing were initiated:

— The “operations, structure and management” of direct participation programs became subject to the Association's regulatory review with the approval of Article III, Section 34 of the Rules of Fair Practice. Appendix F of that Section, the substantive regulations, is on file with the SEC and is not yet effective.

— Also filed with the SEC were proposed changes to Schedule E of the Association's By-Laws, liberalizing the rules regarding a member's underwriting of its own securities or those of an affiliate. 

— A new draft Corporate Financing Rule, which would eventually replace the existing Board of Governors' interpretation with respect to Corporate Financing, was approved for member comment.
Money Market and Mutual Funds

In response to industry and public demand, the Association began, in June 1980, the collection and dissemination of yield quotations on some 90 money market funds. The yield quotes, which are accompanied by quotations of each fund's dollar-weighted average portfolio maturity, are collected and released weekly to win services for relay to newspapers.

In September 1980, the membership approved revision of the Association's "Anti-Reciprocal" Rule and other amendments to the investment company-related regulations in Article IV, Section 26 of the Rules of Fair Practice. These amendments received SEC approval in early 1981.

On October 28, 1980, the SEC adopted Rule 12b-1 under the Investment Company Act of 1940, which permits open-end investment management companies to bear expenses associated with distribution of their shares, if such companies comply with certain conditions and procedures. The Association had supported the rule change.

Effective November 3, 1980, the Federal Reserve Board adopted an amendment to its Regulation T, which eliminated a long-standing prohibition against the extension of credit by broker/dealers on mutual fund shares. While this action represented an appropriate removal of a competitive inequality between banks and broker/dealers, a variety of legal and practical bars to such extension of credit remain.

Municipal Securities

Throughout 1980, the NASD and its Municipal Securities Committee continued their close working relationship with the Municipal Securities Rulemaking Board (MSRB). The MSRB, in an important determination concluded after a hearing and extended deliberation that there should be no pricing guidelines for municipal securities, because the nature of their marketplace made a structured mark-up policy impracticable.

Variable Contracts

The principal development in the Variable Contracts area was the registration under the Federal Securities Laws of fixed annuity contracts issued by two life insurance companies. This was the first time that annuity contracts issued out of the general accounts of life insurance companies had been registered as securities. The Association is conducting a review of its By-Laws and Regulations to discover whether such contracts can be treated, for purposes of regulation, in the same manner as variable contracts.

Variable Life Insurance

Another insurance company product engaging the Association's attention was variable life insurance. This contract, with reserves invested in a separate account consisting mostly of common stocks, provides a minimum guaranteed death benefit and the possibility of growth potential both in face amount and cash value. Until 1980, only one major company marketed such contracts, but a second major insurance company introduced a variable life insurance policy in September 1980, and a third is pending registration. Since these contracts are registered under Federal Securities Laws and are sold through NASD members, the Association has regulatory responsibility for them.

Government-Guaranteed Securities

A Government-Guaranteed Securities Committee was formed and began to develop Association positions on the regulation of GNMA, GHLMC and other securities. Draft Federal legislation in this area has been prepared jointly by the Federal Reserve Board, the Treasury Department and the SEC.

Advertising Reviews & Rules

The Association's Advertising Department reviewed 9,700 pieces of advertising and sales literature filed by members during 1980, compared with approximately 8,800 pieces reviewed during 1979. More of the increase in volume consisted of material concerning direct participation programs. In addition, approximately 3,700 pieces of material were reviewed in routine spot-checks, compared with 3,200 in 1979.

In December of 1980, the Association adopted a new rule regarding member advertising and sales literature. This rule codified various interpretations and policies into a single rule and eliminated the requirement that all members file advertising with the NASD.

Fidelity Bonding

In late 1980, the Fidelity Bonding Committee began to study the possibility of the NASD's sponsoring a group-buying program to provide fidelity bonds for its members. The various insurance organizations contacted have been receptive to the proposal, and the Committee is engaged currently in developing the specifications for such a program.
The "Papilsky" Rules

On December 12, 1980, the Securities and Exchange Commission approved a package of rules proposed by the Association relating to the fixed price system of distributing offerings of securities. This approval was the culmination of four years of effort by the Association and a number of industry volunteers to preserve the established capital-raising mechanism. The rules, which were first approved by the Commission on May 31, 1978 and amended on September 4, 1980, were developed in the wake of the decision in the case of Papilsky vs. Bentsie, and have come to be known as the "Papilsky" rules.

The rules package consists of a new definition of the term "fixed price offering" in the Rules of Fair Practice, together with an amendment to Section 8, which imposes a more explicit prohibition on members' taking securities in trade at more than their fair market price, an amendment to Section 24 which clearly refines that selling concessions, discounts or other allowances, whether direct or indirect, can only be paid to members actually engaged in the investment banking or securities business and only for services rendered in a distribution, and a new Section 36, which prohibits members from the sale of securities from a fixed price offering to related parties.

These rules will be declared effective by the Association during the first quarter of 1981, after they have been fully explained to the membership.

Proposed Amendments to Net Capital Rule

Broker/dealer net capital became the focus of a great deal of Association attention in the latter part of 1980 when the SEC proposed a number of amendments to its long-standing uniform net capital rules, Rule 17b-5. The proposals would amend the alternative method of computing net capital by lowering both the ratio of required net capital to certain debt items and the minimum, as well as changing the treatment of certain debt items in the Reserve Formula. The Commission also proposed increases in haircut for certain debt securities maintained in broker/dealer accounts. The Association's Capital and Margin Committee is prepared to respond to the SEC in early 1981.

SEC Proposal to Amend FOCUS

In late 1980, the Association expressed general opposition to a Commission proposal to amend the FOCUS Reporting System. In its comments, the Association cited doubts about the need and usefulness of the proposals and characterized them as ill-timed because their implementation would significantly affect the industry's computer facilities at a time when those facilities are being heavily taxed by market conditions. The Association also noted that, in light of recent proposals to amend the net capital rules, to examine a broad range of questions regarding the scope, adequacy and necessity of financial responsibility rules for brokers and dealers, it would be premature and costly to the industry to proceed with efforts to finalize FOCUS, a report which is grounded on the provisions of the net capital rule.
Membership and Qualifications

Membership Growth

The first pronounced membership growth in more than a decade was recorded as 296 new firms were admitted to the NASD, bringing the total membership to 2,932—a gain of 133 firms over 1979. In addition, 226 applications for membership were on file at the end of the year. Most of the new firms are involved in the distribution of direct participation programs.

The total number of Registered Representatives increased from 183,656 to 196,206.

Central Registration Depository (CRD)

The new Central Registration Depository is scheduled to become operational in the first half of 1981, and will permit a broker/dealer to file one form with one check to effect multiple registrations and licenses with the self-regulatory organizations and the states. During 1980, the Registration Department added staff, CRT terminals, microfilm machinery and computer software to prepare for CRD implementation.

Qualifications

As the test administrator for the industry, the NASD administered more than 60,000 qualifications examinations for itself, other self-regulatory organizations, the SEC, the states and the commodity exchanges.

Some 70% of the NASD's examinations were automated on the FLATO System of Control Data Corporation's nationwide Learning Centers.

The Association completed its battery of tests covering the full range of members' business activities, as it implemented limited representative examinations for persons selling (1) investment company products and (2) direct participation programs. It also worked with the options exchanges and the NYSE to update the Registered Options Principal examination program and with a group of SROs to develop a new examination for general securities branch office managers.
Greater SIPC Protection

Higher limits of protection for securities accounts of customers of broker/dealers who are SIPC members became effective in October, through Congressional amendment of the Securities Investor Protection Act of 1970. These increased limits of protection of $500,000, including up to $100,000 for claims for cash, represent a major improvement in the SIPC program.

Small Business Financing

H.R. 7554

In May 1979, the NASD's Joint Industry/Government Committee on Small Business Financing produced a report which addressed many of the capital-raising problems of small business. Included among the nineteen recommendations contained in that report was one which called for an exemption for venture capital companies from the Investment Company Act of 1940. In October 1980, President Carter signed into law H.R. 7554, the Small Business Investment Incentive Act of 1980 which, among other things, allows for the creation of a new type of entity to be known as the "business development company." It is a form of venture capital company designed to provide investment capital and managerial assistance to small businesses. In virtually all respects, it provides the relief the NASD and others had long sought. The new law exempts business development companies from many of the 1940 Act regulations which restrict the activities of investment companies. However, these new types of companies will nonetheless be subject to many of the provisions of the 1940 Act, including those designed to protect shareholders and to prevent misconduct. With the removal of many of the former restrictions, it is anticipated that venture capital companies will be able to attract new sources of risk capital and thus be able to make a greater contribution to the financing of small business.

Other Progress

The most promising prospect for the Small Business Financing Committee was a Senate Finance Committee proposal which contained no less than five of the Committee's recommendations, including a market maker lost reserve, more favorable tax treatment for employee stock options, an increase in subchapter S corporation shareholders, overdraft corporate tax rate brackets and payroll-based tax credits for employee stock option plan contributions. The proposal was ultimately tabled by the Senate in the waning days of the 96th Congress but the Association is optimistic that its recommendations will be reintroduced.

Challenges to the NASD Disciplinary Process

In Texas

The United States District Court for the Northern District of Texas restrained the Association from proceeding with a disciplinary hearing in the presence of a customer with a complaint, except for the purpose of her direct testimony. The order also restrained such proceedings from continuing while the customer's attorney was present, except that he could be present during her direct testimony and cross-examination. The plaintiffs brought this action because they believed the customer intended to use the testimony from the NASD proceeding in her civil proceeding against plaintiffs. Even after the customer's action was settled, plaintiffs continued to assert that the customer should be excluded from any part of the hearing, except for her direct testimony. The judge's order was immediately appealed to the United States Court of Appeals for the Fifth Circuit and the Securities and Exchange Commission filed a brief amicus curiae in support of the Association's position.

On May 16, 1980, the Fifth Circuit reversed the District Court, holding that the decision of the Association not to sequester the complained-of witness at the disciplinary hearing during the discussion of the complainant's account amounted to a nonsensical procedural ruling which was not subject to District Court review in the absence of extraordinary circumstances justifying immediate review. It ruled that the District Court could not have intervened in the administrative process prior to exhaustion of administrative remedies by the broker, that the broker could not realistically argue that the Association's procedural ruling threatened its good name intact to the public that there was not a clear and unambiguous constitutional or statutory violation. The decision can be found at 616 F.2d 1363 (5th Cir. 1980).

In New York

Another case also involving a significant challenge to the Association was filed in New York Supreme Court in July 1980. Plaintiff, a broker/dealer, alleged that action taken by three staff employees was a conspiracy to interfere with his business. While the suit was filed in state court, it was removed to the Association to Federal District Court. The Association filed a Motion for Summary Judgment and Dismissal and the SEC filed a brief amicus curiae in support of the Association's position. On October 12, 1980, the court dismissed plaintiff's complaint holding that plaintiff had failed to exhaust administrative remedies with respect to each of the three events over which it complained.

While there is ongoing involvement by the Office of General Counsel in other litigation, no other case presents significant challenges to the Association.
A Resolution

In Tribute to the Memory of

RAY GARRETT, JR.

Adopted by the Board of Governors of the National Association of Securities Dealers, Inc. on March 14, 1980

WHEREAS, a long, dedicated and brilliant career as an educator, government official and private practitioner in the corporate and securities bar at the legal profession came to a sudden close with the death on February 2, 1980, of Ray Garrett, Jr., a former member of the Association's Board of Governors, former Chairman of its Securities and Exchange Commission and former senior partner of Gardiner, Carton & Douglas, and

WHEREAS, he served with distinction as Governor of the National Association of Securities Dealers, Inc. from January 1976 to January 1977, and

WHEREAS, in gage unerringly his time, thought and energy to the Association, its purpose and objectives of which he supremely and ably advocated, and thereby earned the gratitude of his colleagues on the Board, and

WHEREAS, as principal in the leadership of the Board of Governors as impartial and objective voice, commending in its breadth of experience, diverse in its representation of the interests of investors, issuers and broker-dealers, and determined in its ability to focus our attention upon all aspects of the most complex of issues before the Board, and

WHEREAS, his warm personality, considerability, deep concern for and desire to share knowledge with others won him the friendship and admiration of all his colleagues on the Board, and

WHEREAS, his continued service as counsel has been of critical importance to the Association,

Now, Therefore, Be It Resolved, that the Members of the Board of Governors express their deep sorrow at the passing of their valued friend and colleague, and

Be It Further Resolved, that the Members of the Board of Governors as a Board acknowledge the outstanding contributions to the securities industry and the public interest, and

Be It Further Resolved, that copies of this resolution be printed for distribution to the members and to the partners of his firm, Gardiner, Carton & Douglas.
ASD Officers and Board of Governors 1980

The Board of Governors is the policy-making body of the NASD and determines policy on a national scale. The Board consists of 21 representatives of the securities industry elected from the association's districts, seven governors-at-large, and the president of the NASD. The Board meets six times a year.

- Gordon S. Macdonald
  President and member of the Board

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Chairman, 1980

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Sears & Co., Incorporated
Los Angeles, California
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Franklin Electric Co., Inc.
Burlington, Indiana
Vice Chairman Finance, 1980

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Rachels, Rechenbach, Rechenbach
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Stehr & Whitney
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Rangel, Corporation
Chicago, Illinois

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A. James and Company
New York, New York

Bruce A. Nies
Pleshko, Macdonald & Sullivan
San Francisco, California

To Serve Until January 1981

To Serve Until January 1982

To Serve Until January 1983

To Serve Until January 1984
National Committees 1980

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

Executive:

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(Ex-Officio)

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Eugene W. Bell
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Lawrence A. Lenox
Shirley G. Page
Donald A. Paik
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Lawrence H. Thelen

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A. E. Boudreaux, Jr.
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William L. Harriman
Frederick L. Hayes
John T. McGuire
Robert N. Morison
Ernest F. Reif, Jr.
J. Perry Reddick
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Frederic Hitekens
Thomas C. Sullivan
Thomas H. Sullivan
Howard Trepper
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Dwight W. Wex

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Bernard L. Marcus
Raymond Meselson
Mason F. New
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L. C. Peterson
Harold A. Pich
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Kenneth J. Wexner

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Amendments
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*NASD Board of Governors Member
District Committees 1980

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

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Incorporated
Seattle, Washington

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Vice Chairman
June S. Jones Co
Portland, Oregon

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Smith Barney, Harris Upham & Co.
Incorporated
Portland, Oregon

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Seattle-Northwest Securities Corporation
Seattle, Washington

James P. Madden
Bache Halsey Stuart Shields
Incorporated
Seattle, Washington

Rudolph Moore
Adams, Hess, Moore & Co.
Portland, Oregon

William G. Papazian
Murphy Fries, Inc
Spokane, Washington

William J. Ren
First & Federal Inc
Spokane, Washington

Franklin M. Sneed
ERI Financial Services, Inc
Denver, Washington

Bradford M. Patterson
Director
1111 IBM Building
Seattle, Washington 98101

District 2
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Chairman
Crowell, Weedon & Co
Los Angeles, California

William R. Torian
Co-Chairman
Hambrecht & Quist
San Francisco, California

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Baird & Co.
1901 Bloor Street East
Toronto, Ontario

Thomas A. Beck
FICAM, Inc
200 West 11th Street
Los Angeles, California

Marc S. Bingo
Segal Biusch & Brown
915 California Avenue
Los Angeles, California

Bette R. Carter
Edithson Campbell & Co.
San Francisco, California

John J. Dougher
Danbridge & Co.
Los Angeles, California

Donald R. Duffy
Watson & Co.
San Rafael, California

Murray I. Finnekas
Cantor Fitzgerald & Co.
New York, New York

Arnold L. Hoffman
Drake Brothers, Inc
Investment Company
San Francisco, California

Theodore D. Holsey
Ward, Tully, Wallis, Wintz & Company
Honolulu, Hawaii

Richard A. Kasteng
Paul Weiden, Jamison & Kurin
Los Angeles, California

James W. Klein
Paul Weiden, Jamison & Kurin
San Francisco, California

Thomas E. Mulvaney
San Diego Securities, Inc
San Diego, California

James L. Owens
Jeffress & Company, Inc
Los Angeles, California

LaVerne H. Ratke
Morgan, Grenwel, Lewis & Co
Incorporated
Los Angeles, California

Edward H. Ruth
Henry F. Ruth & Co
San Francisco, California

Theodore F. Schurm
Crowell, Weedon & Co
425 California Avenue
San Francisco, California

William J. Redding Jr
Overseas
695 South Olive Street
Los Angeles, California
# National Association of Securities Dealers, Inc. and NASDAQ, Inc.

## BALANCE SHEETS

<table>
<thead>
<tr>
<th>Assets</th>
<th>September 30, 1980</th>
<th>1979</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td><strong>NASD</strong></td>
<td><strong>NASDAQ</strong></td>
</tr>
<tr>
<td>Cash</td>
<td>$203,095</td>
<td>$178,701</td>
</tr>
<tr>
<td>Marketable debt securities, principally U.S. Government, at cost (approximate market value for 1980: NASD $13,132,867; NASDAQ $11,769,767; for 1979 NASD $12,934,000, NASDAQ $12,729,000)</td>
<td>13,927,150</td>
<td>11,531,851</td>
</tr>
<tr>
<td>Interest and other current receivables</td>
<td>1,395,296</td>
<td>1,197,520</td>
</tr>
<tr>
<td>Total current assets</td>
<td>15,322,446</td>
<td>13,208,371</td>
</tr>
<tr>
<td><strong>Investments in NASDAQ, Inc., at equity in net assets</strong></td>
<td><strong>(Notes 1 and 2)</strong></td>
<td></td>
</tr>
<tr>
<td>National Securities Clearing Corporation, at cost (Note 2)</td>
<td>300,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Depository Trust Company, at cost (Note 4)</td>
<td>191,260</td>
<td>191,260</td>
</tr>
<tr>
<td>Special Investment account, at lower of cost or market (Note 2)</td>
<td>262,645</td>
<td>262,645</td>
</tr>
<tr>
<td>Data processing, subscriber equipment and software, at cost less accumulated depreciation and amortization of $8,482,684 (NASDAQ) in 1980, and $7,994,000 in 1979 (Note 2)</td>
<td>459,556</td>
<td>1,439,006</td>
</tr>
<tr>
<td>Land, buildings and improvements, at cost less accumulated depreciation of $698,443 (NASDAQ) and $56,724 (NASDAQ) in 1980, and $615,000 in 1979 (Notes 2 and 5)</td>
<td>2,875,212</td>
<td>1,137,211</td>
</tr>
<tr>
<td>Furniture, equipment and leasehold improvements, at cost less accumulated depreciation and amortization of $28,213 (NASDAQ) and $22,214 (NASDAQ) in 1980, and $3,000 (NASDAQ) and $35,000 (NASDAQ) in 1979 (Note 2)</td>
<td>532,877</td>
<td>203,876</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td>228,695</td>
<td>228,695</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$33,432,955</strong></td>
<td><strong>$16,017,454</strong></td>
</tr>
</tbody>
</table>

## Liabilities and Association Equity

<table>
<thead>
<tr>
<th>Current liabilities</th>
<th><strong>NASD</strong></th>
<th><strong>NASDAQ</strong></th>
<th><strong>Consolidated</strong></th>
<th><strong>NASD</strong></th>
<th><strong>NASDAQ</strong></th>
<th><strong>Consolidated</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$1,522,971</td>
<td>$1,032,265</td>
<td>$2,536,744</td>
<td>$1,558,016</td>
<td>$377,206</td>
<td>$1,937,220</td>
</tr>
<tr>
<td>Prepaid NASDAQ issuers fees</td>
<td>2,122,882</td>
<td>2,122,882</td>
<td>1,767,348</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans payable, 5%—6%</td>
<td>320,250</td>
<td>320,250</td>
<td>320,250</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion of mortgage payable</td>
<td>124,163</td>
<td>124,163</td>
<td>117,533</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion of note payable (Note 5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>4,190,266</td>
<td>3,052,265</td>
<td>7,102,769</td>
<td>3,673,147</td>
<td>2,377,206</td>
<td>6,047,350</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued deferred compensation</td>
<td>262,645</td>
<td>262,645</td>
<td>267,916</td>
<td>267,916</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage payable (Note 5)</td>
<td>582,070</td>
<td>582,070</td>
<td>706,233</td>
<td>706,233</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note payable (Note 5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>5,034,981</td>
<td>3,052,265</td>
<td>7,102,769</td>
<td>4,437,296</td>
<td>4,083,206</td>
<td>8,520,506</td>
</tr>
<tr>
<td>Association equity</td>
<td>28,397,974</td>
<td>12,901,169</td>
<td>29,397,974</td>
<td>24,374,317</td>
<td>10,946,705</td>
<td>25,321,022</td>
</tr>
</tbody>
</table>

## Commitments and contingencies (Notes 5 and 6)

<table>
<thead>
<tr>
<th><strong>NASD</strong></th>
<th><strong>NASDAQ</strong></th>
<th><strong>Consolidated</strong></th>
<th><strong>NASD</strong></th>
<th><strong>NASDAQ</strong></th>
<th><strong>Consolidated</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>$33,432,955</td>
<td>$16,017,454</td>
<td>$56,345,658</td>
<td>$28,211,613</td>
<td>$15,321,911</td>
<td>$53,425,114</td>
</tr>
</tbody>
</table>
## National Association of Securities Dealers, Inc. and NASDAQ, Inc.

### Statements of Operations and Association Equity

<table>
<thead>
<tr>
<th>Year Ended September 30,</th>
<th>1980</th>
<th>1979</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NASD</td>
<td>NASDAQ</td>
</tr>
<tr>
<td><strong>Incomes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member assessments and branch office fees</td>
<td>$ 9,203,639</td>
<td>$ 9,203,639</td>
</tr>
<tr>
<td>NASDAQ user services fees</td>
<td>$12,094,890</td>
<td>$12,094,890</td>
</tr>
<tr>
<td>Registered representative fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications</td>
<td>2,107,265</td>
<td>2,107,265</td>
</tr>
<tr>
<td>Examinations</td>
<td>2,730,596</td>
<td>2,730,596</td>
</tr>
<tr>
<td>Corporate finance fees</td>
<td>2,139,080</td>
<td>2,139,080</td>
</tr>
<tr>
<td>Fines</td>
<td>453,755</td>
<td>453,755</td>
</tr>
<tr>
<td>Interest and other</td>
<td>1,645,337</td>
<td>1,422,646</td>
</tr>
<tr>
<td>NASDAQ issuers fees</td>
<td>4,133,481</td>
<td>4,133,481</td>
</tr>
<tr>
<td>Regulatory service NSCC (Note 3)</td>
<td>1,094,833</td>
<td>1,094,833</td>
</tr>
<tr>
<td><strong>Total Incomes</strong></td>
<td>$23,507,286</td>
<td>$13,517,536</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and employee benefits</td>
<td>14,746,524</td>
<td>2,483,829</td>
</tr>
<tr>
<td>System operator's fees</td>
<td>3,611,872</td>
<td>3,611,872</td>
</tr>
<tr>
<td>Travel, meeting and investigation</td>
<td>1,746,606</td>
<td>449,719</td>
</tr>
<tr>
<td>Publication, supplies and postage (net of publication sales of $91,745 in 1980 and $88,000 in 1979)</td>
<td>1,230,512</td>
<td>254,852</td>
</tr>
<tr>
<td>Professional and other services</td>
<td>1,441,365</td>
<td>494,230</td>
</tr>
<tr>
<td>Occupancy (net of rent received of $279,290 in 1980 and $255,000 in 1979)</td>
<td>974,566</td>
<td>485,846</td>
</tr>
<tr>
<td>Telephone and office</td>
<td>756,883</td>
<td>187,939</td>
</tr>
<tr>
<td>Interest</td>
<td>42,373</td>
<td>280,000</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>108,656</td>
<td>608,328</td>
</tr>
<tr>
<td>Data processing and transmission (net of computer time sales of $151,070 in 1980 and $104,000 in 1979)</td>
<td>416,924</td>
<td>1,757,925</td>
</tr>
<tr>
<td>Other</td>
<td>56,384</td>
<td>843,132</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$21,528,793</td>
<td>$11,473,072</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NASD</td>
<td>1,979,193</td>
<td>262,851</td>
</tr>
<tr>
<td>NASDAQ, Inc</td>
<td>2,044,464</td>
<td>2,044,464</td>
</tr>
<tr>
<td>Consolidated</td>
<td>4,023,657</td>
<td>4,023,657</td>
</tr>
<tr>
<td>Association equity, beginning of year</td>
<td>24,374,317</td>
<td>10,943,705</td>
</tr>
<tr>
<td>Association equity, end of year</td>
<td>$26,397,974</td>
<td>$12,991,168</td>
</tr>
</tbody>
</table>
# National Association of Securities Dealers, Inc. and NASDAQ, Inc.

## Statements of Changes in Financial Position

<table>
<thead>
<tr>
<th>Year Ended September 30</th>
<th>1980</th>
<th>1979</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial resources were provided by:</strong></td>
<td>NASD</td>
<td>NASDAQ</td>
</tr>
<tr>
<td>Net income</td>
<td>$1,979,193</td>
<td>$2,044,464</td>
</tr>
<tr>
<td>Net income of NASDAQ, Inc.</td>
<td>2,044,464</td>
<td>6,031,332</td>
</tr>
<tr>
<td><strong>Items not affecting working capital in the period</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income of NASDAQ, Inc.</td>
<td>(2,044,464)</td>
<td>(6,031,332)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>108,656</td>
<td>608,326</td>
</tr>
<tr>
<td>Loss on disposition of furniture, equipment and leasehold improvements</td>
<td>2,578</td>
<td>2,979</td>
</tr>
<tr>
<td>Loss on disposition of data processing, subscriber equipment and software</td>
<td>6,500</td>
<td>6,500</td>
</tr>
<tr>
<td><strong>Decrease in investment in Depository Trust Company</strong></td>
<td>8,323</td>
<td>8,323</td>
</tr>
<tr>
<td><strong>Decrease in non-current investment securities</strong></td>
<td>4,494,987</td>
<td>4,494,987</td>
</tr>
<tr>
<td><strong>Proceeds from disposition of data processing, subscriber equipment and software</strong></td>
<td>3,500</td>
<td>3,200</td>
</tr>
<tr>
<td><strong>Financial resources were used for:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of data processing, subscriber equipment and software</td>
<td>455,556</td>
<td>1,212,472</td>
</tr>
<tr>
<td>Purchase of land, building and improvements, furniture, equipment and leasehold improvements</td>
<td>506,233</td>
<td>1,278,679</td>
</tr>
<tr>
<td>Increase (decrease) in other assets</td>
<td>43,579</td>
<td>12,620</td>
</tr>
<tr>
<td>Decrease in long-term note payable</td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Decrease in long-term mortgage payable</td>
<td>1,129,931</td>
<td>4,478,931</td>
</tr>
<tr>
<td><strong>Increase (decrease) in working capital</strong></td>
<td>$969,519</td>
<td>$(1,315,739)</td>
</tr>
</tbody>
</table>

## Analysis of Changes in Working Capital

<table>
<thead>
<tr>
<th>Increase (decrease) in current assets</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ (28,795)</td>
<td>$35,286</td>
<td>$6,491</td>
</tr>
<tr>
<td>Marketable debt securities</td>
<td>865,077</td>
<td>(1,019,957)</td>
<td>154,880</td>
</tr>
<tr>
<td>Interest and other current assets</td>
<td>450,356</td>
<td>(181,989)</td>
<td>325,348</td>
</tr>
<tr>
<td><strong>Increase (decrease) in current liabilities</strong></td>
<td>1,296,638</td>
<td>(1,166,660)</td>
<td>180,099</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Decrease (increase) in current liabilities</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>35,045</td>
<td>(649,079)</td>
<td>(664,155)</td>
</tr>
<tr>
<td>Prepaid NASDAQ issuers fees</td>
<td>355,334</td>
<td>(355,334)</td>
<td>(101,939)</td>
</tr>
<tr>
<td>Loans payable</td>
<td>6,630</td>
<td>(6,630)</td>
<td>(6,276)</td>
</tr>
<tr>
<td>Current portion of mortgage payable</td>
<td>(327,119)</td>
<td>(649,079)</td>
<td>(1,326,319)</td>
</tr>
<tr>
<td><strong>Increase (decrease) in working capital</strong></td>
<td>$969,519</td>
<td>$(1,815,739)</td>
<td>$346,210</td>
</tr>
</tbody>
</table>
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1980 AND 1979

Note 1 - Organization
The National Association of Securities Dealers, Inc. (NASD) is a not-for-profit membership association established to regulate the over-thecounter securities market. NASD, Inc., which operates the Numbered Cents (NASDAQ) and NASD Market Services Inc. (MSI) is a wholly owned subsidiary of NASD.

Note 2 - Summary of Significant Accounting Policies

Basic Principles of Financial Statement Presentation
The consolidated financial statements include the accounts of Nasdaq, NASD Inc., MSI and NASDAQ-AMEX, which are engaged in the securities business. The consolidated financial statements reflect the results of operations and financial condition of these entities as a single economic entity.

In November 1979, the NASD acquired the authorized capital stock of a newly formed NASD Market Services Inc. The new corporation was formed primarily for the purpose of expanding the NASD's activities into the securities industry. The amount paid for the stock was $10,000,000.

Nasdaq maintains a liquidating plan and a defined benefit pension plan for the benefit of all eligible employees. The plan is a defined benefit plan for employees of all companies. The plan is designed to provide retirement benefits to eligible employees.

Nasdaq Inc. and its subsidiaries, including Nasdaq Market Services Inc. and NASDAQ-AMEX, are members of the National Association of Securities Dealers, Inc. (NASD). NASD is a not-for-profit membership association established to regulate the over-thecounter securities market.

Note 4 - Investment in Equities Trust Company
Equities Trust Company, a wholly owned subsidiary of the NASD, is engaged in the securities business.

Note 5 - Net Income (Loss) Per Share

Note 6 - Earnings per Share

Note 7 - Cash Flows

Report of Independent Accountants

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

We have audited the accompanying consolidated statements of operations and retained earnings and the related financial statements of the National Association of Securities Dealers, Inc. (NASD) and its subsidiary NASDAQ, Inc. for the years ended September 30, 1980 and 1979.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of the National Association of Securities Dealers, Inc. and NASDAQ, Inc. at September 30, 1980 and 1979, 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.

Washington, D.C.
December 20, 1980

Price Waterhouse & Co.
Purposes Of The NASD

- To promote the investment banking and securities business;

- To standardize its principles and practices;

- To promote high standards of commercial honor and to promote among members observance of federal and state securities laws;

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

- To cooperate with governmental and other agencies in the solution of problems affecting the securities business and investors;

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

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

- To promote self-discipline among members; and,

- To investigate and adjust grievances between the public and members.