1991

Serving Customers

Hardline Company CEOs On Customer Service In the 1990s

Broker Forum: Advising and Protecting the Investor

The New World of Screen-Based Trading

Investing in Growth Stocks
1991

Consolidated
Financial
Statements

1991 NASD
Committees
Management Report on Financial Operations

Revenues of $215.6 million in 1991 increased 18.1% from 1990's $182.6 million. The $33 million revenue gain resulted from the strong performance of and active trading in The Nasdaq Stock Market SM (Nasdaq) and a high volume of public offerings. Market information and transaction fees rose $12.8 million or nearly 20% over 1990. Nasdaq’s record trading volume of 41.3 billion shares surpassed that of 1990 by nearly 24% and automated system trades rose over 70% from the previous year. Nasdaq® issuer fees accounted for $11.8 million of the increased revenues, reflecting the dollar volume of initial public offerings at more than three times the 1990 level as well as the effect of a higher fee schedule for initial listing on Nasdaq. Fees for review of underwriting arrangements rose $4.6 million as a result of a doubling of the dollar value of public deals. Revenues from members in the form of assessments and registration and examination fees declined a total of $2.6 million or 4%, resulting from lower assessable gross income and a 4% decline in registered representative population.

Expenses in 1991 were held to a rise of 6.2% or $10.9 million over 1990. The growth, in part, reflects the full cost of operating the certification testing centers acquired in 1991. Much of the remaining increase was attributable to staff salaries and benefits, although employee levels, exclusive of testing centers, were reduced 2% from 1990. Employee hiring and other selected cost areas were tightly controlled early in the year when the U.S. military conflict in the Middle East threatened the stability of the economy and the markets. The National Association of Securities Dealers, Inc. (NASD) spent an additional $4.4 million in significantly expanding its media advertising program, directed at increasing the recognition and enhancing the image of The Nasdaq Stock Market.

Consolidated income for the NASD and its wholly owned subsidiaries in 1991 of $29.9 million, before provision for income taxes, rose nearly fourfold from the 1990 level of $7.8 million.

Working capital of $128.2 million increased from $96.1 million at the end of 1990. This will assist in funding the forthcoming NASD and Nasdaq technology restructuring program as well as other strategic and tactical initiatives necessary to carry out the commitment of the NASD to provide investors, companies, and members access to well-regulated, fair, efficient, and liquid securities markets.

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

The NASD maintains an effective system of internal accounting controls that is periodically modified and improved to correspond with changes in NASD’s operations. This system of internal controls is designed to provide assurance that the assets of NASD are safeguarded against loss from unauthorized use or disposition and that the books and records, from which the consolidated financial statements were prepared, properly reflect the financial transactions of NASD. Important elements of the internal control system include capital and operating budgets, which are subjected to continuous review throughout the year; an organizational structure providing segregation of responsibilities; established policies and procedures; careful selection and training of qualified personnel; and a program of periodic internal audits developed and carried out by NASD’s independent auditors to ensure that the internal control systems are functioning properly. It should be recognized that even an effective internal control system, no matter how well designed, can provide only reasonable assurance with respect to the preparation of reliable financial statements; further, because of changes in conditions, internal control system effectiveness may vary over time. It is management’s opinion that the system of internal control as of December 31, 1991, is effective in providing reasonable assurance that the consolidated financial statements are free of material misstatement.

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

The NASD’s independent auditors, Ernst & Young, have conducted an audit in accordance with generally accepted auditing standards of the consolidated financial statements of NASD for the years ended December 31, 1991 and 1990. Their audits included a review of internal accounting controls and appropriate tests of transactions to the extent they considered necessary to form an opinion on the fairness of the consolidated financial statements. Representatives of Ernst & Young have met with NASD management and with members of the Audit Committee of the Board of Governors with and without management present to discuss the results of their audits and other accounting, auditing, and financial matters.
Audited Consolidated Financial Statements

National Association of Securities Dealers, Inc.

Consolidated Balance Sheets

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1991</td>
<td>1990</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CURRENT ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 10,603</td>
<td>$ 16,498</td>
</tr>
<tr>
<td>Investments, principally U.S. government securities, at cost (approximate market value $157,328 and $111,019 at December 31, 1991 and 1990, respectively)</td>
<td>$150,490</td>
<td>$109,245</td>
</tr>
<tr>
<td>Receivables and other current assets</td>
<td>$18,004</td>
<td>$13,568</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>$179,097</td>
<td>$139,311</td>
</tr>
<tr>
<td>PROPERTY AND EQUIPMENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land, buildings, and improvements</td>
<td>$34,687</td>
<td>$32,969</td>
</tr>
<tr>
<td>Data processing, subscriber equipment, and software</td>
<td>$84,664</td>
<td>$77,626</td>
</tr>
<tr>
<td>Furniture, equipment, and leasehold improvements</td>
<td>$34,484</td>
<td>$28,123</td>
</tr>
<tr>
<td><strong>Total Property and Equipment</strong></td>
<td>$153,835</td>
<td>$138,118</td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>$80,455</td>
<td>$62,760</td>
</tr>
<tr>
<td><strong>Total Other Assets</strong></td>
<td>$73,380</td>
<td>$75,358</td>
</tr>
<tr>
<td><strong>OTHER ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$2,764</td>
<td>$2,653</td>
</tr>
<tr>
<td><strong>LIABILITIES AND MEMBERS’ EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CURRENT LIABILITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$34,901</td>
<td>$26,629</td>
</tr>
<tr>
<td>Deposits and deferred revenue</td>
<td>$14,924</td>
<td>$14,834</td>
</tr>
<tr>
<td>Current portion of obligations under capital leases</td>
<td>$1,026</td>
<td>$1,704</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>$50,851</td>
<td>$43,167</td>
</tr>
<tr>
<td>OBLIGATION UNDER CAPITAL LEASES</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$141</td>
<td>1,005</td>
</tr>
<tr>
<td>ACCRUED PENSION COSTS</td>
<td>$7,342</td>
<td>$5,040</td>
</tr>
<tr>
<td>OTHER LIABILITIES</td>
<td>$11,946</td>
<td>$8,616</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$70,280</td>
<td>$57,828</td>
</tr>
<tr>
<td><strong>MEMBERS’ EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$184,961</td>
<td>$158,494</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$255,241</td>
<td>$216,322</td>
</tr>
</tbody>
</table>

See accompanying notes.
National Association of Securities Dealers, Inc.

Consolidated Statements of Income and Members' Equity

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market information and transaction service fees</td>
<td>$79,361</td>
<td>$66,526</td>
</tr>
<tr>
<td>Member assessments</td>
<td>35,272</td>
<td>36,923</td>
</tr>
<tr>
<td>Nasdaq issuer fees</td>
<td>31,408</td>
<td>19,597</td>
</tr>
<tr>
<td>Registration and examination fees</td>
<td>28,739</td>
<td>29,684</td>
</tr>
<tr>
<td>Interest and other</td>
<td>23,803</td>
<td>19,950</td>
</tr>
<tr>
<td>Corporate finance fees</td>
<td>11,130</td>
<td>6,498</td>
</tr>
<tr>
<td>Arbitration fees</td>
<td>5,880</td>
<td>3,441</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>215,593</td>
<td>182,619</td>
</tr>
</tbody>
</table>

| **EXPENSES**          |       |       |
| Salaries and employee benefits | 96,846 | 88,887 |
| Professional and other services | 22,919 | 21,454 |
| Depreciation and amortization | 19,139 | 17,137 |
| Office expense         | 17,101 | 14,968 |
| Equipment maintenance and data communications | 14,024 | 15,591 |
| Travel and meetings   | 6,907  | 7,283 |
| Publications, supplies, and postage | 4,654  | 5,310 |
| Other                 | 4,082  | 4,156 |
| **Total Expenses**    | 185,672 | 174,786 |

|                      |       |       |
| Income before provision for income taxes | 29,921 | 7,833 |
| Provision for income taxes               | 3,454  | 712   |
| **NET INCOME**                          | 26,467 | 7,121 |

|                      |       |       |
| Members’ equity at beginning of year     | 158,494 | 151,373 |
| MEMBERS’ EQUITY AT END OF YEAR           | $184,961 | $158,494 |

*See accompanying notes.*
## Consolidated Statements of Cash Flows

### Year Ended December 31

<table>
<thead>
<tr>
<th></th>
<th>1991 (in thousands)</th>
<th>1990 (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash received from fees and assessments</td>
<td>$199,100</td>
<td>$162,515</td>
</tr>
<tr>
<td>Interest received from investments</td>
<td>10,038</td>
<td>9,797</td>
</tr>
<tr>
<td>Cash paid for operating expenses</td>
<td>(162,527)</td>
<td>(146,403)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>46,611</td>
<td>25,909</td>
</tr>
<tr>
<td><strong>INVESTING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from redemptions of investments</td>
<td>45,000</td>
<td>58,115</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(85,675)</td>
<td>(64,436)</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(10,220)</td>
<td>(14,009)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(50,895)</td>
<td>(20,330)</td>
</tr>
<tr>
<td><strong>FINANCING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal payments on obligations under capital leases</td>
<td>(1,611)</td>
<td>(1,781)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(1,611)</td>
<td>(1,781)</td>
</tr>
<tr>
<td>(Decrease) increase in cash and cash equivalents</td>
<td>(5,895)</td>
<td>3,798</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>16,498</td>
<td>12,700</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>$10,603</td>
<td>$16,498</td>
</tr>
</tbody>
</table>

### RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$26,467</td>
<td>$7,121</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>19,139</td>
<td>17,137</td>
</tr>
<tr>
<td>Amortization of premiums/discounts on investments</td>
<td>(586)</td>
<td>(1,150)</td>
</tr>
<tr>
<td>Provision for losses on accounts receivable</td>
<td>1,460</td>
<td>1,280</td>
</tr>
<tr>
<td>Increase (decrease) in deposits and deferred revenue</td>
<td>90</td>
<td>(19,995)</td>
</tr>
<tr>
<td>Increase in accounts payable and accrued expenses</td>
<td>6,824</td>
<td>10,729</td>
</tr>
<tr>
<td>(Increase) decrease in receivables</td>
<td>(6,867)</td>
<td>10,010</td>
</tr>
<tr>
<td>Other</td>
<td>84</td>
<td>777</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$46,611</td>
<td>$25,909</td>
</tr>
</tbody>
</table>

*See accompanying notes.*
National Association of Securities Dealers, Inc.

Notes to Consolidated Financial Statements

December 31, 1991 and 1990

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Business Segments
The consolidated financial statements include the accounts of the National Association of Securities Dealers, Inc. (NASD) and its wholly owned subsidiaries, including Nasdaq, Inc., NASD Market Services, Inc. (MSI), and Nasdaq International, Ltd. (Nasdaq International) after elimination of all significant intercompany transactions.

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

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

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

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

Income Taxes
NASD and Nasdaq, Inc. are tax-exempt organizations under the Internal Revenue Code Section 501(c)(6), and MSI and Nasdaq International are taxable entities.
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications
Certain amounts in the 1990 consolidated financial statements have been reclassified to conform with the 1991 presentation.

2. MAJOR BUSINESS SEGMENTS

<table>
<thead>
<tr>
<th></th>
<th>NASD</th>
<th>Nasdaq</th>
<th>MSI</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in thousands)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year Ended December 31, 1991</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>$132,442</td>
<td>$47,361</td>
<td>$35,957</td>
<td>$215,593</td>
</tr>
<tr>
<td>Expenses, including income taxes</td>
<td>119,882</td>
<td>38,480</td>
<td>30,931</td>
<td>189,126</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 12,560</td>
<td>$ 8,881</td>
<td>$ 5,026</td>
<td>$ 26,467</td>
</tr>
<tr>
<td>Total assets</td>
<td>$161,848</td>
<td>$66,365</td>
<td>$27,880</td>
<td>$255,241</td>
</tr>
<tr>
<td>Members’ equity</td>
<td>$107,952</td>
<td>$60,748</td>
<td>$17,412</td>
<td>$184,961</td>
</tr>
</tbody>
</table>

| Year Ended December 31, 1990 |       |        |       |              |
| Revenue              | $113,372 | $45,238 | $24,116 | $182,619 |
| Expenses, including income taxes | 111,347 | 41,108 | 23,150 | 175,498 |
| Net income           | $  2,025 | $  4,130 | $  966 | $  7,121 |
| Total assets         | $140,950 | $60,921 | $16,478 | $216,322 |
| Members’ equity      | $ 95,392 | $51,867 | $12,386 | $158,494 |

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

3. LEASES

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

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in thousands)</td>
<td></td>
</tr>
<tr>
<td>Data processing equipment</td>
<td>$6,270</td>
<td>$7,608</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>4,575</td>
<td>4,160</td>
</tr>
<tr>
<td></td>
<td>$1,695</td>
<td>$3,448</td>
</tr>
</tbody>
</table>
3. LEASES (continued)

NASD leases certain office space and equipment in connection with its operations. The majority of these leases contain escalation clauses based on increases in property taxes and building operating costs. Certain of these leases also contain renewal options. Future minimum lease payments under the capital leases and noncancellable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 1991:

<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></td>
</tr>
<tr>
<td>1992</td>
<td>$1,044</td>
<td>$10,465</td>
</tr>
<tr>
<td>1993</td>
<td>36</td>
<td>9,579</td>
</tr>
<tr>
<td>1994</td>
<td>36</td>
<td>9,242</td>
</tr>
<tr>
<td>1995</td>
<td>37</td>
<td>6,834</td>
</tr>
<tr>
<td>1996</td>
<td>37</td>
<td>5,037</td>
</tr>
<tr>
<td>Remaining years</td>
<td>3</td>
<td>26,318</td>
</tr>
<tr>
<td>Total minimum lease payments</td>
<td>1,193</td>
<td>$67,475</td>
</tr>
</tbody>
</table>

Less: Amount representing interest
Present value of net minimum lease payments
Less: Amounts due in one year

$ 141

Future minimum operating lease commitments will be offset by approximately $6,549,000 of sublease income. Rent expense for operating leases, net of sublease income, was approximately $9,273,000 in 1991 and $7,049,000 in 1990.

NASD entered into a 60-month equipment lease with ElectroRep DataComm Products, Inc. on December 27, 1991. Total estimated future minimum lease payments over the next five years (balance of equipment to be received in 1992 and early 1993) will be approximately $1,275,000.

4. RETIREMENT BENEFITS

NASD maintains a noncontributory, defined-benefit pension plan for the benefit of all eligible employees. The benefits are based on years of service and the employee’s average salary during the highest 60 consecutive months of employment.
4. RETIREMENT BENEFITS (continued)

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. Pension expense was $2,302,000 and $1,365,000 for 1991 and 1990, respectively. As permitted under ERISA guidelines, determination of the contribution for 1991 will be made in 1992. No contribution has been made since 1988 as the plan is subject to the full funding limitation.

The following table sets forth the plan's net pension cost for the years ending December 31, 1991 and 1990:

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net pension cost</td>
<td>$2,302</td>
<td>$1,365</td>
</tr>
<tr>
<td>Service cost</td>
<td>$2,475</td>
<td>$2,128</td>
</tr>
<tr>
<td>Interest cost</td>
<td>2,556</td>
<td>2,159</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>(6,014)</td>
<td>(432)</td>
</tr>
<tr>
<td>Deferral of net plan asset gains (losses) and amortization</td>
<td>3,285</td>
<td>(2,490)</td>
</tr>
</tbody>
</table>

The following table sets forth the plan's funded status and amounts recognized in NASD's financial statements at December 31, 1991 and 1990:

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuarial present value of benefit obligations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated benefit obligation, including vested benefits of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>$35,185</td>
<td>$26,362</td>
</tr>
<tr>
<td>Less plan assets at fair value, primarily common stocks and U.S. government and agency bonds</td>
<td>30,625</td>
<td>25,580</td>
</tr>
<tr>
<td></td>
<td>4,560</td>
<td>782</td>
</tr>
<tr>
<td>Unrecognized net asset</td>
<td>3,412</td>
<td>3,627</td>
</tr>
<tr>
<td>Unrecognized net gain</td>
<td>1,615</td>
<td>997</td>
</tr>
<tr>
<td>Prior service cost</td>
<td>(2,245)</td>
<td>(366)</td>
</tr>
<tr>
<td>Accrued pension cost</td>
<td>$7,342</td>
<td>$5,040</td>
</tr>
</tbody>
</table>
4. RETIREMENT BENEFITS (continued)
The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 8.5% and 6%, respectively, at December 31, 1991, and 9% and 6%, respectively, at December 31, 1990. The expected long-term rate of return on plan assets was 10% for both 1991 and 1990. 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 Savings Plan is based on length of service. Participation in the Savings Plan is voluntary. NASD makes a matching contribution of one half of the first 6% of salaries contributed by covered employees. Savings plan expense for the years 1991 and 1990 was $1,460,000 and $1,298,000, 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.

NASD plans to adopt Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-Retirement Benefits Other Than Pensions" (SFAS 106), as required by 1993. SFAS 106 mandates that the cost of certain post-retirement benefits be recognized under an accrual method of accounting instead of the current practice of expensing the cost of such benefits as paid. NASD provides post-retirement life insurance benefits to retirees in declining amounts of annual coverage. It is estimated that immediate recognition of the transition liability as of January 1, 1991, would have resulted in a one-time charge to net income of $900,000. Upon adoption, the increase in the annual expense resulting from SFAS 106 is not expected to have a material effect on consolidated net income.

5. COMMITMENTS AND CONTINGENCIES
There are certain legal proceedings pending against NASD and its subsidiaries. Management believes, based on the opinion of counsel, that any liabilities arising from these proceedings will not have a material effect on the operations of NASD and its subsidiaries.
Report of Ernst & Young, Independent Auditors

Board of Governors
National Association of Securities Dealers, Inc.

We have audited the accompanying consolidated balance sheets of the National Association of Securities Dealers, Inc. and subsidiaries as of December 31, 1991 and 1990, 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, 1991 and 1990, 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 21, 1992
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Aldo Parcesepe
Hugh Quigley
Hedi Reynolds
Malcom Selver
Ralph Valentino
Jack Wertheim

District Committees

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Northern California (the counties of Monterey, San Benito, Fresno, and Inyo, and the remainder of the state north or west of such counties), northern Nevada (the counties of Esmeralda and Nye, and the remainder of the state north or west of such counties), and Hawaii; 300 members, 2,199 branches

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James D. Klein
Steven N. Machtinger
Michael A. Nielsen
Loren L. Obley
David W. Studley

District 2

Southern California (that part of the state south or east of the counties of Monterey, San Benito, Fresno, and Inyo) and southern Nevada (that part of the state south or east of the counties of Esmeralda and Nye); 460 members, 2,610 branches

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Ronald J. Consiglio
Steven R. Fletcher
Douglas M. McKnight
Charles A. Partain

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Burton L. Beahm
Edward DeGiacomo
Donald L. Edor
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James W. Kays
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Dan L. Mauss
Todd M. Milliken
Burt F. Mugavero
Martin Nelson, Jr.
Richard Pacholski
Vincent M. Purpura
George Raines
James Stark

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Mary Alice Brophy
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Cynthia M. Carlson
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Neil T. Douthat
Anthony L. Guererro
Jimmie L. Rice
Robert T. Slezak
Steven B. Vecchio
District Committees

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E. Douglas Johnson, Jr.
Robert W. McIntyre
Douglas W. McQueen
Warren A. Stephens
Louis B. Todd
Kenneth L. Wagner
Robert H. Young, Jr.

District 6
Texas; 362 members, 1,497 branches

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David M. Glatstein, Vice Chairman
Edward R. Anderson
George R. Durling
Robert G. Gunn, III
Claude H. Montgomery
William J. Mosley
Michael J. C. Roth
Tullis C. Thomas, II

Mary Allison Mullis
David A. Smith
Raymond H. Smith, Sr.
Grady G. Thomas

District 8
Illinois, Indiana, Michigan, Ohio, Wisconsin, and part of upstate New York (the counties of Monroe, Livingston, and Steuben, and the remainder of the state west of such counties); 713 members, 3,542 branches

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Eugene W. Barrett, Vice Chairman
F. Scott Brown
James C. Bylenga
Roland A. Catalano
Mary Lee Corrigan
John H. Finn, III
Malcolm J. Irving
Daniel C. Kriss
J. Will Paul
Larry E. Peters
Norman L. Reiter
William A. Rogers
Richard J. Sillitoe
G. Donald Steel
Rodney E. Strautvetter
Richard M. Wachtman
Thomas B. Watterson

District 9
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia, and southern New Jersey (the counties of Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean, and Salem); 434 members, 2,403 branches

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H. Keith Brannemier, Jr.
Jose R. Fernandez
Ben E. Fisher
S. Rawls Forstenberry
Bert C. Madden
G. Bruce McPherson, Jr.

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Paul R. Meese
Dale A. Pope
H. Rodney Scott
Gilbert S. Simons
Bonnie K. Wachtel
John T. West IV

District 10
The five boroughs of New York City and the adjacent counties in New York (the counties of Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester) and northern New Jersey (the state of New Jersey, except for the counties of Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean, and Salem); 1,316 members, 2,038 branches

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Lionel C. Bandler
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Anthony T. Geraci
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Richard G. McDermott, Jr.
Edward Necarsulmer
Leslie C. Quick, III
Herbert Schweitzer
Malcolm C. Selver
Philip Skidmore
Timothy P. Sullivan
O. Ray Vass

District 11
Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, and New York (except for the counties of Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester; the counties of Monroe, Livingston, and Steuben; the remainder of the state west of such counties; and the five boroughs of New York City); 435 members, 1,843 branches

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Robert L. Thomas, Vice Chairman
Julian F. Baum, Jr.
Paul G. Cuomo
Harold J. Dixon
Robert M. Porter
Gerald H. Powers
Todd A. Robinson
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Charles E. Spooner, Jr.
Serving Investors, Public Companies, and Member Firms Worldwide . . .

Our 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 quality service, we have established ourselves as a pre-eminent regulator in the securities industry and a leader in applying information-age technology to markets of the future. The result is markets that are open and credible, markets that are deserving of the trust and confidence of the many customers we serve — investors, public companies, and member firms worldwide.
1991: A Memorable Year For the NASD and Nasdaq

The Nasdaq Composite Index rose 56.8 percent during 1991, almost triple the 20.3 percent increase of the Dow Jones Industrial Average, and more than double the 26.3 percent of the Standard & Poor’s 500, the 27.1 percent of the New York Stock Exchange Composite Index, and the 28.2 percent of the American Stock Exchange Market Value Index.

Nasdaq's share volume jumped to 41.3 billion as its dollar volume of trading soared to $694 billion, surpassing the previous highs of 37.9 billion shares and $500 billion, respectively, set in 1987. The new dollar volume figures firmly establish Nasdaq as the second largest equity market in the United States and the third largest in the world.
The Nasdaq Stock Market is the fastest growing equity market in the United States. From the beginning of the last decade through 1991, share volume on Nasdaq increased 517.3 percent, while that of the New York Stock Exchange increased 298.7 percent and that of the American Stock Exchange 107.7 percent. During this same period, dollar volume on Nasdaq increased 345.5 percent and that of the NYSE increased 305.5 percent and that of the Amex 14.3 percent.

<table>
<thead>
<tr>
<th>Membership</th>
<th>Arbitration</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,401 member firms</td>
<td>4,150 claims received</td>
</tr>
<tr>
<td>29,137 branch offices</td>
<td>4,037 cases closed</td>
</tr>
<tr>
<td>406,106 registered representatives</td>
<td>2,242 disputes resolved</td>
</tr>
<tr>
<td>Compliance</td>
<td>between parties without arbitration</td>
</tr>
<tr>
<td>3,194 main- and branch-office examinations conducted</td>
<td>371 industry cases arbitrated</td>
</tr>
<tr>
<td>3,994 customer complaints resolved</td>
<td>1,419 customer cases arbitrated</td>
</tr>
<tr>
<td>Disciplinary Actions</td>
<td>775 cases decided in favor of customer</td>
</tr>
<tr>
<td>901 formal complaints filed</td>
<td>Qualifications</td>
</tr>
<tr>
<td>484 disciplinary decisions rendered</td>
<td>158,323 registered</td>
</tr>
<tr>
<td>249 settlement offers accepted</td>
<td>representative and principal tests administered</td>
</tr>
<tr>
<td>298 acceptance, waiver and consent proceedings resolved</td>
<td>Advertising</td>
</tr>
<tr>
<td>98 firms expelled from membership</td>
<td>26,027 filings reviewed</td>
</tr>
<tr>
<td>465 individuals barred from the industry</td>
<td>3,996 spot checks conducted</td>
</tr>
<tr>
<td>17 firms suspended from membership</td>
<td>1,215 investigations conducted</td>
</tr>
<tr>
<td>Automated Market Surveillance</td>
<td>Corporate Financing</td>
</tr>
<tr>
<td>3,529 price and volume alerts</td>
<td>1,847 underwriting arrangements reviewed</td>
</tr>
<tr>
<td>97 formal investigations conducted</td>
<td>$155.1 billion total public offerings</td>
</tr>
<tr>
<td>42 cases referred to the SEC</td>
<td></td>
</tr>
</tbody>
</table>
Customer Service: The Foundation for Success
A Joint Letter From the NASD's Top Executives

Customers — we all have them, whether we are a member firm offering a full range or limited mix of investment services; a public company with products to sell or services to offer; or an investor who works for, provides services to, or runs a business. Our success depends on the extent to which we are able to satisfy the needs of our customers and increase our value to them.

The NASD has customers as well, many of them: investors, both individual and institutional; listed companies; subscribers to information services; and the brokers, analysts and strategists, market makers and traders, investment bankers, and diverse support staffs that make up our member firms. The activities of the NASD — education, regulation, arbitration, information dissemination, and market operation — are essentially services we provide our customers in answer to their needs.

On behalf of investors, for example, we examine the financial and operating condition of our member firms to make sure they comply with rules requiring them to have the capital and reserves necessary to support their business operations. We impose registration and qualification requirements on industry representatives to establish their competence and professionalism. We supervise the sales practices of persons associated with our member firms to see that they are dealing fairly with customers. We surveil markets with automated systems to maintain their integrity and fairness.

For public companies, we develop and operate technologically advanced securities markets based on competition among market makers to assure that the markets are efficient, fair, and liquid. In doing so, we create an environment that facilitates the ability of companies to raise capital at cost-effective rates to finance growth and create jobs. And as our companies expand globally with their products and services, we have taken steps to export our markets overseas to provide an international reach for their securities.
"The activities of the NASD — education, regulation, arbitration, information dissemination, and market operations — are essentially services we provide our customers in answer to their needs."

For our member firms, we work to build investor confidence in our securities markets as well as in the integrity of America's capital markets by standardizing the industry's principles and practices and enforcing federal securities laws and the broader ethical requirements of NASD rules. At the same time, we seek to craft rules that are fair and workable — rules that enhance rather than diminish the viability and vitality of our members' businesses.

Although the NASD has had a service orientation for many years, we are committed to doing more on behalf of our customers in the years ahead. We believe that the key to quality service is knowing our customers — giving them a voice and then listening carefully to what they say about how we can best fill their needs. In the following pages, we have invited our customers to tell us about their personal and professional involvement in our securities markets and how they view the quality of service the NASD and The Nasdaq Stock Market provide.

At the NASD, we are dedicated to serving all of our customers by satisfying their needs as we fulfill our regulatory and market-operating responsibilities. We would appreciate your thoughts and comments on how we might be of better service to you in the years ahead.

William B. Summers, Jr.
1991 Chairman

Joseph R. Hardiman
President and Chief Executive Officer
I have been a farmer all of my life. The land I work was originally bought by my grandfather and later passed to my father and then to me. When my wife and I decided to buy more land and erect new livestock buildings, we were able to pay for them in part with money we had made in the stock market. And when our four children were ready for college, our investments made it possible.

My financial goals have always been to increase my net worth in the most efficient way possible and to provide security for my family. As an investor for some 20 years now, I have found that stocks, over time, outperform other investments. For this reason, I now invest in the securities of about 100 different companies. I am by nature a long-term investor— I have held most of my stocks more than a year and in many cases at least five years.

Over the years, Tom Lyons, my broker at Piper, Jaffray & Hopwood, has given me sound investment advice. I also get useful information from analysts and market commentators on the
For John Denn, long-term investing in equities provides money for farm and family needs.

Various business programs on television such as "Wall Street Week" and "The Nightly Business Report."

Normally, I follow my broker's recommendations on specific stocks. I will, however, pick a few of my own — companies that are featured in the news and those that make the most active list. Companies that are stable but in a slump or have fallen out of favor or companies that are developing products with high sales potential usually catch my attention. When the price of one of these issues levels out, I bring it to my broker's attention. He will then research the stock and give me his opinion. I buy when I see something attractive.

I make it a practice to check many of my stocks in the newspaper every day. Then, each month I review my entire portfolio and, in concert with my broker, make my buy, sell, and hold decisions.

While the price performance of a stock is extremely important, my broker and I will also look at earnings and earnings growth rates.

In terms of investment methods, I will frequently use limit orders to lock in a nice profit or acquire stock that I have been following that is approaching a good buy price.

My experience has been that my Nasdaq stocks have often outperformed other stocks in my portfolio. It appears to me that the growth stock opportunities are more plentiful in this market, and the financial rewards can be very great.

Much is said these days about the volatility of the stock market. The fact is that the market is more volatile. But I have learned to live with it. As the market gets higher, it has a tendency to become more volatile — it's just that the fluctuations of the past have become more exaggerated. Even with the increased volatility, I feel that the market as a whole will make money for me over time.

What happened in 1987 illustrates my point. When I came home that October evening to discover that the market dropped 500 points, I did not panic. Although my portfolio had gone down a great deal, I thought it was probably a fluke. I did not make any moves at the time — I chose not to sell my stocks. Shortly thereafter, I concluded that here was a good opportunity to buy more stocks. And I was right. The stocks I bought while the market was depressed as well as those I owned before the sell-off have performed well ever since.

In a down market, an investor must not panic. You have to learn to live with volatility. If you're in the market for the long haul, periodic declines should not be a major concern. You learn to accept them as a way of life. As a matter of fact, market declines are often buying opportunities that you can use to continue building your net worth.
Investing for My Family's Financial Health

Dr. H. George Levy
Ear, Nose, and Throat Plastic Surgeon
Michigan

I have been investing in the stock markets for about as long as I have been practicing medicine, some 12 years. I invest primarily to ensure my family's long-term financial security. This includes making certain my four daughters will have the best education and also securing the retirement of myself and my wife. And, hopefully, I will have enough to help with subsequent generations.

I think that the stock markets are, perhaps, the best place to participate meaningfully in the growth of the emerging areas of the economy. As an investor, I do not have to be directly involved in developing a company. Through equity ownership, I can benefit from the growth being achieved by the experts who are developing companies in fields other than my own.

I get my investment ideas from many sources. For example, as a surgeon and physician in a large hospital, I notice when medical trends are occurring — the use of certain machines like surgical staplers, certain types of bandages, certain medications or pharmaceuticals. I notice too if these are particularly effective. When I discover a superior product, I assume that other physicians are discovering this as well. I check into the fundamentals of the company that made the product and discuss it with my broker, John Bernard of Shearman Lehman Brothers in Detroit. He gets additional information, and then we make a decision.

Also, I am an avid reader. I get information from reading that adds to what I see in the marketplace. I learn from the medical journals about new endoscopic techniques, surgical equipment and supplies, and medications that are particularly effective. I also read business newspapers and magazines like The Wall Street Journal, Business Week, and Forbes, among others.

I pick specific stocks based on their potential for growth; the financial stability of the company; the history, if any, of the company and the behavior of its stock; and the potential acceptability of this company in the general marketplace or on Wall Street, including whether the research is favorable or whether I believe that it is going to be favorable.
I do not follow the stocks that I own on a daily basis. I cannot spend an awful lot of time following them because my profession is such that it does not allow me to do that.

When I was younger and just starting out, I was a much more aggressive investor. Now I am becoming more conservative. My favorite stocks are those that have excellent medium-term growth potential. I am not necessarily looking for very high income or extreme security. I buy when a particular company comes to my attention that I like, am comfortable with, and that has tremendous potential for growth.

The factors that are involved in my buying are good expectations of future earnings, future growth, and a still relatively low P/E (price-to-earnings ratio). I am particularly interested if the company has come out with an innovative or "niche" product that has potential for significant revenue enhancement. I generally sell if the P/E starts getting too high, unless the long-term growth outlook remains spectacular. If I have significant appreciation of my initial investment or if it has reached a certain percentage return on an annual basis, I also consider selling.

Dr. Levy finds that superior, innovative products used on the job point to potential stock investments.

I invest in Nasdaq stocks because they frequently have more significant or more dramatic growth. I can find more hidden values there, particularly in the pharmaceutical, medical technology, genetic engineering, and computer software fields. In general, Nasdaq is the market for growth companies. The companies that I have followed on Nasdaq have usually performed well.
Advising and Protecting
The Individual Investor

Stock investment strategies are being tailored more and more to an individual’s particular financial needs. A discussion featuring William P. Cseplo, Senior Vice President, Investments, Advest, Inc., Dublin, Ohio, and Dwight Emanuelson, Vice President and Senior Financial Consultant, Merrill Lynch, Pierce, Fenner & Smith, Incorporated, Dallas, Texas.

How important are stocks to the personal asset growth of individual investors?

William Cseplo: Every investor needs to overcome the two components that adversely affect rates of return — inflation and taxes. Historically, equities have outperformed other investments. According to Ibbotson Associates Inc., equities have a compounded return of 10.3 percent per year after accounting for an average rate of inflation of 3.1 percent during the period from 1926 to the present. By comparison, U.S. Treasury long-term bonds yielded only 4.7 percent. Common stock is still one of the great tax opportunities because your tax liability is incurred only when you sell. Hopefully, during the next 12 months, we will see some favorable capital gains tax treatment, which is all the more reason to buy and hold now.

Dwight Emanuelson: Stocks are most important. Recently, during a program at Merrill Lynch's corporate campus, Professor Jeremy Siegel of the Wharton Business School presented some astounding statistics about long-term compounded returns. One dollar invested in the stock market of 1802, adjusted for taxes and inflation, would be worth $46,300 today. Stocks’ nearest competitor is long-term government bonds at $223. Gold would be worth only $1.73.
How do you ensure that you are giving sound investment advice to your clients?

**Cseplo:** You need to determine what will solve the investment needs of your client and tailor your recommendations accordingly. Today's broker is really a financial consultant, asking in-depth questions about time horizons and risk tolerance. The transactional basis for investing in the 1980s has given way to a more measured approach. I consider how equities will affect their other assets and portfolio mix.

**Emanuelson:** I consult a broad spectrum of investment research to make an objective buy or sell decision. I begin with Merrill Lynch Economics — our fundamental, technical, and market strategy departments. Also, I obtain and review all financial information from the individual company. Lastly, I use independent research, such as Value Line, Standard & Poor's, and the Bloomberg News Service.

How long do you advise clients to hold a stock? How soon should they trade it? What determines these decisions?

**Cseplo:** I normally recommend that my clients use a time horizon of three to five years. I believe they are better served by a long-term approach. A number of my clients are holding original positions in Nasdaq companies taken on my buy recommendations some 12 to 15 years ago. Because they are sound companies and, even though economic times have changed, the investments still make good sense. Some clients, by their very nature, are traders and will want to sell after a 10 percent gain no matter how great the company may be. In some cases, clients will trade half their position after it rises to a certain level and hold the balance as a long-term investment or until a stop-loss point is violated.

**Emanuelson:** I advise my clients to hold a stock as long as their investment objectives have not changed, the company is achieving its forecasted earnings growth, and the stock has not declined more than 25 percent from the date of purchase. If such a decline occurs, I advise selling at least a third of the issue, and, at a 40 percent loss, I urge getting out of the issue entirely. Theoretically, if the stock continues to perform well, the investor should not sell at all. In fact, I find that too many investors like to sell their best stocks while remaining with their biggest losers, expecting a rebound in the future. I recommend selling the losers and finding other stocks that resemble your best performers.

"Today's broker is really a financial consultant, asking in-depth questions about time horizons and risk tolerance."
— Bill Cseplo
Do you see any advantages of Nasdaq stocks over securities traded in other markets?

Csepelo: The Nasdaq Stock Market, in my mind, represents the growth of America and of American capitalism. Nasdaq stocks are the future large-cap companies, and all that is required for a good number of them is time and patience. Over the years, my clients have tasted the rewards of seeing a small company grow 5 or 10 times its size and seeing their investments multiply many times. This is a great time to buy small- and medium-cap companies because I firmly believe that we are in an extended period where company growth will be rewarded. Not that all companies will do well, and some will certainly fail, but diversifying and setting downside parameters on each individual holding should enable investors to be rewarded handsomely over the next three to five years.

Emanuelson: The Nasdaq Stock Market has many companies in their high-growth years. Investors who buy these stocks are greatly rewarded when the stocks become large enough to attract the attention of institutional investors. Look at the performance of the Nasdaq market in 1991. Nasdaq also has a number of companies that have become large-cap stocks and that still have potential—for example, Amgen, MCI, Microsoft, Novell. Another advantage is the multiple market-maker system in which Nasdaq stocks are traded. The competition usually results in deeper, more liquid markets. The average number of market makers per stock is 10, but many have 25 or more. That gives investors greater confidence that they’re obtaining the best possible prices.

You must have confidence in the Nasdaq market to bring your clients into it. On what is that confidence based?

Csepelo: Nasdaq has evolved into a technologically sophisticated market. Real-time electronic reporting of transaction information on the Nasdaq National Market has allowed brokers to respond more quickly to market movements on behalf of their clients. Automated execution of trades through Nasdaq’s Small Order Execution System [SOES]™ enables brokers to guarantee continuous market access to their clients. SOES can execute a client’s order electronically without a phone call by the trader, resulting in an instantaneous, locked-in transaction at the best price available and a fast report back to the client.

Emanuelson: Nasdaq National Market stocks have identical trading information to exchange-traded stocks. For example, they have up-to-the-minute volume, last sale, open, high-low, and the current bid-ask spread. Also, the NASD, as the overseer of the entire marketplace, works to ensure the integrity of the market. When questionable activities are detected, the NASD investigates.

“If the retail broker... chooses a methodical, consistent approach to equity investing based on sound research, many dollars are saved by the client and compliance nightmares are avoided.”

— Dwight Emanuelson
Has investor confidence been eroded by recent insider trading scandals?

Cseplo: It is to the credit of the NASD as a self-regulatory body that it has controlled and policed improprieties effectively. As far as restoring investor confidence, clearly it is improving. In the publications that I read on disciplinary actions, the NASD has shown the ability to expel the brokers who abuse the system and allow the brokers who work within the system to operate very well.

Emanuelson: Even though numerous scandals have hit Wall Street in the past few years, they have had a minor impact on my business. If the retail broker ignores the hot tips and rumors and, instead, chooses a methodical, consistent approach to equity investing based on sound research, many dollars are saved by the client, and compliance nightmares are avoided. As to insider trading, the NASD has done a good job in working with federal authorities to identify violators and prosecute them quickly.

Do you still find self-regulation in the securities industry to be effective in today’s climate?

Cseplo: Self-regulation, in my opinion, has been, and will continue to be, very effective. When professionals are elected by their peers to enforce the rules that they all follow, they have a real incentive for keeping their profession free of abusers. Rule breakers reflect unfairly on the vast majority of the brokers who adhere to the regulations and put their clients’ best interests first.

Emanuelson: It seems to be very effective. We at Merrill Lynch cooperate with the NASD and maintain internal controls to make sure we comply with all regulations. These efforts industry-wide make Nasdaq all the more sustainable, competitive, and effective as a securities market and the securities business a safer and more profitable enterprise for all concerned.
Talking Stocks With A Prominent Analyst

Noted television commentator Mary Farrell, First Vice President and Member, Investment Strategy Team, PaineWebber Incorporated, analyzes market prospects and sees a bright future for growth stocks.

How has the role of The Nasdaq Stock Market changed in recent years?

Nasdaq is no longer the province of smaller issues awaiting the opportunity to list on an exchange. It has proven to be the market of choice for numerous publicly held companies, both small and large. Nasdaq has always been the home of some of the fastest growing companies and industries, providing dramatic gains to investors. These innovative companies tend to come to market on Nasdaq and stay with Nasdaq as they become leaders in their industries.

Why did Nasdaq stocks perform so well in 1991?

There are two compelling reasons. First, they had a number of years of underperformance versus the overall market, which made their valuations very cheap. Second, we finally got over that anomaly in the stock market in the 1980s by which a lot of investment value was created through mergers, acquisitions, and LBOs [leveraged buyouts]. With the end of that era of junk bonds and corporate restructurings, investors looked for growth again because growth has historically been the best way to make money in the stock market.
What is the outlook for Nasdaq stocks?

I think they are in a unique position in the 1990s. We've had very dramatic growth in the economy in the 1970s and 1980s because of substantial labor force growth, among other factors. Fueled by baby boomers coming of age, women returning to the workforce in unprecedented numbers, and a lot of illegal immigration, dramatic growth in the labor force meant big gains in personal income, disposable income, and a booming economy. We're now a much more mature economy as the population ages. That means we'll see considerably slower growth in the 1990s, making growth stocks much more difficult to find. As a consequence, investors are likely to pay more for growth. Therefore, the issues that have a niche in the marketplace, some pricing power, or a competitive advantage should get superior valuations in the market.

What does increased institutional participation in The Nasdaq Stock Market mean for the individual investor?

Renewed institutional interest in growth stocks works to the benefit of the individual investor. After years of underperformance, growth stocks were not a high priority for institutions. Now that they offer the prospect for terrific gains, we've seen substantial increase in institutional participation, and that will continue to have a positive effect on stock prices. Individual investors really do have an advantage in the Nasdaq market. Because they are buying and selling in smaller quantities, they are able to move in and out of this market much more easily than institutions. So, I think individual ownership in the Nasdaq market will continue to increase, as will ownership by insiders of the company, which is a very positive development. When the management of the company's goals is aligned with the investor's goals, you have a much higher degree of confidence.

Are there any particular sectors whose potential hasn't yet been fully realized?

I think that the significant technology for the 1990s will be biotechnology. As with any infant industry, there are risks inherent in investing at this time. But investors who are in early enough can reap tremendous rewards. Computer technology should also continue to produce some very exciting stories, particularly software. Nearly 80 percent of our employment is in the service sector. And software technology does offer the potential for dramatic gains in productivity, which has been the problem in the service sector. So, even though the economy will show slower growth, it will still present very good opportunities for companies that are innovative and creative and can solve some of America's business problems.

When should an investor buy growth stocks?

After analyzing the company to make sure that he or she is comfortable with it. If there is one common denominator among successful companies, it's good management. Certainly looking at a company's management — its achievements, goals, stability — would be a good start. Second, make sure the company has a balance sheet strong enough to finance future growth and to prevent financial problems down the road. The third thing, and the most difficult, is to analyze the company's future growth prospects. Here lies the potential for making the money. When an investor is comfortable on all three levels, he or she should view the investment as a good long-term holding.

When does a security offer the greatest opportunity for performance?

There are a few points at which an investor can really maximize the opportunity. One is to watch for volatility in the marketplace. We had a stock market crash in 1987. We had a "crashette" in 1988. We had a couple of major corrections in the stock market. If you can time it correctly, those do present tremendous buying opportunities.

On the other hand, investors can lose out by trying to be too much of a "time" buyer. I caution against trying to time buying too closely, because you run the risk of missing opportunities. If I felt confident in the future of the company, confident in its ability to accrue a good aggressive earnings stream, then I think I would buy at almost any time.

How important is a lower price-earnings ratio to an investment decision?

Traditionally, value has been found in companies with lower price-earnings ratios and companies selling near their all-time lows. But investors have to recognize that we're in a different situation in the 1990s. As we move from a recession through a very slow recovery toward a slow-growth economy with contained inflation — companies will have difficulty showing aggressive growth rates. In this very slow-growth environment, growth is where the value is. Therefore, growth stocks will tend to be the best performers. You will see price-earnings ratios expand modestly for the market, but for growth stocks significantly more. That's why today we would look for value in growth companies, and we would not be afraid to pay a higher multiple to get that growth.
Growth Stocks Propel the Large Portfolio

An interview with
John H. LaPorte,
T. Rowe Price Associates,
President of the T. Rowe Price New Horizons Fund and the
New America Growth Fund

What do you look for in a stock?

Strong growth prospects — companies that are growing much faster than the overall economy and that operate in fertile markets. Nasdaq has the growth companies of the future. Many Nasdaq companies are younger, faster growing, and more entrepreneurial than those of the New York Stock Exchange or the American Stock Exchange. The institutional investor, such as myself, is interested in finding the next generation of major growth companies at an early stage, and that usually means on the Nasdaq market.

What kinds of stocks do you buy?

The funds that I run at T. Rowe Price focus on small-growth companies — generally, companies with market capitalizations in the $50- to $500-million range and with a minimum of 20 percent earnings growth expectations. I also tend to focus on companies with high return on equity and companies that generate significant excess cash flow.

Are there particular kinds of stocks that you do not buy?

Yes. Some companies are too small and too illiquid for me to be able to take a reasonably sized position in them. It’s harder to move in and out of companies with a market capitalization of less than $50 million. So, I don’t invest as much in that range.

Would those stocks still be attractive for individual investors?

Sure. It is here that the individual investor has an advantage over the large investor. It is difficult for an institutional investor to own enough of one of these small companies to make a difference in a very large portfolio. But small companies can be a very fertile area for the individual investor to hunt and acquire...
According to LaPorte, companies that exceed the growth rate of the overall economy and operate in fertile markets attract the institutional investor to Nasdaq.

before they grow large enough for institutions to become interested.

How long do you hold a particular stock, and what triggers a sell decision?

We have no automatic sell discipline when a company reaches some arbitrary size. Many of our most successful investments are Nasdaq stocks we’ve held five, six, eight, even ten years. The turnover of the funds that I manage averages about 40 percent, which implies that the average holding period is two to three years. However, in truth, the longer the holding period, the better. For example, the largest holding of the funds I manage today is Medco Containment Services. We’ve owned Medco since 1984 and have seen the stock go from 2 to 30, adjusted for splits, in that time frame.

Do you use indexing as an investment approach to the market?

I do not. I’m a believer in the value of first-hand research. We have a large research staff that combs the country for exciting, small companies. Our style is to visit the companies that we’re considering and meet with the management before we invest.

How would you compare the companies listed on Nasdaq with those on the New York Stock Exchange?

There are fine companies in both markets. New York Stock Exchange companies tend to be larger, more mature, and more multinational, although Nasdaq has its share of these companies as well. But the exciting, most rapidly growing U.S.-based companies — the stars of the future — often are in The Nasdaq Stock Market.

Does the multiple market-maker system offer any advantages to the investor?

Yes. The main advantage is liquidity. We have found that the liquidity of most of the middle-sized and larger Nasdaq companies is better than the liquidity of comparably sized companies on the exchanges. Also, the competition among dealers often yields better prices. Another important advantage is that Wall Street firms usually provide research on a company along with their market making. Sometimes that research coverage actually lapses when a company moves from Nasdaq to one of the exchanges because the specialist is not interested in doing any research — he’s just matching the buyers with the sellers.

How does the availability of information on the Nasdaq market compare with that on the exchanges?

I have an advantage with the Nasdaq market because I can see the bid and offering price of each market maker. All I have on an exchange is the last sale and the bid and the ask on the floor, which may not show the true picture of the depth of the market that really exists, that is, the number of participants who want to buy or sell the securities.
The New World of Screen-Based Trading

An interview with J. Patrick Campbell, Senior Executive Vice President, Head of Equity Trading, and Thomas G. Terry, Senior Vice President, Head Trader, Nasdaq Stocks, of The Ohio Company

How does stock trading differ on Nasdaq and the exchanges?

Tom Terry: There are two basic differences. First, Nasdaq centralizes trading information and channels it via computers and telecommunications to those who need it. The traditional floor-based exchange centralizes people in a single location where trading is conducted face to face. Second, Nasdaq utilizes a system of multiple market makers, that is, dealers, who provide liquidity by competing with one another for customer orders. The average Nasdaq stock has 10 market makers. The exchanges offer an auction-type market where customers' limit and market orders are often matched against one another. When customer orders cannot be matched, a single specialist will act as dealer and be the contra side to a market order or, in the case of a limit order, hold it until a price change permits execution.

Pat Campbell: With Nasdaq's multiple market-maker system, the amount of capital that is committed to support a single issue, as well as competition among many dealers, provide customers, both individuals and institutions, with the best of all worlds — liquidity and efficient trade execution.

Another point worth noting is that when order imbalances occur on an exchange, due to pressure either on the up side or the down side, trading halts are commonly imposed to enable the specialist to sort through the orders and reopen the market. One of the principal advantages of the Nasdaq market, with its multiple market-maker system, is that trading is never halted for this reason.
Do you prefer an electronic market such as Nasdaq or a floor-based market like the exchanges?

Terry: I prefer Nasdaq, where you have the opportunity to communicate directly with other dealers making the markets and to engage in automated trading and comparison. With the advent of SelectNet, a new electronic service for the Nasdaq market, firms are now able to send, negotiate, and execute orders over the computer. This gives traders an opportunity to buy or sell securities for their customers and their firm at the best bid and ask prices being quoted on Nasdaq at the time. In addition, traders can broadcast orders electronically at prices between the bid and ask spread to each market maker in the stock and they, in turn, can accept, reject, or reply with a counter offer.

Campbell: Another benefit of SelectNet is that as soon as a trade has taken place, the price and number of shares are locked in between the parties to the trade and automatically sent to the clearing corporation for clearance and settlement. Nasdaq has the most advanced trade comparison and clearing mechanism of any market.

The new Nasdaq Workstation is the third generation of Nasdaq trading terminals. How does it compare with the earlier version? Is it meeting your needs?

Terry: While it is a sophisticated piece of equipment that provides
substantially more information, it is very easy to use. Through a dynamically updated screen, we now can see when markets are moving one way or another. This gives us the ability to react immediately and execute trades for our customers or our firm. Also, we can monitor individual stocks for changes in last sale or bid and ask prices through market-minding and customized-ticker features.

**Pat Campbell**

Campbell: From a management point of view, the enhanced Nasdaq Workstation service has made possible a dramatic increase in productivity and profitability per trader—not only in terms of the amount of stocks they can trade, but also in their effectiveness in trading those stocks and reacting to markets.

**What are the regulatory implications of an electronic market?**

Campbell: The combination of Nasdaq market trading services—the Small Order Execution System, SelectNet, and the Automated Confirmation Transaction (ACT)SM which enables traders to lock in telephone orders—coupled with Nasdaq's StockWatch Automated Tracking system provide NASD with an outstanding set of tools to oversee the Nasdaq market and monitor all trading activity in it.

**How would you compare the amount and quality of information provided by an electronic market versus a floor-based market?**

Campbell: The electronic market gives you more information. With the multiple market-maker system in Nasdaq, there is the ability to view the entire market in one glance, see market trends and individual stock movements, recognize who is affecting that market, and negotiate with them directly. Because it is a live, hands-on environment, we can react immediately for our customer. The electronic market ensures and facilitates the transparency that broker/dealer, trader, and investor are looking for when it comes to market information. In the auction-type environment of the exchanges, you do not know whether it is the specialist offering, whether it is the public offering, or what it is.

**Does information come faster on an electronic or floor-based market?**

Campbell: The startup of the OTC Bulletin BoardSM has brought improved price discovery and firm quotes to thousands of stocks in this market. This is a definite benefit to these companies, their investors, and the regulators. A series of enhancements to the Bulletin Board in 1991 has increased the opportunity for small companies to have their securities brought to the attention of investors.

**Terry:** You get information faster in an electronic market. Everyone has the same access. Everyone has the ability to see the bid and ask and last-sale prices at the same time. It is immaterial whether the person behind the terminal is in Los Angeles, in New York, or in Columbus—everyone is on the same level playing field.

**What steps has the NASD taken to ensure the integrity of trading in OTC stocks not listed on Nasdaq both for the trader and the investing public?**

Campbell: The Bulletin Board has done is to move the National Quotation Bureau’s “Pink Sheets” into the 21st century. It has created an efficient over-the-counter market facility that will serve as a seasoning ground for companies until they qualify for listing on The Nasdaq Stock Market. The pre-Bulletin Board OTC market had day-old information printed on paper sheets. The new OTC Bulletin Board market has real-time data that eliminate the need for traders to obtain quotes by phone. Real-time data and ready access are the reasons why we have seen considerable interest and activity in this market among individual investors and market professionals.
Corporations Seeking Capital
Return to the Equity Markets

An interview with W. Carter McClelland, Managing Director, Corporate Finance, Morgan Stanley & Co., Incorporated

What kind of a year was 1991 for IPOs [initial public offerings] and secondary offerings on The Nasdaq Stock Market?

A record number of issues came to market in 1991 due mainly to the tremendous upswing and renewed interest in equities. Nasdaq companies accounted for well over half of all domestic equity issues and close to 75 percent of domestic IPO offerings.

What is it that attracts companies to the Nasdaq market?

For the most part, a Nasdaq listing provides a greater opportunity to cultivate continued investor interest because trading is carried out by the actual market makers and not disinterested specialists. Also, listing on Nasdaq can be accomplished with a relatively minimal administrative burden.

Are there any disadvantages to a Nasdaq listing?

There are no disadvantages. There is, however, the misconception by a few that it's a market for smaller-capitalization companies only. While Nasdaq does provide an excellent place for emerging growth companies to begin life as publicly traded entities, it has a solid register of billion-dollar companies as well. I think that Nasdaq's success in recent years has greatly reduced this misconception.

What accounts for the recent surge in equity financing?

The greatest motivation for the surge in equity issues has been the widespread trend toward deleveraging. Corporations began to realize that the higher levels of debt taken on in recent years did not necessarily provide a better overall capital structure. This created a tremendous need for equity. The only real disadvantage behind the accelerated trend toward equity issuance is that, for some companies, equity may not be the least expensive form of financing.

Those companies that were not caught up in the leveraging of the 1980s, or for which a certain level of debt has proven to be sustainable, found the fixed-income marketplace quite receptive in 1991 as well. Declining interest rates have made debt financing an attractive source of capital. But corporations that are small, or those for which interest payments would represent an undue burden, are better off participating in the equity markets.
What factors are considered in the timing of a primary or secondary offering?

The past and expected future financial performance of the issuing company are always of prime concern in either type of offering. Equally important is the strategy that the company has to expand its business against encroaching competitors. The overall health of the equity market must also be taken into account. Even the most well-positioned offerings can be adversely affected by poor market conditions.

What challenges do investment bankers currently face in the distribution of primary and secondary offerings?

When Morgan Stanley participates in an offering as a lead manager, it is the overseer of a transaction involving three entities: the issuing company, the underwriting syndicate, and the potential investors. The overall goal is to provide the company and/or its investors with a certain level of funding, to leave some room on the upside for investors, particularly for IPOs, and to allow the underwriters a fair profit for the risk they take.

However, these goals often conflict and must be governed by the lead manager. The issuer obviously wants to get the highest possible price for its stock, while leaving some “room for growth” to continue attracting investors. Some potential syndicate members may not be asked to participate in a particular offering because of necessary strengths found in other underwriters. Those underwriters that do participate will desire an equitable distribution of the stock to be sold among the syndicate members, but various market factors may override this. For example, a brokerage house located near the company may receive a disproportionate amount of stock to sell because of high local demand — this can be especially true for a company’s IPO. Finally, syndicate members must take care to place the bulk of the stock with investors who will be long-term holders — “supporters” — of the company.

When investment banking firms bring companies public, what insider trading precautions do they take?

Securities firms maintain a “Chinese Wall” to separate their investment banking activities from their research and trading operations. A special supervisory group controls what information can pass between individuals on opposite sides of the wall. In this way, inside information cannot inadvertently pass beyond the boundaries of the firm’s investment banking division. Any person on the investment banking side of the wall is, of course, prohibited from trading the securities of companies for which such knowledge is material. In addition, members of the research and sales and trading arms of a securities firm are often physically restricted from entering areas where sensitive information may be found. Finally, some firms, such as Morgan Stanley, actually restrict their investment banking employees from effecting trades in any company’s securities to avoid even the appearance of impropriety.

“A Nasdaq listing provides a greater opportunity to cultivate continued investor interest because trading is carried out by the actual market makers and not disinterested specialists.”

How can companies enhance the value of their shares?

If a company has a fairly steady cash flow, it can implement a recurring dividend to reward its stockholders. If a one-time cash influx occurs but regular cash flow is less steady, a one-time dividend can help shareholders realize additional value.

Although not as equitable to all stockholders, companies may engage in a stock buy-back program. Such a program is economically identical to a dividend declaration. A stock split is another way companies can potentially deliver increased value to shareholders. Although this doesn’t really create new value, experience has shown that a split delivers a positive signal to the market that can ultimately increase a company’s worth. Finally, companies may reposition themselves by engaging in various types of mergers, acquisitions, and divestitures, and thus create value for stockholders.
Customer Service in the 1990s

Aarnout A. Loudon, Akzo N.V.
John Sculley, Apple Computer, Inc.
William K. Coors, Adolph Coors Company
Bert Roberts, MCI Communications Corporation
Bruce A. Nordstrom, Nordstrom, Inc.

Moderator: J. Bruce Llewellyn, NASD Board of Governors

The NASD recently coordinated a discussion among CEOs of Nasdaq companies recognized as leaders and innovators in customer service. They explored the latest trends in customer service, how their companies are preparing for them, and how they rate NASD and Nasdaq customer service.

Bruce Llewellyn: The decade of the 1990s seems to have brought with it a new corporate vanguard: customer service. Why is there so much talk about the customer at this point in time?

John Sculley: The increasingly pervasive commitment that companies are making to customer service is more than a passing fad. Companies in a variety of industries are realizing this focus is vital to their survival in the international marketplace. In the personal computer industry in particular, customers now place a much higher value on support. Whereas only two years ago, a system’s price/performance, the availability of applications, and networking capabilities were key criteria in the purchase decision, potential buyers are now asking, “What is the service policy?” and “Who will answer my questions?” Several PC companies have been able to gain significant presence in the industry by making highly differentiated service features an integral part of their product offering.

Bert Roberts: We have a similar situation in the telecommunications industry. It is becoming increasingly important to differentiate yourself from the competitors, and there are a lot of ways you can do that in products, merchandising, and sales. At MCI, we believe that the real winner is going to be the company that, in fact, has the close identity with the customer and offers the most complete customer service.
Jewellyn: Granted that the key to the '90s will be the customer, is a customer service orientation new to your respective companies?

William Coors: We at Coors have always focused on the customer. The brewing business is about as competitive as a business can be, and if you are not pleasing the customer, you are going to be out of business.

Bruce Nordstrom: We feel the same way. Nordstrom's roots as a company go back to a little shoe store in Seattle at the turn of the century. Our whole emphasis has always been on customer service. There is no business more customer-sensitive than selling shoes. It's very personal regarding style and fit. We've all been raised on this one-on-one selling, so we understand that customer service is fundamental to any success we might have.

Sculley: Apple also has had a customer service orientation since its founding in terms of our products. They have always been designed from the user's point of view. Ease of use, friendliness, easy configurability, even enjoyment have been our goals. When customers did have questions, most often they turned to computer resellers. As the economics of the distribution channel have changed and resellers have fewer resources, customers are expecting the manufacturers to answer their questions.
Llewellyn: Just how basic is the focus on customer service to the way your company does business — to its strategic decision making, organizational structure, product development?

Aarnout Loudon: Akzo has been engaged in a fundamental reorganization over the past few years with the customer in mind. We’ve introduced a business-unit structure to create a more decentralized organization that would better meet the demands of the market. We believe the flexibility, shorter decision-making lines, and greater market proximity offered by our new organization will enable the Akzo business units to serve its customers optimally in the 1990s and beyond. Within the new organizational framework, the business units have been given greater responsibilities to bring them into closer contact with their various markets. Organized into well-defined product/market combinations, they have the task of concentrating on their core activities: R&D, production, marketing and sales, and human resources.

Roberts: Although MCI has always had a customer service orientation, over the last couple of years we’ve intensified our focus through organizational changes as well. On the consumer side, we’ve centralized our various customer service centers so that they report to a single executive whose strategic goal is favorable customer perceptions of the company. And we’ve done it on the business and the national account side again by appointing an executive who is responsible for coordinating the achievement of customer satisfaction targets in our business divisions.

Coors: At Coors, our companies have addressed customer service through a combination of training as well as a "trans-organizational" element, if you will. At the brewing company, for example, we have a formal customer satisfaction improvement program that employs an innovative and flexible team concept used throughout the company. Every new employee receives eight hours of training in customer satisfaction improvement. Work units are expected to meet with customers regularly to get feedback on how our products and services can be improved. As problems with customer satisfaction are identified, teams come together to solve them. Continuous customer input is integral to the problem-solving process. It’s pushed decision making downward in the organization, and it gives the people closest to the customer more authority in responding directly to customer needs without going through levels of our bureaucracy.

Sculley: In Apple Computer’s case, we now address customer service in the earliest stages of the product design process. Increasingly, our design decisions are influenced by factors like ergonomics, ease of reassembly, and commonality of components among different products. Focusing on these enables us to increase customer satisfaction while holding down costs. As we prepare for Apple to enter new product categories such as consumer electronics, customer service is being addressed in the marketing plans — that is, in advance of the product coming to market.

Loudon: The product itself is the focus of customer service at Akzo as well, and we develop educational programs as a supplement. Let me give an illustration. Akzo’s Pharma Division subsidiary Organon is one of three pharmaceutical companies actively involved in contraceptive research and product development. Most companies are not willing to take the risks that go together with research and development, especially since there are already a number
of very good contraceptives on the market. But Akzo is constantly looking for better compounds that can make contraception safer, more effective, and more convenient. Organon believes that the responsibility of a health-care company to improve the health and quality of life of the people it serves goes beyond the provision of drugs. To this end, we sponsor and implement contraceptive education programs in developing as well as various developing countries. And we recently started in Russia and Ukraine.

Roberts: MCI is making still another kind of commitment to customer service. We’re investing substantial capital in the information systems that support our customer service operation. It is important for a customer service representative with a telephone call from a customer to have right there at his or her fingertips the information necessary to respond immediately. It may be as simple as bringing up an invoice on the screen, or as technologically sophisticated as calling up the actual image of a letter a customer sent us. At the same time, when a large account calls with a network problem, automated computer systems can identify exactly what that problem is and correct it. But equally important, we are being proactive in our approach to customer service. For example, if we do have a problem with a specific circuit, we’re now frequently identifying it before the customers experience it, re-routing the traffic, and calling the customers to tell them of the action.

Llewellyn: Given that you are all genuinely committed to customer service, how do you measure customer satisfaction, and how often?

Nordstrom: Measuring customer satisfaction is normally a day-to-day process at Nordstrom. Part of being a merchant is being close to your customer. All of us in the executive offices are merchants, and we answer our own phones, open our own mail, and respond to any customer input.

Roberts: I agree. It’s important that the measure of customer satisfaction at MCI should not be delegated downward through the organization. I call on large accounts to ask how we are treating them, and I am personally involved in monitoring the complaints that are addressed directly to my office.

Sculley: We measure customer satisfaction on a continual basis for similar reasons. Thanks to our large, in-house technical assistance function, we have ongoing contact with our customers. The people involved in designing our user manuals analyze the types of questions customers ask about specific computer tasks. In other areas, statistical measures are important. For example, for manufacturing, we measure the percentage of products returned because of malfunction.

Nordstrom: We also, on occasion, hire outside people to come in and shop our Nordstrom stores to see if, in fact, our opinion or observation is valid.

Sculley: Apple takes into account outside measurements as well. Several organizations monitor the customer satisfaction levels of all the major PC manufacturers on a quarterly basis. We watch such external surveys closely.

Roberts: At MCI, we have an ongoing in-house customer survey program. For individual customers, we survey monthly a random sample of 2,000 customers who have had contact with our customer service center. We examine the data for a whole series of parameters — Were they satisfied? Was the problem handled
in one call? Did they find the person courteous? — and make corrections if we see problems. We survey the large national accounts quarterly, asking them to comment on their contact with our sales department, operations group, or customer service — How did we respond to their problem? How do they like our products? Are we serving their needs? We then conduct a telephone follow-up with a subset of these customers.

Improvement Program. Employees set annual quality and customer satisfaction improvement targets, and receive bonuses when they achieve them. With Graphic Packaging Corporation, the company factors consumer response into its total quality management process.

**Llewellyn:** It sounds as if you have established a kind of partnership with your customers.

**Sculley:**

**John Sculley**
Chairman, Chief Executive Officer, and Chief Technology Officer
Apple Computer, Inc.

Coors: Such direct customer feedback plays an integral role at Coors, not only in terms of measurement, but also in terms of compensation. At the Coors Brewing Company, customer satisfaction is a formal part of each person's job description and performance appraisal. The work units meet with customers at least once a year and many have formal, written evaluations that are completed annually by the customer groups. At Golden Aluminum, customer satisfaction is woven into the company's Perpetual Quality Improvement Program. Employees set annual quality and customer satisfaction improvement targets, and receive bonuses when they achieve them. With Graphic Packaging Corporation, the company factors consumer response into its total quality management process.

**Llewellyn:** It sounds as if you have established a kind of partnership with your customers.

**Roberts:** At MCI, we are moving in a similar direction by establishing a customer service "report card," if you will. We are starting to measure our executives in terms of customer satisfaction, just as we take into account budgets, revenues, employee attitudes, network performance, and so forth.

**Llewellyn:** Now let's turn the tables. How do you find the NASDQ's and Nasdaq's customer service efforts? Are your needs as issuers being met?

**Nordstrom:** My observation is, in short, absolutely. Like anything else, there have been a couple of ups and downs. I do recall one computer problem, but what I've been impressed with is that Nasdaq has responded promptly to these situations over the years. I know my chief financial officer and the people in our financial division are very complimentary of the service they get from Nasdaq.

**Loudon:** For our part, Akzo is very pleased with the services rendered by the staff of Nasdaq's London office and also enjoys the cooperation of Nasdaq's Washington and New York staff.

**Sculley:** At Apple, we've been gratified by the increased attention Nasdaq has paid to the service needs of its listed companies. The ready access to a variety of Nasdaq staff, both regionally and at the national level, has been useful to us on
several occasions. Our investor relations staff also finds the reports that Nasdaq generates on Apple, both the standard formats and the customized requests, helpful in monitoring our stock’s performance.

**Coors:** We’ve been most appreciative at Coors of Nasdaq’s attention to our needs as an issuer over the years. Nasdaq’s customer service is certainly competitive with the exchanges. The monthly statistical summaries seem to get better each year and offer more information, which is very useful to us.

**Roberts:** MCI’s answer to that question is “very good.” Nasdaq has set up an organization in which there is an individual who is responsible for MCI who initiates meetings with our CFO a couple of times a year and who is accessible should we have any problems. I certainly know that Joe Hardiman has taken an active interest, and I feel that if there were an issue critical to MCI that I wanted to raise, I would have direct access to his office.

**Llewellyn:** *Now, all of your companies qualify for listing on the New York Stock Exchange (NYSE). Why have you chosen Nasdaq as your market?*

**Loudon:** Akzo’s situation may be a little different from the other companies. The listing on Nasdaq was a logical extension of Akzo’s investor relations program in the USA. After obtaining a sufficiently large shareholders’ base in this country, Akzo was more or less expected to apply for a listing. For most institutional investors, it makes no difference whether the listing is on Nasdaq or the New York Stock Exchange. The point is that a listing in the U.S. is necessary to further widen the shareholders’ base. Akzo already had a good relationship with many of the country’s brokerage firms that provided coverage of the company, and they are the market makers on Nasdaq. However, the Nasdaq listing has improved the awareness of Akzo in the United States.

**Llewellyn:** *Your experience once on Nasdaq may have something in common with that of other companies. It is often said that The Nasdaq Stock Market is particularly effective in increasing a company’s visibility because of its multiple market-maker system. Are multiple market makers a factor in your choice of market?*

**Nordstrom:** To answer that question, I have to refer to the history of our company. When Nordstrom went public 20 years ago, we were doing approximately $40 million annually in volume. Of course, now we’re quite a bit over $3 billion. It seemed appropriate to us to start with Nasdaq when we were a relatively small, regional company, and I think regional is an important word here. The Nasdaq market seems to lend itself to regional companies because of the many local and national market makers that you can have there. Now we’re more than local — a large, national company — and, as you say, we do qualify for the other exchanges. But we stay with Nasdaq because of the service and because we’ve been satisfied with the price-earnings ratio of our stock over the years and felt that, in some measure, this is due to the Nasdaq market.

**Coors:** We at Coors feel that Nasdaq is a more efficient market in terms of liquidity and speed because of the multiple market-maker system as opposed to one specialist.

**Sculley:** We also continue to believe, based on our own research, that Nasdaq’s liquidity benefits our shareholders. The high level of
liquidity is due to the approximately 40 firms making markets in Apple.

Roberts: MCI feels very strongly that liquidity in our stock must be maintained for our shareholders, and in such a way that trading in our stock doesn't stop. We feel that the liquidity that Nasdaq provides through its multiple market makers is superior to the exchanges, which basically have a single individual who's trying to balance the imbal-

ance of orders. I think the prime example of that was in 1987 when the stock market crashed. MCI's stock — yes, it was depressed in terms of its value — but it didn't stop trading. On the other hand, trading in the stock of some very premier companies on the New York Stock Exchange was locked up for many hours if not longer. I think that alone was a test of why Nasdaq works better as a market.

Coors: All of this points to one conclusion. The argument that moving to an exchange is a natural evolutionary step for a public company no longer makes sense, not when you see the large number of Fortune 1000 companies staying on Nasdaq. Not only are exchanges costly, but they're difficult to get off of as well.

Roberts: That's very true. If you become a member of the New York Stock Exchange, you can't get off without two-thirds of your stockholders' approval and 10 percent can't object. You ask yourself, if that's such a good place to be, why screen-based, computerized trading, as such.

Roberts: I would agree that Nasdaq's automation gives it a fundamental leadership role in terms of how the stock markets are positioning themselves for the future. This also is a reason why MCI lists on Nasdaq.

Llewellyn: The advent of Nasdaq International — the extension of The Nasdaq Stock Market as a service that enables shares of U.S. companies to be traded during hours when the London Stock Exchange is open — 3:30 to 9 a.m., Eastern Time — has us all thinking about the possibility of our companies' stock being traded 24 hours a day by investors all over the world. How important is it to your company to diversify its shareholder base overseas?

Sculley: Apple is an international company, with an international base of customers, suppliers, and investors. We want to make it easy for people to own Apple stock and participate in our future. Outside the U.S., our shares are traded on the Tokyo and Frankfurt exchanges. Nasdaq International will be another important way to facilitate ownership of Apple stock.

Roberts: As the international market for MCI's products and services has grown, it has become increasingly important for us to broaden the ownership of our stock internationally as well. We've got to have international markets for stock. Obviously, the step that Nasdaq has taken is critical to larger companies like MCI that require this visibility overseas.
Coors: Well, Coors has always had a following outside of the United States. As we expand our operations internationally, certainly Nasdaq International will be an excellent tie-in with our investor relations efforts to broaden that shareholder base even further.

Nordstrom: I don’t think it’s real important to Nordstrom at this point in time. But we do have some important holders of our stock overseas. We have discovered that, at least in our case, those people that do hold our stock around the world seem on the average to be more patient than people in this country, so it’s in quiet hands, and we appreciate that.

Loudon: For Akzo, the situation, of course, is reversed. In geographical terms, about 20 percent of Akzo’s activities are based in the U.S. We are pleased that this is currently reflected by our shareholder base there. The majority is held in ADRs [American Depositary Receipts], but U.S. investment in our common shares has increased since the listing.

Llewellyn: One final question: In your opinion, what would the stock market of the future look like?

Nordstrom: For me, the Nasdaq market obviously is the basis for whatever stock trading evolves into in the future. And it would seem to me, and I would guess to most people, that the floor-based exchange is something that will be phased out.

Loudon: Akzo is listed on all major European stock exchanges as well as on Nasdaq and is, therefore, familiar with both the floor-based exchanges and the electronic computerized screen-based markets. In view of the concurrent trends toward further globalization and 24-hour trading, we expect that screen-based exchanges will take the lead in the future. Floor-based trading exchanges, like the Amsterdam Stock Exchange, may have a long life, however.

Coors: It’s all rather subjective. There’s no doubt in my mind that the exchange floor will go the way of the dinosaur. Nasdaq’s electronic trading system is a natural model for securities markets to emulate in today’s computerized global marketplace. The photograph of paper being thrown in the air with hundreds of traders running around on a wooden floor may be in a museum pretty soon. I can’t imagine seeing it in person for very long because I don’t see that archaic system competing in today’s world.

Sculley: At Apple believe the future is already here. Computerized, automated, round-the-clock trading will soon meet the needs of increasingly sophisticated investors. As we move forward, we believe the variety of financial products, such as derivatives, that will be available for trading in this manner will increase.

Roberts: We’re probably already close to the point where companies that have issued equity instruments are basically going to be in a position where those shares will be trad-

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NORDSTROM

Bruce A. Nordstrom
Co-Chairman of the Board
Nordstrom, Inc.

Nordstrom

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ed worldwide, 24 hours a day. That means that you must have the underlying technological infrastructure around the world so that there won’t be any restrictions in terms of time or geography on trading activity.

I think that speaks well for Nasdaq, which has had the insight to take a leadership role in technology and automated systems and not, if you will, constrain itself to an exchange and a location.
Achieving Efficiency, Fairness, and Performance in 1991

Market Performance

The Nasdaq Stock Market Breaks Numerous Records
In 1991, the Nasdaq Stock Market broke many records as a result of a rediscovery of equities by investors, renewed interest in growth stocks, and a substantial increase in initial public offerings.

The Nasdaq Composite Index rose 56.8 percent during 1991, almost triple the 20.3 percent increase of the Dow Jones Industrial Average, more than double the 26.3 percent of the Standard & Poor's 500, and well above the 43.7 percent of the Russell 2000. The Nasdaq Composite's gain was more than double the rise in the composite indexes of either the New York Stock Exchange or the American Stock Exchange.

Nasdaq Share Volume, Dollar Volume, Market Capitalization Soar
Nasdaq's share volume jumped to 41.3 billion as its dollar volume of trading soared to $694 billion, surpassing the previous highs of 37.9 billion shares and $500 billion, respectively, set in 1987. The new dollar volume figures firmly establish Nasdaq as the third largest equity market in the world.

The market capitalization of Nasdaq companies also grew dramatically, finishing the year at $508.3 billion. The major industry categories that propelled Nasdaq's advance in 1991 were pharmaceuticals, which rose 177 percent during the year; health services, 127 percent; computer and data processing services, 107 percent; medical instruments and supplies, 102 percent; and business services, 85 percent. The most actively traded stock was Intel Corporation, with a volume of 553.4 million shares. Microsoft Corporation was the market-value leader at $19.5 billion as of December 31.

Market Quality and Services

Nasdaq International Becomes World's First Intercontinental Stock Market
The SEC approved Nasdaq International, the trans-Atlantic extension of the Nasdaq Stock Market, for a two-year pilot operation. Nasdaq International's European trading session, which runs from 3:30 to 9 a.m., ET, is a first step toward the coming 24-hour global equity market. Both NASD member firms and their approved United Kingdom affiliates can be eligible market makers. Securities qualifying for quotation in Nasdaq International are Nasdaq National Market issues, regular Nasdaq foreign securities (except Canadian) and American Depositary Receipts (ADRs), and equity securities listed on a U.S. securities exchange.

Short-Sale Rule Aims To Limit Abusive Short Selling
Responding to issuer, investor, and member concerns, the NASD Board approved and submitted for membership vote a short-sale rule for Nasdaq
National Market securities. The proposed rule was developed by a consensus among various NASD committees and has the overwhelming support of Nasdaq companies. Comparable to the shortsale rule for exchange-listed securities, the new rule would prohibit short sales at or below the current inside bid when the inside bid is lower than the preceding bid. In effect during normal domestic market hours, the rule would include an exemption for short-sale transactions by qualified market makers. The rule has been crafted to assure both issuers and investors that they are subject to at least equivalent protection from inappropriate short selling in the Nasdaq market as they are on an exchange.

**Rule Changes Preserve SOES As Service for Individual Investors**

Expanded definitions under the rules to the Small Order Execution System (SOES) were approved by the SEC. They preserve the system as an automated paperless service that ensures the small retail investor efficient, fast, and inexpensive executions in The Nasdaq Stock Market. The rule changes essentially prohibit professional traders from executing orders through SOES. Accounts may be designated as professional trading by the NASD if there are one or more factors present such as excessive frequency of short-term trading and short-sale transactions, the exercise of discretionary authority over the account by a broker, and physical access by the owner to a terminal with SOES execution capability.

**SelectNet Automated Negotiation Trading Service Completes Successful First Full Year**

SelectNet, the screen-based negotiation and execution trading service for the Nasdaq market, completed a highly successful first full year of operation. Traders entered 3.44 million trades representing 6.87 billion shares and executed 1.07 million trades totaling 1.65 billion shares. By eliminating the telephone in trade negotiation, SelectNet is significantly increasing execution efficiency.

**Higher Basic Listing Standards Reflect Stature of The Nasdaq Stock Market**

The basic entry and maintenance standards for companies seeking to list on Nasdaq were increased, while Nasdaq National Market listing standards, which exceed these requirements, remained unchanged. The new entry standards, approved by the SEC, now require a minimum per-share bid price of $3, two market makers, a public float of 100,000 shares, $1 million in market value of public float, $4 million in total assets, and $2 million in capital and surplus.

After listing, a company must continue to satisfy various objective criteria known as maintenance standards. Under the new requirements, a company must maintain a minimum per-share bid price of $1, have $2 million in capital and surplus and a market value of public float of $200,000, and maintain two market makers. The higher standards reflect the increased stature of The Nasdaq Stock Market as well as the quality of Nasdaq companies and the strength of investor interest in them.

Additional Nasdaq enhancements are imminent. Pending SEC approval, transactions in the 1,600-plus Nasdaq securities not listed on the Nasdaq National Market will soon be reported within 90 seconds. This real-time reporting, which already exists for Nasdaq National Market issues, will provide additional market information for the investing public and trading community as well as enhance the NASD's regulatory oversight of this market.

**OTC Bulletin Board Enhanced For Investors, Traders, Issuers**

A number of enhancements for all participants has improved the OTC Bulletin Board, the electronic, screen-based market for quoting securities not listed on The Nasdaq Stock Market or any U.S. exchange. The most important of these is that all quotations on domestic stocks entered by market makers, whether one- or two-sided, must be firm for a minimum of one unit of trading. In approving this proposed change, the SEC said that "the NASD is furthering the execution of customer orders at the best available price and fair dealing among the service market makers." Quotations displayed in the service for foreign securities (including Canadian stocks) and ADRs remain indicative and subject to twice daily updates only.
Other OTC Bulletin Board changes were implemented as well. They include: (1) the calculation of the inside (best bid and ask) quotation based on bids and offers entered by registered market makers in a particular security; (2) an improved query capability that provides ranked bids and offers for individual securities and corresponding market-maker identifiers; and (3) faster access to the OTC Bulletin Board through the NASD’s Workstation service.

In addition, a vendor feed of OTC Bulletin Board inside quotations and individual market-maker quotes, including an identifier for nonfirm prices in foreign and ADR issues, is available to almost 200,000 broker terminals. This gives the stocks quoted on it the potential for worldwide visibility.

The PORTAL℠ Market Seeks Conversion Into Open Information and Trading System
Awaiting SEC approval is an NASD plan to transform the PORTAL Market, the automated electronic market for private placements, from a closed regulatory mechanism with narrow participation to an open information and trading system. The new PORTAL will be more useful to issuers, investors, and securities professionals who have little interest in the safe-harbor provisions of the original PORTAL design. As a quotation and transaction reporting facility, PORTAL would overcome the historic fragmentation, obscurity, and inefficiency of the restricted securities market without excluding certain firms and qualified investors from participation as the current system may.

Regulatory Initiatives

Regulators Show That They're Winning the War on Penny-Stock Fraud
The “war on penny stock fraud,” initiated in 1986 and intensified beginning in 1990, notched major victories in 1991. During the past two years, the NASD, SEC, and other regulators stepped up enforcement efforts of existing prohibitions against fraudulent practices. In addition, the SEC enacted a new rule imposing explicit suitability and record-keeping requirements on penny-stock broker/dealers. The SEC also amended a rule to now require broker/dealers to review, maintain, and confirm the accuracy of certain financial and operating information on companies whose non-Nasdaq OTC securities they initially quote or resume quoting in an interdealer quotation medium, such as the OTC Bulletin Board.

NASD Adopts Rules on DPP Rollup Solicitation Compensation, Expenses
Direct participation program (DPP) rollup rules adopted by the NASD require compensation arrangements that reinforce the commitment of member broker/dealers to advise their clients according to the investor’s best interests. Under the new NASD rules, compensation for the solicitation of DPP rollups must be payable and equal in amount whether the limited partners vote for or against the proposed transactions. In addition, such compensation cannot exceed, in the aggregate, 2 percent of the exchange value of the newly created securities. Moreover, the general partner or sponsor proposing the rollup must pay all solicitation expenses if the transaction is not approved by the limited partners. DPP rollups are the acquisition, merger, or consolidation of an unlisted DPP into another public DPP, corporation, or trust.

In a related development, the NASD issued a Notice To Members to remind members of their responsibility to ensure compliance with relevant regulatory requirements when engaging in secondary-market trading in DPPs. The comprehensive Notice made clear that NASD rules regarding markups, the suitability of recommendations, and best execution are applicable to secondary-market trading in these products. Members were informed that the NASD intends to surveil this market closely to determine member compliance with all relevant rules and regulations.

Continuing Education for Brokers Would Reassure Investing Public
The NASD Board announced plans to develop an industry-wide program of continuing education and assessment for securities professionals registered with the NASD. Member firms will have the option of adopting an NASD-approved program for their registered representatives that must include an assessment.
feature, or requiring their personnel to undergo periodic assessment by the NASD. The program is being designed to increase the standards of professionalism for industry practitioners and to reassure the investing public that securities industry professionals have a thorough knowledge of the investment products they sell, the rules they must follow, and the increasingly complex financial markets in which they operate.

Proposed Change to Rule 10b-6 Would Ensure Pre-Offering Liquidity and Depth
The NASD has proposed a modification to SEC Rule 10b-6 to reduce the negative impact that the rule has on the market for securities of an issuer immediately prior to a secondary offering. The exception would permit market makers involved in secondary distributions to engage in “passive market making” in the securities being underwritten during the pre-offering “cooling off” period up until termination of the offering. Under the NASD proposal, bids or purchases could be made by an underwriter so long as they are at a price no higher than the highest independent bid and for a quantity no greater that the largest independent size. Adoption of the NASD proposal would reduce market volatility and improve the depth and liquidity in Nasdaq-listed stocks during the two-day period prior to a secondary offering when market makers underwriting the offering must now withdraw from making a market.

Report Completed on Inducements for Order Flow
Inducements for order flow do not impair fair, efficient competition, concluded a report prepared by a special NASD committee that conducted a comprehensive study of payment for order flow in the industry. According to the committee’s report, inducements are commonplace throughout the securities industry and are an inherently competitive strategy in the current market structure. The report found that order-flow inducements actually encourage lower execution costs and enhance services to investors because they are often related to technological improvements and economic savings.

The report, “Inducements for Order Flow,” examined the impact on investors of such inducements as payment, discounts, credit, and free services provided by dealers to brokers in exchange for their aggregated small orders for execution. The committee was headed by former SEC Chairman David S. Ruder.

Enhanced Surveillance and Data Planned for Fixed-Income Markets
The NASD discussed with the SEC and Congress various plans to enhance oversight, surveillance, and market transparency for the fixed-income markets to address existing regulatory vacuums, the problems in the high-yield debt market of the late 1980s, and the recent improprieties in the government bond market. The NASD has proposed to the SEC the development of an automated surveillance system for the corporate debt market that would involve comprehensive trade reporting for surveillance purposes. In addition, the NASD has formed an Ad Hoc High Yield Debt Committee that is responding to SEC proposals for increased transparency in the high-yield debt market. As a result of the Ad Hoc Committee’s efforts, the NASD is considering the development of an electronic system for the public dissemination of quote and periodic trade summary information in high-yield debt securities.

The NASD is also working closely with the relevant congressional committees on new legislation pertaining to government securities. One of the key provisions of the legislation would fill an existing regulatory gap by giving the NASD sales-practice authority over members’ activity in the government securities market. Another provision contained in the legislation under consideration would provide the SEC with “fall-back” authority to ensure public dissemination of quote and trade information in government securities are being considered.
The Board of Governors represents the interests of the NASD’s principal customer groups as it determines policy for the regulatory and market operation activities of the organization. The Board consists of Governors elected by member firms from 11 districts throughout the United States and Governors-at-Large selected by the Board from among investors, Nasdaq-listed companies, insurance company members, underwriters of investment company shares, the securities industry at large, and related professions, such as accounting, business education, and law. The President of the NASD, who is selected by the Board, serves as a continuing member of the Board. With the exception of the President, all Board members serve without compensation for three-year terms. The Chairman of the Board is elected annually.

1. Richard M. DeMartini
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   New York, New York

2. Victor R. Wright
   Goldman, Sachs & Co.
   New York, New York

3. Fredric M. Roberts
   F.M. Roberts and Company, Inc.
   Los Angeles, California

4. Philip S. Cottone
   MBI Equities Corp.
   Cherry Hill, New Jersey
   NASD Vice Chairman-
   Finance, 1992

5. Robert Coelho
   Octel Communications
   Corporation
   Milpitas, California

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

7. Robert L. Clark
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9. William R. Thomas
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   Corporation
   Dallas, Texas

10. Joseph R. Hardiman
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    Executive Officer
    Washington, D.C.

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    Company, Incorporated
    St. Louis, Missouri

12. James M. McMullan
    William Blair & Company
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13. William B. Summers, Jr.
    McDonald & Company
    Securities, Inc.
    Cleveland, Ohio
    NASD Chairman, 1991

14. William G. Papesh
    Murphy Everse, Inc.
    Spokane, Washington
    NASD Vice Chairman-
    Finance, 1991

15. Andrew L. Berger
    Wertheim Schroder & Co.
    Incorporated
    New York, New York

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

17. L. Gene Tanner
    Raffensperger, Hughes &
    Co., Inc.
    Indianapolis, Indiana

18. Ronald P. Lynch
    Lord, Abbett & Co.
    New York, New York
    NASD Vice Chairman, 1991

19. Jerry R. Roberts
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    Little Rock, Arkansas

20. Charles B. Johnson
    Franklin Distributors, Inc.
    San Mateo, California
    NASD Chairman, 1992

21. David J. Powell
    The Principal/Eppler,
    Guerin & Turner, Inc.
    Dallas, Texas

22. Jerry L. Williams
    Robert W. Baird & Co.,
    Incorporated
    Tampa, Florida
23. J. Bruce Llewellyn
The Philadelphia Coca-Cola Bottling Company
New York, New York

Not Shown:

John W. Lavery
Merrill Lynch & Co.
New York, New York

Peter B. Madoff
Bernard L. Madoff & Company
New York, New York

Morgan Stanley & Co., Inc.
New York, New York
NASD Vice Chairman 1992

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

26. David S. Ruder
Northwestern University
School of Law
Chicago, Illinois

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

* Governor-at-Large.
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<tr>
<th>Name</th>
<th>Title and Position</th>
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<tr>
<td>Joseph R. Hardiman</td>
<td>President and Chief Executive Officer</td>
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<td>Douglas F. Parrillo</td>
<td>Senior Vice President Corporate Communications</td>
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<td>Vice President Director, District 2</td>
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<td>James P. O’Donnell</td>
<td>Executive Vice President Administration</td>
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<td>Betty Jarasiewicz</td>
<td>Vice President Product Development</td>
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<td>Executive Vice President Compliance</td>
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<td>Vice President Membership and Qualifications</td>
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<td>John T. Wall</td>
<td>Executive Vice President Marketing and Market Operations</td>
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<td>Vice President Arbitration</td>
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<td>S. William Broka</td>
<td>Vice President Trading and Market Services</td>
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<td>K. Richard B. Niehoff</td>
<td>Vice President Trading and Market Services</td>
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<td>T. Grant Callery</td>
<td>Vice President and Deputy General Counsel</td>
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<td>James M. Cangiano</td>
<td>Vice President Market Surveillance</td>
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<td>James F. Peck</td>
<td>Vice President Qualifications Testing</td>
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<td>L. Brian Holland</td>
<td>Senior Vice President Marketing</td>
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<td>Thomas R. Cassella</td>
<td>Vice President Financial Responsibility</td>
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<td>Hilary Reilly</td>
<td>Vice President Systems Technology and Planning</td>
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<td>Managing Director Nasdaq International, Ltd.</td>
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<td>E. Craig Dearborn</td>
<td>Vice President Director, District 8</td>
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<td>Willis H. Riccio</td>
<td>Vice President Director, District 11</td>
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<td>Glenn C. Faulkner</td>
<td>Vice President Nasdaq Company Services</td>
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<tr>
<td>Jack Rosenfield</td>
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DuWayne J. Peterson Associates
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Tampa, Florida

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*Member, NASD Board of Governors

Acknowledgements

The NASD wishes to thank our customers — the investors, chief executive officers, and securities industry professionals — who participated in this year's annual report. We are grateful for the time that they generously devoted to this project and appreciate all the care, thoughtfulness, and candor of their contributions. In all cases, actual names and photographic images were used except for the investor from Minnesota, who requested that a pseudonym and stock photography be substituted for reasons of privacy.

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NASDAAQ

The Stock Market for the Next 100 Years