Building Markets for a New Era

National Association of Securities Dealers, Inc.
NASD STATEMENT OF PURPOSE

Founded in 1939 on the principles of self-regulation, the National Association of Securities Dealers, Inc. is a membership corporation that serves three constituencies—investors, public companies, and broker-dealer members. Its mission is to help the public and private sectors raise capital by developing, operating, and regulating securities markets that are fair, efficient, and liquid.

Through effective self-regulation, technological innovation, and a commitment to excellence, the NASD helps foster economic growth and development domestically and internationally.
**FACTS AND FIGURES**

- Trading volume in The Nasdaq Stock Market™ reaches 33.4 billion shares, the third highest year in Nasdaq history, while dollar volume climbs to $452 billion, the second highest ever.

- Nasdaq-listed American Depositary Receipts reach new share and dollar volume highs as over 2 billion shares, having a dollar value of more than $22 billion, are traded.

- The Nasdaq Stock Market introduces a feature to the Small Order Execution System that benefits investors by automatically matching and executing customers' limit orders.

- A same-day comparison service (ACT) and a screen-based negotiation feature (SelectNet) further automate the order entry, execution, clearance, and settlement process. This means better and faster service for members and their customers.

- Responding to fundamental changes in the securities industry, the NASD Board adopts recommendations of the Special Committee on NASD Structure and Governance in five broad areas: Board composition, district structure and representation on the Board, Board committees, the National Business Conduct Committee, and The Nasdaq Stock Market.

- The NASD purchases the 56-facility PLATO Test Center Network for testing personnel in the securities industry and complementary fields. The network will also be made available to other industries that require the certification of individuals.

- The NASD hosts a meeting of the International Councils of Securities Dealers and Self-Regulatory Associations, an organization that the NASD co-founded in 1988 to aid and encourage the growth of international securities markets.
CHAIRMAN'S AND PRESIDENT’S LETTER

For the benefit of investors, public companies, and members, the NASD in 1990 launched two markets and set the cornerstone for overseas expansion of The Nasdaq Stock Market. Quite literally, we “made” three markets:

- The PORTAL™ Market, which began operating in June 1990, is a real-time electronic market that brings together qualified buyers and sellers of securities trading in the vast private-placement market.

- The OTC Bulletin Board, also launched in June 1990, was developed to meet the needs of public companies that are not eligible to list on Nasdaq. This electronic market provides on-line pricing information on non-Nasdaq over-the-counter securities — securities that previously had only day-old quotation information, if available at all. This market’s instantaneous success demonstrates the industry’s demand for real-time pricing information delivered through screen-based systems.

- Nasdaq continues to be a market in the making. In 1990, we installed facilities in the United Kingdom to support an extension of Nasdaq to Europe in 1991. Through these facilities, NASD members, wherever they are located, will be able to make markets in world-class Nasdaq and U.S. exchange-listed securities during European trading hours.

The future clearly belongs to securities markets that offer investors immediacy, competitive pricing, and liquidity, and issuers access to capital at favorable rates. Nasdaq is that kind of market. Its pioneering influence in the world’s financial community is distinctly visible as markets from London to Singapore to Japan have adopted Nasdaq’s electronic, screen-based system.

The NASD has devoted, and will continue to devote, considerable resources to further elevating Nasdaq’s status as a world-class market. Technology upgrades and higher listing and maintenance standards will enhance even further Nasdaq’s reputation among public companies and investors as an efficient market that fosters growth. Two decades old, The Nasdaq Stock Market truly is “The Stock Market for the Next 100 Years.”
To remain in the forefront of securities markets technology, we have undertaken a comprehensive assessment of our systems capabilities for meeting our regulatory and market-operations responsibilities. Our goal: To create a technological platform from which we will design systems that are custom-made to meet the present and future needs of our organization, our markets, and our members.

The state of the NASD in 1990 is one in which our enforcement programs have never been more aggressive, our markets never more innovative, and our commitment to market quality and investor protection never more resolute. By working together with our members, our issuers, and the investing public, we will achieve our corporate mission of helping business and government raise capital to create jobs and promote economic growth.

KENNETH J. WESSELS
1990 Chairman

J. OSEPH R. HARDIMAN
President and Chief
Executive Officer
BUILDING MARKETS FOR A NEW ERA

The NASD operates and regulates three distinct securities markets: The Nasdaq Stock Market, The PORTAL Market, and the OTC Bulletin Board. Each uses electronic, screen-based systems that collect and disseminate on-line, real-time information to facilitate the trading process and to make the markets more visible and accessible.

THE NASDAQ STOCK MARKET

Despite the dual threat of war and recession, The Nasdaq Stock Market closed out 1990 with a strong performance. By year’s end, most Nasdaq indexes had rebounded sharply from losses earlier in the year with gains in the fourth quarter ranging from 2.3 to 13.3 percent. Nasdaq trading volume reached 33.4 billion, the third highest year in Nasdaq history, and Nasdaq’s dollar volume climbed to $452 billion, the second highest ever.

During Nasdaq’s 20 years of existence, the NASD has constantly evaluated the market’s listing criteria, periodically adjusting both quantitative and qualitative standards on which investor confidence is built. Last year, the NASD took steps to raise standards for those companies that seek to list on regular Nasdaq. Nasdaq National Market System listing criteria, which exceed those of regular Nasdaq, remain unchanged.

If approved by the SEC, applicant companies for regular Nasdaq will be required to have total assets of $4 million and a public float of $2 million (double the present level), while companies already listed must maintain at least $2 million in equity and a public float of no less than $1 million. For public companies that cannot meet these standards, the NASD’s new OTC Bulletin Board will serve as a seasoning ground, preparing them until they qualify for listing on regular Nasdaq.

Nasdaq’s Small Order Execution System, which guarantees automatic execution of customer agency orders of up to 1,000 shares — at the best available price — was also improved in 1990 with the addition of a limit-order match feature. The new feature enables public
The Nasdaq Stock Market is home to many world-class companies whose products, including Apple computers, Oshkosh B'Gosh clothing for children, and Ben and Jerry's ice cream, are household names. The Nasdaq Stock Market is also home to the most actively traded stock in the nation for the third successive year—MCI Communications Corporation.
customers to receive automatic execution of matching limit orders priced within the best bid and ask. In addition to its benefit as a portfolio management tool, the order-match feature provides investors with a valuable means of lowering their transaction costs.

New rules adopted in 1990 now require Nasdaq market makers to display substantially more information on their workstations about the depth and liquidity of markets they make. This is the result of an NASD rule that requires market makers to display the number of shares they will buy and sell at their quoted prices in amounts no less than their trading obligations in the Small Order Execution System. The newly displayed information provides greater insight into the quality, liquidity, and depth of markets on Nasdaq.

By looking ahead to the future of worldwide clearance and settlement standards, Nasdaq became the first domestic stock market to feature a same-day comparison capability. Called the Automated Confirmation Transaction (ACT) service, it reduces the risk of clearance and settlement and prepares the industry for the eventuality of a shorter settlement cycle.

SelectNet is another market service introduced in 1990. This screen-based trade negotiation service gives the trading community a means for obtaining fast, low-cost, and efficient execution of orders. In periods of active markets, it enables market makers to better service their customers.

Following a U.S. Court of Appeals decision to vacate SEC Rule 19c4, the "shareholder voting rights rule," the NASD swiftly adopted a mirror-like rule of its own for Nasdaq National Market companies. The NASD rule gives companies maximum flexibility in deciding their capital structure while it protects the rights of existing shareholders. The NASD's rule also preserves hard-earned blue-sky exemptions for Nasdaq National Market companies, which many states granted in response to the NASD's corporate governance standards.

As a result of continuous work with state legislatures and securities administrators, Nasdaq National Market companies now enjoy exemptions from registration or parity with the exchanges in 42 jurisdictions. In addition, there is some form of exemption in most of the remaining
Nasdaq is moving beyond linkages with other automated systems to the establishment of full operations in the United Kingdom. This extension of the electronic, interdealer Nasdaq network will give NASD members the opportunity to make markets in Nasdaq securities, as well as U.S. exchange-listed securities, during European trading hours.
jurisdictions, and parity with the exchanges in all states should be achieved by the end of 1991.

To increase awareness and understanding, The Nasdaq Stock Market launched a national advertising program in 1990. The program, which includes print and broadcast advertising, conveys the message that Nasdaq is a different stock market — efficient and technologically sophisticated — with much to offer public companies and investors. This program continues in 1991.

THE PORTAL MARKET

PORTAL, a real-time electronic market that brings together qualified buyers and sellers of securities in the private placement market, was launched by the NASD in June 1990. PORTAL is the first market to take advantage of the expanded opportunities for trading private placements under SEC Rule 144a, which provides a legal framework that liberalizes the rules governing the trading of these securities.

PORTAL is not a market for individual investors. Rather, participation is limited to brokers, dealers, and large institutional investors. Although the market for private placement financings slowed considerably last year, PORTAL was able to achieve a modest degree of success. By the end of the year, 39 market makers had joined PORTAL and 27 issues were quoted in the system — 13 of them issues of the recently privatized British electric utility companies, 6 from France, 2 each from Japan and the U.S., and 1 each from Bermuda, Finland, Korea, and Sweden.

In early 1991, the NASD announced that it would modify PORTAL in response to investor preferences for an open information and trading system, one that would be free of many of the regulatory requirements in the original design. The new refinements will enable PORTAL to achieve the basic goal for which it was designed — overcoming the historic fragmentation and obscurity of the restricted securities market.
Liberalization of SEC rules governing resales of restricted securities makes it easier for overseas issuers, such as the British Electric Companies, to access the U.S. private-placement market. The PORTAL Market is a screen-based system developed by the NASD to ensure compliance with SEC requirements while facilitating secondary market trading.
NASDAQ INTERNATIONAL™

Facilitated by advances in telecommunications technology, cross-border equity trading has almost doubled in the last three years and increased 16-fold since 1979. By the year 2000, it is expected to reach nearly $5 trillion. As investors, issuers, and securities firms each expand their horizons in search of the best return, low-cost capital, and international business opportunities, the globalization of world capital markets will accelerate.

Developed in response to these demands, Nasdaq International, a United Kingdom-based version of The Nasdaq Stock Market, will be unveiled in 1991. Designed to provide securities firms, investors, and world-class companies with the opportunity to participate in a new transatlantic securities market for U.S. equities, the Nasdaq International market will feature an international quotation network; efficient, computerized trade reporting; and U.S. clearance and settlement.

OTC BULLETIN BOARD

The NASD introduced the OTC Bulletin Board in June 1990 to provide issuers of securities not eligible for listing on Nasdaq with a more visible, more liquid, and more easily regulated market. The success of the OTC Bulletin Board exceeded all expectations. By year's end:

- Market-maker participation in this nationwide, screen-based system for the display of quote information on over-the-counter stocks tripled to 234.
- The number of market making positions tripled to above 10,000 in more than 4,200 securities.
- More than 70 percent of the prices being quoted were firm on one or both sides of the market.

Prior to the launch of this market, real-time quotation information for these securities was simply unavailable except on a stock-by-stock basis through individual calls to market makers. In one sweeping move, the OTC Bulletin Board brought an obscure market into the electronic age.
No longer do investors in over-the-counter securities—those not traded on Nasdaq or a stock exchange—have to settle for pricing information from day-old quotations published in daily listings. The NASD’s OTC Bulletin Board now provides investors, issuers, members, and regulators with automated, on-line access to real-time OTC securities prices.
INVESTOR PROTECTION HIGHLIGHTS

- The NASD conducts 3,856 examinations of members' main and branch offices and resolves 4,408 customer complaints.

- District committees and the Market Surveillance Committee file 1,080 formal disciplinary actions, render 525 disciplinary decisions, and accept 231 settlement offers. These actions lead to the expulsion of 92 firms, the barring of 344 individuals, the suspension of 17 firms, and the revocation of the licenses of 329 individuals. In addition, the NASD levies penalties on individuals and member firms totaling more than $30 million.

- In cooperation with federal and state officials, the NASD continues its crackdown on market abusers, particularly in "penny stocks."

- The NASD fills 4,859 investor requests for information on members and associated persons.

- The NASD supervises the self-liquidations of five firms, returning to customers and broker-dealers funds and securities totaling $288 million without needing to appoint a SIPC trustee.

- Automated market surveillance triggers 14,259 on-line price and volume alerts, which lead to 114 formal investigations and the referral of 51 cases to the SEC.

- The Qualifications Department administers 160,451 tests to persons seeking to become registered representatives or principals of members.

- The Advertising Department reviews 29,786 pieces of advertising and sales literature for conformity with applicable requirements.

- The Corporate Financing Department reviews the underwriting arrangements of 1,393 public offerings having an aggregate volume of $78.88 billion.
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The National Committees make recommendations to the Board of Governors on their areas of expertise. Members are appointed by the Board. The Executive, Audit, Finance, and National Business Conduct Committees meet before each Board meeting; other committees meet as needed. Special ad hoc committees and task forces are created throughout the year when important issues are to be considered.

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* Member, NASD Board of Governors
1990 District Committees

The NASD Board in 1990 approved a recommendation by the Special Committee on NASD Structure and Governance to modify the size and number of NASD Districts. This restructing, which took effect January 1, 1991, reduced the number of districts from 13 to 11. The NASD continues to operate 14 district offices.

The restructuring does not change the role of NASD District Committees. Members of the District Committees continue to serve on Business Conduct Committees to review reports of NASD examiners, investigate complaints against members, conduct disciplinary proceedings, and impose penalties for violations of federal and state laws, Municipal Securities Rulemaking Board rules, and the NASD's Rules of Fair Practice. The chairmen of the committees comprise the Advisory Council of the Board of Governors.

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Alaska, Idaho, Montana, Oregon, and Washington, 157 members, 1,211 branches

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Seattle, Washington

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D. A. Davidson & Co., Inc.
Great Falls, Montana

Charles H. Putney
PaineWebber, Inc.
Portland, Oregon

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600 University, Suite 1911
Seattle, Washington 98101-3132
(206) 781-3434

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Phelps & Woodhead, Inc.
Spokane, Washington

L. Hoyt Demers
Vice Chairman
KMS Financial Services, Inc.
Seattle, Washington

Peter H. Baker
Foster, Paulsen & Baker
Seattle, Washington

Burton L. Beahm
A. G. Edwards & Sons, Inc.
Portland, Oregon

James W. Kays
Adams, Hess, Moore & Co.
Eugene, Oregon

Steven R. Larson
Richards, Merrill & Peterson
Spokane, Washington

District 2

California, Nevada, and Hawaii, 812 members, 3,741 branches

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Lord, Abbott & Co.
San Francisco, California

Trevor M. Morris
Co-Chairman
Seidler Amadeus, Inc.
Los Angeles, California

Samuel M. Yates
Vice Co-Chairman
Sutro & Co., Inc.
San Francisco, California

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Vice Co-Chairman
Shears Lehman, Brothers, Inc.
Los Angeles, California

Stephen R. Adams
Van Kasper & Company
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Jeffries & Company, Inc.
Los Angeles, California

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Cantor, Fitzgerald & Co., Inc.
Los Angeles, California

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Herrmann Securities, Inc.
Danville, California

Frank L. King
Titan Value Equities Group, Inc.
Tustin, California

James D. Klein
PaineWebber, Inc.
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Equities Securities
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McGilvray & Associates, Inc.
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Santa Monica, California

Leonard H. Rossen
The Equitable Life Assurance Society of the United States
Fresno, California
District 3

Arizona, Colorado, New Mexico, Utah, and Wyoming, 257 members, 1,240 branches.

Anthony B. Petreli
Chairman
Weidinger, Tucker, Bruner, Inc.
Denver, Colorado

Thomas Delloe
Vice Chairman
Westamerica Investment Group, Inc.
Scottsdale, Arizona

J. Dennis Catten
Olson Payne & Co.
Salt Lake City, Utah

Edward A. Digiacomo
Schneider Securities, Inc.
Denver, Colorado

David R. Dove
Smith Barney, Harris
Upham & Co., Inc.
Scottsdale, Arizona

Dennis C. Dowd
John G. Kinnard and Company
Englewood, Colorado

Donald L. Eder
Duran, Bosworth, Inc.
Denver, Colorado

Marc N. Geman
Portfolio Management Consultants, Inc.
Denver, Colorado

Dan L. Mauss
Warshsch Stock Trading, Inc.
Salt Lake City, Utah

Todd M. Milliken
Shearson Lehman Brothers, Inc.
Casper, Wyoming

Frank J. Birgfeld
Director
1401 15th Street, Suite 700
Denver, Colorado 80202
(303) 298-7234

District 4

Kansas, Missouri, Nebraska, and Oklahoma, 387 members, 1,388 branches.

Norman E. Heitner, Jr.
Chairman
The Heitner Corporation
St. Louis, Missouri

John S. Ellspermann
Vice Chairman
Kidder, Peabody & Co., Incorporated
Kansas City, Missouri

Larry D. Armac
Jones & Babson, Inc.
Kansas City, Missouri

Kenneth A. Brethorst
First St. Louis Securities, Inc.
St. Louis, Missouri

William H. Coughlin
George K. Baum & Co.
Kansas City, Missouri

Neil T. Douhat
Piper, Jaffray & Hopwood
Incorporated
Kansas City, Missouri

Quinton H. Ellis, Jr.
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Oklahoma City, Oklahoma

Leonard L. Noah
Summit Brothers & Co.
Kansas City, Missouri

Jimmie L. Rice
Shearson Lehman Brothers, Inc.
Wichita, Kansas

Thomas C. Sanders, Sr.
Siebel, Nicholas & Company
Incorporated
St. Louis, Missouri

Robert T. Sleczak
Amzenrade, Inc.
Omaha, Nebraska

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

District 5

Alabama, Arkansas, Louisiana, Mississippi, and western Tennessee, 163 members, 861 branches.

Thomas V. Harkins
Chairman
Morgan Keegan & Company
Little Rock, Arkansas

Henry M. Fyfe
Vice Chairman
PaineWebber, Inc.
Jackson, Mississippi

Colin A. P. McNeese
Vice Chairman
Morgan Keegan & Company
Memphis, Tennessee

Donal D. Clanton
Commerce Investment Corporation
Memphis, Tennessee

Philip Gensler, Jr.
Walter, Patterson & Co., Inc.
New Orleans, Louisiana

E. Douglas Johnson
Johnson Rice & Company
New Orleans, Louisiana

George W. Porter, Jr.
Piper, White & Yardley, Inc.
Birmingham, Alabama

Warren A. Stephens
Stephens, Inc.
Little Rock, Arkansas

Robert H. Young, Jr.
Frazer Lurie Company
Incorporated
Montgomery, Alabama

Warren A. Butler, Jr.
Director
Energy Centre, Suite 850
1100 Poydras Street
New Orleans, Louisiana
(504) 522-6527
1990 District Committees

District 6

Texas: 388 members, 1,229 branches

David J. Powell
Chairman
The Principal, Eppler, Goen & Turner, Inc.
Dallas, Texas

John W. Ferguson
Vice Chairman
May Financial Corporation
Dallas, Texas

George R. Dullig
George E. Dullig & Co.
San Antonio, Texas

David M. Glatstein
Baron & Company, Incorporated
Dallas, Texas

Robert G. Gunn, III
Gunn & Company, Incorporated
San Antonio, Texas

Edward J. Harrison
Southmark Financial Services, Inc.
Dallas, Texas

Gary Littlepage
M. G. S. I. Securities
Houston, Texas

Claude H. Montgomery
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Houston, Texas

Michael Wadsworth
Masterson & Company
Houston, Texas

Peter M. Walker
Director
1999 Bryan Street, Suite 1450
Dallas, Texas 75201
(214) 960-7050

District 7

Florida, Georgia, South Carolina, eastern Tennessee, Puerto Rico, Canal Zone, and the Virgin Islands: 469 members, 2,590 branches

Edward D. Hill
Chairman
J. C. Bradford & Co.
Nashville, Tennessee

Robert M. Balentine
Balentine & Company
Atlanta, Georgia

Benjamin E. Fisher
Smith Barney, Harris Uptarn & Co., Inc.
Tampa, Florida

S. Rawls Fortenberry
A. G. Edwards & Sons, Inc.
Winter Haven, Florida

Thomas A. James
Raymond James & Associates, Inc.
St. Petersburg, Florida

Hector M. Mayol, Jr.
Vice Chairman
Equiwest Capital Corporation
Hato Rey, Puerto Rico

John S. McNally
Dean Witter Reynolds, Inc.
Orlando, Florida

G. Bruce McPherson, Jr.
Edgar M. Norris & Co., Inc.
Greenville, South Carolina

Raymond H. Smith
Smith, Brown and Groover, Inc.
Macon, Georgia

S. Bennett Whipple
Vice President, Director
One Securities Centre, Suite 500
3890 Piedmont Road, NE
Atlanta, Georgia 30305
(404) 239-6100

District 8

Illinois, Indiana, Iowa, Michigan, Minnesota, North Dakota, South Dakota, and Wisconsin: 685 members, 4,732 branches

James E. Mooney
Chairman
Dean Witter Reynolds, Inc.
Detroit, Michigan

Henry I. Montgomery
Vice Chairman
Planners Financial Services, Inc.
Minneapolis, Minnesota

Steven J. Berghs
Piper, Jaffray & Hopwood, Incorporated
Minneapolis, Minnesota

F. Scott Brown
Raffensperger, Hughes, & Co., Inc.
Muncie, Indiana

James C. Hylenga
Centennial Securities Co. Incorporated
Grand Rapids, Michigan

Cynthia M. Carlson
IDS Financial Services, Inc.
Minneapolis, Minnesota

Mary Lee Corrigan
Griffin, Kuhn, Stephens & Thompson Inc.
Chicago, Illinois

Robert L. Cram
R. G. Dickinson & Co.
Des Moines, Iowa

George H. Headford
Headford & Company, Incorporated
Fort Wayne, Indiana

Larry J. Hoffman
Blunt Ellis & Loewi, Incorporated
Division of Kemper Securities Group, Inc.
Milwaukee, Wisconsin

Daniel C. Kriser
Cedar Hill Financial Services, Inc.
Chicago, Illinois

Million A. Newton
M. B. Vick & Company
Chicago, Illinois

Jonathan A. Raclin
The Chicago Corporation
Chicago, Illinois

G. Donald Steel
Planned Investment Co., Inc.
Indianapolis, Indiana

Rodney E. Trautvetter
Burke, Christensen & Lewis Securities Inc.
Chicago, Illinois

E. Craig Dearborn
Director
10 South LaSalle Street
20th Floor
Chicago, Illinois 60603-9002
(312) 899-4400
District 9
Kentucky and Ohio. 152 members, 1,196 branches

Darrell A. Patrick
Chairman
S. J. Wolfe & Co.
Dayton, Ohio

Bruce Avedon
Vice Chairman
Carlson Investments, Inc.
Cincinnati, Ohio

Eugene W. Barrett
Shearson Lehman Brothers, Inc.
Columbus, Ohio

John H. Finn, Ill
John Finn & Company, Inc.
Cincinnati, Ohio

Dewey Hall
J. C. Bradford & Co.
Columbus, Ohio

James C. Redinger
McDonough & Company
Securities, Inc.
Cleveland, Ohio

Norman L. Reiter
Dean Witter Reynolds, Inc.
Akron, Ohio

Kenneth L. Wagner
J. B. Hilliard, W. L. Lyons, Inc.
Louisville, Kentucky

Thomas H. Waterson
Cowen & Co.
Cleveland, Ohio

William H. Jackson, Jr.
Director
Renaissance on Playhouse Square
1150 Euclid Avenue, Suite 900
Cleveland, Ohio 44115
(216) 699-4545

District 10
District of Columbia, Maryland,
North Carolina, and Virginia.
243 members, 1,300 branches

William R. Roth
Chairman
Alex Brown & Sons, Incorporated
Baltimore, Maryland

Robert W. Corby
Vice Chairman
R. W. Corby & Co., Inc.
Washington, D.C.

James E. Brucki, Jr.
President
J. B. Hilliard, W. L. Lyons, Inc.
Charlottesville, Virginia

II. Keith Brunnemer, Jr.
First Charlotte Corporation
Charlotte, North Carolina

Carlton M. Collins
Wells, First Securities, Inc.
Washington, D.C.

Alexander I. Heckman
Prudential-Bache Securities Inc.
Washington, D.C.

William W. Knobloch
Kidder, Peabody & Co., Inc.
Baltimore, Maryland

Jonathan L. Peele
J. Lee Peele & Company, Inc.
Durham, North Carolina

J. Hamilton Scherer, Jr.
Senior Investment Corporation
Richmond, Virginia

David A. Smith
Jackson & Smith Investment
Securities
Custodia, North Carolina

District 11
Delaware, Pennsylvania, West
Virginia, New Jersey, except for
counties adjacent to New York
City. 360 members, 1,506 branches

Michael D. Kinsella
Chairman
Pennsylvania Merchant Group
Limited
Radnor, Pennsylvania

Thomas Lynch, IV
Vice Chairman
Janney Montgomery Scott Inc.
Pittsburgh, Pennsylvania

Charles P. Collings
Legg Mason Wood Walker
Incorporated
Philadelphia, Pennsylvania

John N. Dipucci
Arthurs, Lestrange &
Company, Incorporated
Pittsburgh, Pennsylvania

K. Philip Dresdner
KPD Securities Corp.
Princeton, New Jersey

District 12
New York City, with the adjacent
New York and New Jersey
counties. 1,274 members, 1,430 branches

Peter B. Madoff
Chairman
Bernard L. Madoff Investment
Securities
New York, New York

Marjorie E. Gross
Vice Chairman
Chemical Bank
New York, New York
1990 District Committees

Dominick F. Antonelli  
Roosevelt & Cross Inc.  
New York, New York  

Erik D. Aschenbrenner  
The Equitable Life Assurance Society of the United States  
New York, New York  

Jonathan Auerbach  
Cresvale International Inc.  
New York, New York  

Lionel C. Bandler  
Ernst & Company  
New York, New York  

Richard L. Bove  
American Securities Corp.  
New York, New York  

Anthony T. Geraci  
Hersch, Heine, Geduld, Inc.  
New York, New York  

Richard Harriton  
Bear, Stearns & Co. Inc.  
New York, New York  

Robert I. Kleinberg  
Oppenheimer & Co. Inc.  
New York, New York  

Hugh P. Lowenstein  
Donaldson, Lufkin & Jenrette Inc.  
New York, New York  

Alan Maxwell  
Cantor Fitzgerald Securities Corp.  
New York, New York  

Richard G. McDermott, Jr.  
Chapdelaine & Co.  
New York, New York  

Edward Necarsulmer  
C. J. Lawrence, Morgan Grenfell Inc.  
New York, New York  

Leslie C. Quick, III  
Quick & Reilly Inc.  
New York, New York  

Howard Silverman  
Gruntal & Co., Inc.  
New York, New York  

Philip Skidmore  
Advest, Inc.  
New York, New York  

O. Ray Vass  
Merrill Lynch, Pierce, Fenner & Smith, Inc.  
New York, New York  

William S. Clendenin  
Senior Vice President, Director  
NASD Financial Center  
33 Whitehall Street  
New York, New York 10004  
(212) 858-6000  

District 13

Connecticut, Maine,  
Massachusetts, New Hampshire,  
Rhode Island, Vermont, and New  
York, except for New York City  
and the adjacent counties; 491  
members, 2,024 branches  

Gary D. Walters  
Chairman  
Kadler, Peabody & Co.  
Boston, Massachusetts  

Richard F. Carolan  
Vice Chairman  
Cresvale, Providence, Rhode Island  

Brenda P. Angeline  
Cheevers, Hand & Angeline, Inc.  
Endecott, New York  

Gerald J. D’Ambrosio  
Burlington, Massachusetts  

Harold J. Dixon  
H. M. Parson & Co.  
Portland, Maine  

Richard F. Greene  
Merrill Lynch, Pierce, Fenner & Smith, Inc.  
Boston, Massachusetts  

Robert M. Porter  
Aetna Life Insurance &  
Annuity Co.  
Hartford, Connecticut  

Henry L. Schmetzer  
New England Securities Corp.  
Boston, Massachusetts  

Gary H. Sherr  
Carl P. Sherr & Co.  
Worcester, Massachusetts  

Richard J. Sillicott  
S. C. Parker & Co., Inc.  
Rochester, New York  

Robert L. Thomas  
Advest, Inc.  
Hartford, Connecticut  

Charity A. Trembley  
Boston Capital Services, Inc.  
Boston, Massachusetts  

Duane E. Waldenburg  
Eaton Vance Distributors, Inc.  
Boston, Massachusetts  

Willis H. Riccio  
Vice President, Director  
260 Franklin Street, 16th Floor  
Boston, Massachusetts 02110  
(617) 439-4404
CONSOLIDATED FINANCIAL STATEMENTS

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

CONSOLIDATED BALANCE SHEETS

<table>
<thead>
<tr>
<th></th>
<th>Dec. 31 1990</th>
<th>Sept. 30 1989</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$16,498</td>
<td>$5,768</td>
</tr>
<tr>
<td>Investments, principally U.S. government securities, at cost (approximate market value $111,019 at December 31, 1990 and $86,253 at September 30, 1989)</td>
<td>109,245</td>
<td>86,386</td>
</tr>
<tr>
<td>Receivables and other current assets</td>
<td>13,568</td>
<td>9,639</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>139,311</strong></td>
<td><strong>101,793</strong></td>
</tr>
<tr>
<td><strong>PROPERTY AND EQUIPMENT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land, buildings and improvements</td>
<td>32,369</td>
<td>31,499</td>
</tr>
<tr>
<td>Data processing, subscriber equipment and software</td>
<td>77,626</td>
<td>75,489</td>
</tr>
<tr>
<td>Furniture, equipment and household improvements</td>
<td>28,123</td>
<td>25,470</td>
</tr>
<tr>
<td><strong>Less accumulated depreciation and amortization</strong></td>
<td><strong>138,118</strong></td>
<td><strong>132,458</strong></td>
</tr>
<tr>
<td><strong>OTHER ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,653</td>
<td>2,725</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>$216,322</strong></td>
<td><strong>$182,083</strong></td>
</tr>
</tbody>
</table>

LIABILITIES AND MEMBERS’ EQUITY

| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued expenses | $26,629 | $12,948 |
| Deposits and deferred revenue | 14,834 | 7,541 |
| Current portion of obligations under capital leases | 1,704 | 1,882 |
| **Total Current Liabilities** | **43,617** | **22,371** |

| **OBLIGATIONS UNDER CAPITAL LEASES** | 1,005 | 3,145 |
| **ACCRUED PENSION COSTS** | 5,040 | 3,123 |
| **OTHER LIABILITIES** | 8,616 | 7,513 |
| **Total Liabilities** | **57,828** | **36,152** |

| **MEMBERS’ EQUITY** | 158,494 | 145,931 |
| **TOTAL LIABILITIES AND MEMBERS’ EQUITY** | **$216,322** | **$182,083** |

See notes to consolidated financial statements.

Note: The document contains financial information for the National Association of Securities Dealers, Inc., including consolidated balance sheets for the years ending December 31, 1990, and September 30, 1989. The financial statements detail assets, liabilities, and members' equity, with their respective amounts listed in thousands of dollars.
# Consolidated Financial Statements

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

**Consolidated Statements of Income and Members' Equity**

**Year Ended**

<table>
<thead>
<tr>
<th></th>
<th>Dec. 31</th>
<th>Sept. 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>1989</td>
<td></td>
</tr>
<tr>
<td><strong>(in thousands)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market information service fees</td>
<td>$66,526</td>
<td>$59,321</td>
</tr>
<tr>
<td>Member assessments</td>
<td>36,923</td>
<td>34,643</td>
</tr>
<tr>
<td>Registration and examination fees</td>
<td>26,766</td>
<td>28,650</td>
</tr>
<tr>
<td>Interest and other</td>
<td>26,309</td>
<td>19,681</td>
</tr>
<tr>
<td>Nasdaq issuer fees</td>
<td>19,597</td>
<td>12,703</td>
</tr>
<tr>
<td>Corporate finance fees</td>
<td>6,498</td>
<td>7,776</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>182,619</strong></td>
<td><strong>162,774</strong></td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and employee benefits</td>
<td>88,887</td>
<td>79,404</td>
</tr>
<tr>
<td>Professional and other services</td>
<td>21,454</td>
<td>17,242</td>
</tr>
<tr>
<td>Equipment maintenance and data communications</td>
<td>15,591</td>
<td>15,367</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>17,137</td>
<td>14,492</td>
</tr>
<tr>
<td>Office expense</td>
<td>14,968</td>
<td>14,107</td>
</tr>
<tr>
<td>Travel and meetings</td>
<td>7,283</td>
<td>6,440</td>
</tr>
<tr>
<td>Publications, supplies and postage</td>
<td>5,310</td>
<td>5,170</td>
</tr>
<tr>
<td>Other</td>
<td>4,156</td>
<td>2,580</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>174,786</strong></td>
<td><strong>154,802</strong></td>
</tr>
<tr>
<td>Income before provision for income taxes</td>
<td>7,833</td>
<td>7,972</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>712</td>
<td>233</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td><strong>7,121</strong></td>
<td><strong>7,739</strong></td>
</tr>
<tr>
<td>Members' equity at beginning of year</td>
<td>151,373</td>
<td>138,192</td>
</tr>
<tr>
<td><strong>Members' Equity at End of Year</strong></td>
<td><strong>$158,494</strong></td>
<td><strong>$145,931</strong></td>
</tr>
</tbody>
</table>

*See notes to consolidated financial statements.*
### Consolidated Statements of Cash Flows

**Year Ended**
- **Dec. 31**
- **Sept. 30**
- **1990**
- **1989**

**Operating Activities**

<table>
<thead>
<tr>
<th>Description</th>
<th>1990</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash received from fees and assessments</td>
<td>$162,515</td>
<td>$149,624</td>
</tr>
<tr>
<td>Interest received from investments</td>
<td>9,797</td>
<td>7,644</td>
</tr>
<tr>
<td>Cash paid for operating expenses</td>
<td>(146,483)</td>
<td>(135,221)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>25,909</td>
<td>22,047</td>
</tr>
</tbody>
</table>

**Investing Activities**

<table>
<thead>
<tr>
<th>Description</th>
<th>1990</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from redemptions of investments</td>
<td>58,115</td>
<td>55,960</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(64,456)</td>
<td>(57,083)</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(14,009)</td>
<td>(19,740)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(20,330)</td>
<td>(20,863)</td>
</tr>
</tbody>
</table>

**Financing Activities**

<table>
<thead>
<tr>
<th>Description</th>
<th>1990</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal payments on obligations under capital leases</td>
<td>(1,781)</td>
<td>(1,956)</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(1,781)</td>
<td>(1,956)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>1990</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase (decrease) in cash and cash equivalents</td>
<td>3,798</td>
<td>(772)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>12,700</td>
<td>6,540</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>$16,498</td>
<td>$5,768</td>
</tr>
</tbody>
</table>

### Reconciliation of Net Income to Net Cash Provided by Operating Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>1990</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$7,121</td>
<td>$7,739</td>
</tr>
</tbody>
</table>

**Adjustments to reconcile net income to net cash provided by operating activities:**

<table>
<thead>
<tr>
<th>Description</th>
<th>1990</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortization</td>
<td>17,137</td>
<td>14,492</td>
</tr>
<tr>
<td>Loss on sale of property and equipment</td>
<td>440</td>
<td>1,039</td>
</tr>
<tr>
<td>Amortization of premiums/discounts on investments</td>
<td>(1,150)</td>
<td>(237)</td>
</tr>
<tr>
<td>Provision for losses on accounts receivable</td>
<td>1,280</td>
<td>412</td>
</tr>
<tr>
<td>Decrease in deposits and deferred revenue</td>
<td>(19,995)</td>
<td>(3,694)</td>
</tr>
<tr>
<td>Increase in accounts payable and accrued expenses</td>
<td>10,729</td>
<td>3,493</td>
</tr>
<tr>
<td>Decrease (increase) in receivables</td>
<td>10,010</td>
<td>(1,540)</td>
</tr>
<tr>
<td>Increase in other liabilities</td>
<td>270</td>
<td>321</td>
</tr>
<tr>
<td>Decrease in other assets</td>
<td>77</td>
<td>22</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>$25,909</td>
<td>$22,047</td>
</tr>
</tbody>
</table>

*See notes to consolidated financial statements.*
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

December 31, 1990

NOTE A—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 over-the-counter securities market. 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 in their pursuit of efficient execution of securities transactions. Nasdaq International promotes The Nasdaq Stock Market worldwide and coordinates regulatory matters within the European community.

Change in Fiscal Year: Effective with fiscal year 1990, NASD changed its fiscal year-end from September 30 to December 31. See Note E for the results of operations for the three-month period ended December 31, 1989. Consolidated financial statements for the three-month period have been audited, with an unqualified opinion issued thereon.

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. Cash balances are not at negative book balances.

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 developed by others is capitalized if it has a continuing value and is considered an integral part of purchased hardware. 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)(3) and MSI and Nasdaq International are taxable entities.

Reclassifications: Certain amounts in the 1989 consolidated financial statements have been reclassified to conform with the 1990 presentation.

NOTE B — MAJOR BUSINESS SEGMENTS

<table>
<thead>
<tr>
<th>Year ended Dec. 31 (in thousands)</th>
<th>NASD</th>
<th>Nasdaq</th>
<th>MSI</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$113,372</td>
<td>$45,238</td>
<td>$24,116</td>
<td>$182,619</td>
</tr>
<tr>
<td>Expenses, including income taxes</td>
<td>111,347</td>
<td>41,108</td>
<td>23,150</td>
<td>175,608</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 2,025</td>
<td>$ 4,130</td>
<td>$ 966</td>
<td>$ 7,121</td>
</tr>
<tr>
<td>Total assets</td>
<td>$140,950</td>
<td>$60,321</td>
<td>$16,082</td>
<td>$216,322</td>
</tr>
<tr>
<td>Members’ equity</td>
<td>$ 95,392</td>
<td>$51,867</td>
<td>$12,386</td>
<td>$158,444</td>
</tr>
</tbody>
</table>

Year ended Sept. 30 (in thousands)

<table>
<thead>
<tr>
<th>Year ended Sept. 30 (in thousands)</th>
<th>NASD</th>
<th>Nasdaq</th>
<th>MSI</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$100,777</td>
<td>$42,527</td>
<td>$19,589</td>
<td>$162,893</td>
</tr>
<tr>
<td>Expenses, including income taxes</td>
<td>98,756</td>
<td>57,179</td>
<td>19,219</td>
<td>175,155</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 2,021</td>
<td>$ 5,348</td>
<td>$ 370</td>
<td>$ 7,738</td>
</tr>
<tr>
<td>Total assets</td>
<td>$115,790</td>
<td>$47,876</td>
<td>$19,959</td>
<td>$182,685</td>
</tr>
<tr>
<td>Members’ equity</td>
<td>$ 89,929</td>
<td>$45,907</td>
<td>$11,186</td>
<td>$146,923</td>
</tr>
</tbody>
</table>

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

twenty-eight
NOTE C—LEASES

Data processing, subscriber equipment, and software include the following amounts relating to leases that have been capitalized (in thousands). The initial terms of the capitalized leases are 36 to 60 months.

<table>
<thead>
<tr>
<th></th>
<th>Dec. 31</th>
<th>Sept. 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1990</td>
<td>1989</td>
</tr>
<tr>
<td></td>
<td>(in thousands)</td>
<td></td>
</tr>
<tr>
<td>Data processing equipment</td>
<td>$7,608</td>
<td>$7,882</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>4,160</td>
<td>2,285</td>
</tr>
<tr>
<td></td>
<td>$3,448</td>
<td>$5,597</td>
</tr>
</tbody>
</table>

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 noncancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 1990:

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>Capital Leases</th>
<th>Operating Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in thousands)</td>
<td>(in thousands)</td>
</tr>
<tr>
<td>1991</td>
<td>$1,786</td>
<td>$8,278</td>
</tr>
<tr>
<td>1992</td>
<td>1,019</td>
<td>7,387</td>
</tr>
<tr>
<td>1993</td>
<td></td>
<td>7,387</td>
</tr>
<tr>
<td>1994</td>
<td></td>
<td>6,078</td>
</tr>
<tr>
<td>1995</td>
<td></td>
<td>31,872</td>
</tr>
<tr>
<td>Remaining years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total minimum lease payments</td>
<td>2,405</td>
<td>$67,743</td>
</tr>
<tr>
<td>Less: Amount representing interest</td>
<td>96</td>
<td></td>
</tr>
<tr>
<td>Present value of net minimum lease payments</td>
<td>2,709</td>
<td></td>
</tr>
<tr>
<td>Less: Amounts due in one year</td>
<td>1,704</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1,005</td>
<td></td>
</tr>
</tbody>
</table>

Future minimum operating lease commitments will be offset by $8,476,000 of sublease income. Rent expense for operating leases, net of sublease income, was $7,640,000 in 1990 and $5,598,000 in 1989.

NOTE D—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 sixty 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. For years ended December 31, 1990 and September 30, 1989, pension expense of $1,355,000 and $2,208,000, respectively, was accrued, but not funded, due to the full funding limitation.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE D—RETIREMENT BENEFITS—CONTINUED
The following table sets forth the plan's funded status and amounts recognized in NASD's financial statements at December 31, 1990 and September 30, 1989:

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in thousands)</td>
<td></td>
</tr>
<tr>
<td>Actuarial present value of benefit obligations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated benefit obligation, including vested benefits of $10,978 in 1990 and $9,084 in 1989</td>
<td>$15,136</td>
<td>$11,324</td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>$26,362</td>
<td>$22,876</td>
</tr>
<tr>
<td>Less plan assets at fair value, primarily common stocks, U.S. government and agency bonds</td>
<td>25,580</td>
<td>26,878</td>
</tr>
<tr>
<td>Unrecognized net asset</td>
<td>782</td>
<td>(4,002)</td>
</tr>
<tr>
<td>Unrecognized net gain</td>
<td>3,627</td>
<td>3,896</td>
</tr>
<tr>
<td>Prior service cost</td>
<td>997</td>
<td>3,620</td>
</tr>
<tr>
<td>Prior service cost</td>
<td>(366)</td>
<td>(461)</td>
</tr>
<tr>
<td>Accrued pension cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5,040</td>
<td>$3,323</td>
<td></td>
</tr>
<tr>
<td>Net pension cost consisted of the following:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$2,128</td>
<td>$2,419</td>
</tr>
<tr>
<td>Interest cost</td>
<td>2,159</td>
<td>1,821</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>(432)</td>
<td>(4,651)</td>
</tr>
<tr>
<td>Net amortization</td>
<td>(2,490)</td>
<td>2,619</td>
</tr>
<tr>
<td>Net pension cost</td>
<td>$1,365</td>
<td>$2,208</td>
</tr>
</tbody>
</table>

The weighted-average discount rate and rate of increase in future salary levels used in determining the actuarial present value of the projected benefit obligation were 9 percent and 6 percent, respectively, for the year ended December 31, 1990, and 8.25 percent and 6 percent, respectively, for the year ended September 30, 1989. The expected long-term rate of return on Plan assets was 10 percent and 8.5 percent for 1990 and 1989, respectively. The unrecognized net asset is being recognized over 20 years; the average remaining service period of employees expected to receive benefits under the Plan.

NASD also maintains a savings plan for employees. Eligibility for the plan is based upon length of service. Participation in the 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 1990 and 1989 was $1,298,000 and $1,153,000, respectively.

During 1990, NASD accrued the present value of estimated costs for providing medical and life insurance coverage to current retirees. This amount was approximately $623,000.

NOTE E—CHANGE IN FISCAL YEAR
As discussed in Note A, NASD has changed its fiscal year. The following condensed consolidated statement of income and members' equity presents operating results for the three-month period ended December 31, 1989 (in thousands).

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$42,788</td>
</tr>
<tr>
<td>Expenses, including income taxes</td>
<td>37,546</td>
</tr>
<tr>
<td>Net income</td>
<td>5,442</td>
</tr>
<tr>
<td>Members' equity at September 30, 1989</td>
<td>145,951</td>
</tr>
<tr>
<td>Members' equity at December 31, 1989</td>
<td>$151,573</td>
</tr>
</tbody>
</table>
NOTE F—COMMITMENTS AND CONTINGENCIES
There are certain legal proceedings pending against NASD and its subsidiaries. Management believes, based upon 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.

NOTE G—SUBSEQUENT EVENT
In September 1990, NASD formalized its agreement to acquire the assets of the test center network utilized for the administration of the qualifications examination program. The network assets were purchased for approximately $1,430,000 and became part of NASD's operations effective January 1, 1991.

REPORT OF INDEPENDENT AUDITORS

Board of Governors
National Association of Securities Dealers, Inc.
Washington, D.C.

We have audited the accompanying consolidated balance sheets of the National Association of Securities Dealers, Inc. and subsidiaries as of December 31, 1990 and September 30, 1989, 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 audits 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, 1990 and September 30, 1989, 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, 1991
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Wessels, Arnold & Henderson, L.P.
Minneapolis, Minnesota

Nasdaq International Ltd.

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G.T. Management Plc
London, England

J. Lynton Jones
Managing Director
Nasdaq International, Ltd
London, England

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National Association of Securities Dealers, Inc.
Washington, D.C.

John T. Wall
National Association of Securities Dealers, Inc.
Washington, D.C.

Frank J. Wilson
National Association of Securities Dealers, Inc.
Washington, D.C.

*Member, NASD Board of Governors
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Olen A. Shippee
Senior Vice President
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Senior Vice President
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Product Development

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Communications

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Nasdaq International

Douglas J. Farrell
Senior Vice President
Corporate Communications

List of Corporate Officers as of January 14, 1991

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