

RAAPL LA- 40 3/4 + 2 5/8
HI- 41 LO- 38 VOL- 1465800
FHUI 40 3/4 41 1/4 1- 1
LI PU 40 3/4 41 1/4 1- 1
SHXF 40 5/8 41 1/8 1- 1
FFXP 40 5/8 41 1/8 1- 1 SHXF

CCPI 19 1/4 19 3/4
RASP 18 3/4 19 3/4
YOP1 18 3/4 19 3/4
FHUI 18 3/4 19 3/4

MOR

ERR

55-75



About The NASD

The National Association of Securities Dealers Inc. (NASD), is the nonprofit, self-regulatory organization for the over-the-counter market. Through its subsidiary, NASDAQ, Inc., it owns and operates the nationwide, electronic NASDAQ System, which serves the fastest-growing and second-largest securities market in the United States. Working closely with the Securities and Exchange Commission, the NASD sets the standards for NASDAQ securities and market makers and provides ongoing surveillance of trading activities. The NASD also provides key services for its membership and NASDAQ companies, particularly through its cooperative efforts with governmental and other agencies on policies and legislation which affect the investment banking and securities business.

A total of 3,697 broker-dealer firms, including nearly all members of stock exchanges doing a public business, belong to the NASD and agree to abide by its rules as a condition of membership. Some 240,000 registered representatives of these organizations are subject to NASD regulation. As a regulatory organization whose activities are geared to protect investors and to promote fair business practices, the NASD determines the compliance of brokers and dealers with governmental regulations and its own Rules of Fair Practice.

Table of Contents

1	Highlights
2	Chairman's and President's Report
5	Operating Review
20	NASD Officers and Board of Governors
22	National Committees
24	District Committees
28	Financial Statements

**Highlights
of the Year**

The long-awaited NASDAQ National Market System (NMS) started on April 1, providing last-sale price and volume information on 40 of the most active and prominent NASDAQ issues.

By year-end, 1.1 billion shares traded on NMS, which expanded to 84 securities. Another 100 issues entered NMS early in 1983.

Total NASDAQ volume hit an all-time high of 8.4 billion shares.

The NASDAQ Composite Index rose 18.7 percent, outperforming other broadly based market indicators.

The Federal Reserve Board liberalized its OTC Margin List requirements, extending margin eligibility to 1,576 NASDAQ companies.

The NASD published the first guide to investor relations written especially for NASDAQ companies and disseminated a report highlighting the outlook for the financial services industry.

NASD membership reached a 10-year high of 3,697 firms.

Participation in the Central Registration Depository rose to 25 states.

The required "cooling off" period under Rule 10b-6 was cut to three days.

To Our Members, Issuers, and Friends

Events of the past year underscore the accelerating tempo of change taking place in the securities industry and the active role the NASD is playing in helping to shape the market structure of tomorrow. As this report documents, 1982 was a year in which the NASD continued its efforts on a variety of fronts to harness advanced technology to improve the NASDAQ market and to streamline the NASD's regulatory efforts. Progress was also made during the year on the federal and state levels to foster a less burdensome regulatory climate for the over-the-counter market.

Investor recognition of the vitality of the NASDAQ market continued to increase in 1982. The successful introduction of the long-awaited National Market System (NMS) reinforced our belief that NASDAQ is rapidly becoming the prototype of the stock market of the future.

Through NMS, last-sale prices and running volume figures became available for the first time in 1982 on 84 of the most actively traded NASDAQ securities. This market information had previously existed only for listed securities. The powerful appeal of NMS is that it offers companies and investors the best of both worlds — the continuous transaction data of the exchanges *and* the vigorous

competition among multiple market makers that is the unique strength of NASDAQ.

We have now entered an important new period of development for NMS. In February, 1983, 100 more issues joined the 84 already in the system. Fifty of these met the SEC's mandatory criteria for entry as of December 31, 1982. The other 50 are a cross-section of the hundreds of issues that have applied for NMS designation in the next phase of the system and which satisfy the SEC's voluntary designation criteria.

Before more voluntary issues are selected, the NASD will conduct an extensive study of the impact of last-sale reporting on the markets for the 50 securities in the initial group. Unless there are significant adverse findings developed by the study, beginning in May, another 100 eligible issues will enter NMS. Thereafter, an additional 100 securities will be added each month until all eligible applicants are included in the system.

The successful introduction of NMS has focused public attention on the caliber of NASDAQ companies and their strong investor following. Although none of the initial NMS issues was in the new system for the full year (and some were in for less than two months), volume in these 84 stocks totalled 1.1 billion shares in 1982 — 2.5 percent more than the total volume done on the AMEX in all of its 950 issues for the same nine months NMS was in operation.

Trading volume on NASDAQ hit an all-time high of 8.4 billion shares in 1982, more than half of NYSE volume in a record year and well over six times the volume on the AMEX. NASDAQ also showed strong price gains. The NASDAQ Composite Index rose 18.7 percent for the year, outperforming other broadly based market indicators.

We believe this outstanding performance of the NASDAQ market in recent years is due in no small part to the NASD's pioneering of advanced computer systems in the securities industry. However, we are well aware that reliance on technology is a double-edged sword. Although start-up problems are endemic to any state-of-the-art system, we are determined to minimize disruptions in service to the thousands of people who depend on NASDAQ terminals. Overall reliability of the system increased to 98 percent in 1982, but problems in the new generation of sophisticated terminals persisted at a level we are unwilling to accept. As a result, the NASD has embarked on a major effort to upgrade service reliability throughout the system. This ongoing program is described in detail on pages 6 to 8 of this report.

Over the past two years, the NASD has invested \$22 million to replace the hardware at the heart of the NASDAQ System. In order to help meet the demands of a growing National Market System and ever-increasing volume on NASDAQ, we plan to

spend an additional \$5 million in 1983 to increase the system's capacity and significantly shorten response time for users.

At the same time that the NASD is working to keep NASDAQ in the forefront of the changes transforming the securities markets, we are also turning to advanced technology to streamline administrative and back office procedures for our



NASD Chairman Ernest F. Rice, Jr. (left) with President Gordon S. Macklin.

members. One prime example of this effort is the Central Registration Depository (CRD), which generates multiple registrations and licenses from a single application form and check. By the end of 1982, 25 states were participating and 18 more states are scheduled to join in 1983.

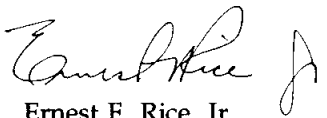
With continuing growth in the number of NASD member firms and registered representatives, innovative services like CRD are becoming increasingly important to the efficient functioning of the securities industry. Several other initiatives are expected to have a similar impact:

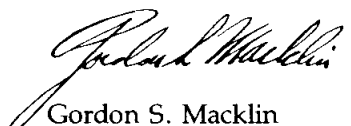
- the Trade Acceptance and Reconciliation Service (TARS), which will permit members to view compared and "trouble" trades on their NASDAQ terminals and to enter corrections.
- an automated system which will allow yield and price quotation information on mutual funds to be entered directly onto NASDAQ terminals.
- an "electronic bulletin board" which will enable members to exchange information about limited partnership interests available for secondary trading through NASDAQ System facilities.

The NASD's active efforts to advance the interests of members, issuers and investors also extend to the regulatory arena. The past year brought less burdensome regulation in a number of areas which have been of long-standing concern to the NASD. Among these are more equitable criteria for the Federal Reserve Board's OTC Margin List and an amendment to the SEC's Rule 10b-6 which cuts the "cooling off" period during which firms participating in a distribution must withdraw from making a market. The NASD is continuing to fight for further relief on these and other key issues.

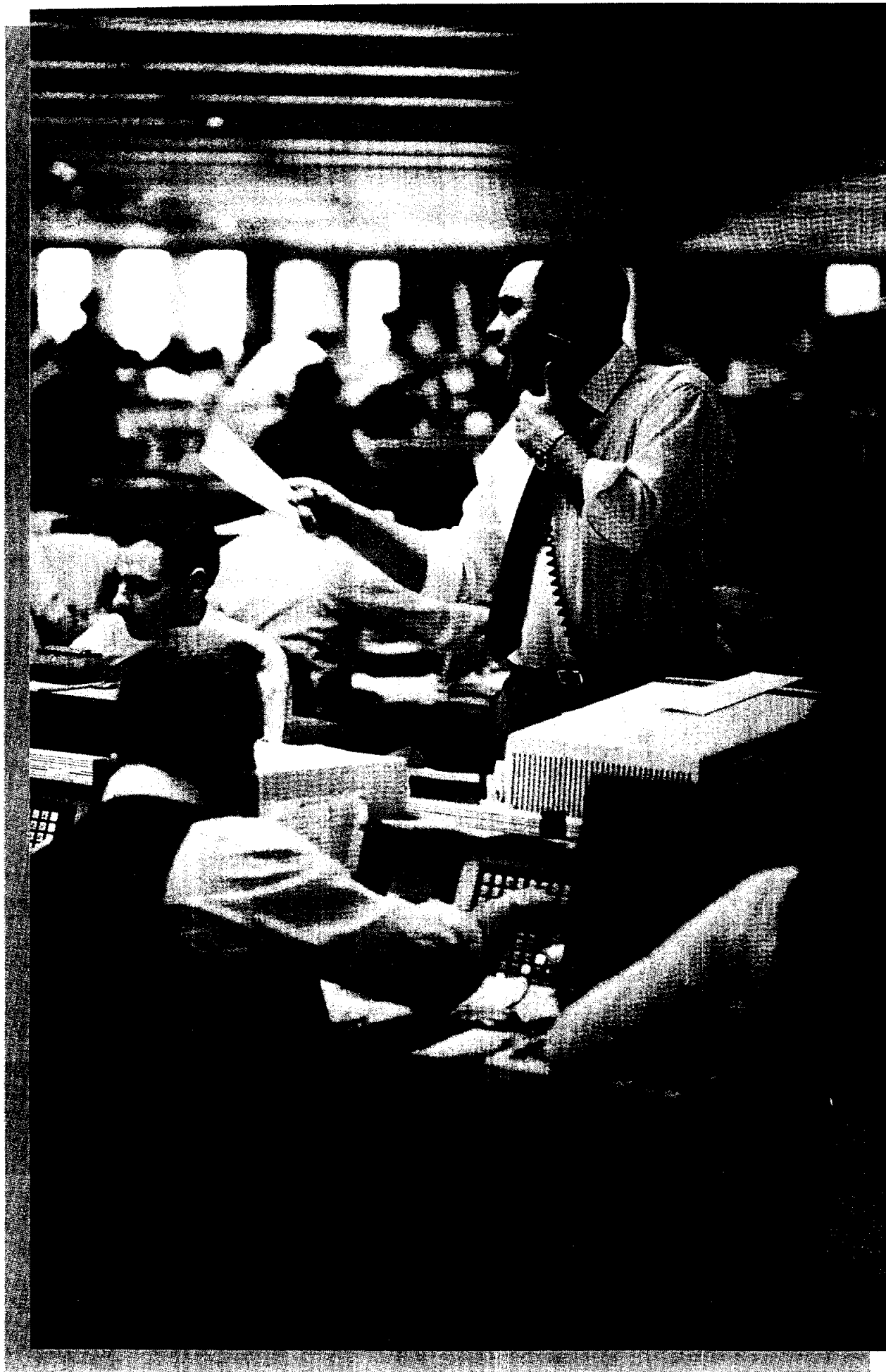
The advent of last-sale reporting for National Market System transactions and other improvements in the NASDAQ market have assuaged SEC concerns about another issue, NASDAQ options. As a result, the SEC is now reconsidering our proposal to begin trading standardized put and call options on eligible NMS securities, as well as options on the NASDAQ Composite Index and its sub-indices.

We believe these and other developments reported in the following pages have set the stage for further growth of the NASDAQ market in a favorable regulatory environment in 1983 and beyond. We would like to take this opportunity to thank the people who make it all possible — the many hundreds of industry executives who generously give their time to serve on our numerous National and District Committees and the more than 800 dedicated men and women who work for the NASD. With their commitment and hard work in the years ahead, we are confident the NASD will continue to exemplify the virtues of self-regulation and its capacity to adapt to a challenging environment.


Ernest F. Rice, Jr.
Chairman


Gordon S. Macklin
President

Market makers execute orders in a highly visible and competitive environment. Through the NASDAQ System, each broker-dealer has immediate access to the quotations of all other market makers. In 1982, the average NASDAQ issue had more than seven market makers.



NASDAQ National Market System Off to a Strong Start in 1982

Real-Time Trade Reporting Transforms the NASDAQ Market

The start-up of the NASDAQ National Market System (NMS) in 1982 represents a significant milestone in the history of the NASDAQ market. With the debut of the new system, continuous electronic transmission of last-sale price and volume information on the most active and prominent NASDAQ issues became a reality.

The NASDAQ NMS represents the beginning of the stock market of the future because it combines the best of both worlds — the continuous transaction reporting of the exchange market and the competitive multiple-market maker system of the OTC market. The result is a highly visible and competitive marketplace based on electronic linkages and executions.

Throughout the trading day, NASDAQ NMS quotes are displayed on over 80,000 desktop terminals located in stock-brokers' offices around the world. This market visibility has been increased by a new NMS stock table, which provides the same high, low, and closing price information as for listed securities. It is already appearing in *The Wall Street Journal*, *The New York Times*, *Barron's* and in many other newspapers.

NMS Stocks Attract Strong Investor Following

The National Market System has focused public attention on the high quality of leading NASDAQ issues and their strong investor following. Indeed, volume in the securities phased into the new system since April 1 amounted to an extraordinary 1.1 billion shares, 13 percent of overall NASDAQ volume in 1982. Although none of these issues was in the new system for the full year (and some were in for less than two months), the total volume during the first nine months of NASDAQ NMS trading was 2.5 percent above the volume in all 950 issues traded on the AMEX during the same period.

SEC Sets Mandatory Criteria

The NASDAQ NMS started with the 40 most actively traded NASDAQ securities. By SEC rule, these securities were automatically required to enter the system. The minimum requirements established

by the SEC for mandatory designation are average trading volume of 600,000 shares a month for the preceding six months, 500,000 publicly held shares, \$5 million market value of float, a minimum bid price of \$10 per share, company net worth of \$1 million, and at least four market makers.

A statistical profile of the 84 NASDAQ stocks that joined NMS in 1982 reveals that they far exceeded the SEC's minimum criteria. Their average price at year-end was \$25, the average number of market makers was 17.1, the average market value was \$321 million, and average total assets were \$813 million.

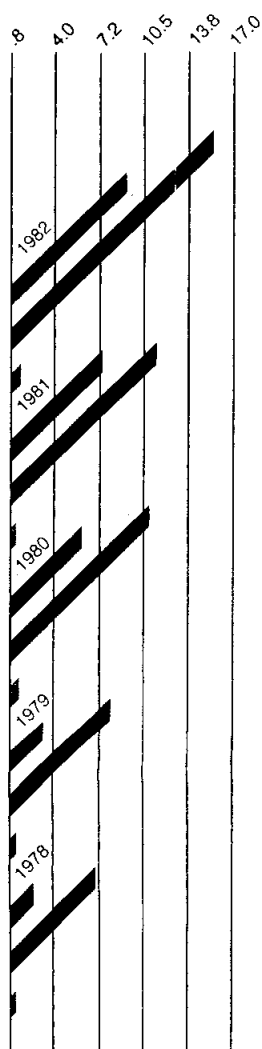
Voluntary Phase Starts in 1983

According to the SEC blueprint, once the mandatory phase of NASDAQ NMS had been monitored and found free of difficulties, a voluntary phase would begin for additional securities meeting less stringent criteria (see chart below).

SEC Sets Criteria For National Market System

	Mandatory Inclusion	Eligible To Apply
Publicly Held Shares	500,000	250,000
Market Value of Float	\$5 million	\$3 million
Bid Price	\$10 on each of 5 business days	\$5 on each of 5 business days
Net Worth	\$1 million	\$1 million
Tangible Assets	\$2 million	\$2 million
Net Income	None	None
Trading Volume	Average 600,000 shares per month	Average 100,000 shares per month
Market Makers	4 on each of 5 business days	4 on each of 5 business days

Share Volume
(in billions)



■ NASDAQ
■ NYSE
■ AMEX

After receiving applications in late 1982 from some 260 companies voluntarily requesting NMS designation, the NASD's NMS Securities Qualifications Committee selected 50 securities for the February 1983 start-up of this phase. The initial group of securities was selected to provide a cross-section of companies from different industries and regions of the country. The number, location and diversity of their market makers were also considerations.

NASDAQ NMS performance to date has clearly demonstrated the ability of the new system to handle trading in the new NMS environment. During the first three months of the voluntary phase of NMS, a study of the impact of last-sale reporting on the markets for each of the initial 50 voluntary securities will be conducted. Another 100 issues will be admitted to NMS in May and each month thereafter until all eligible applicants are included, unless the SEC determines, as a result of the NASD's study, that significant adverse findings require a different course to be pursued.

The NASDAQ Market: Another Banner Year

Volume Records Broken Again in 1982

The NASDAQ market had another year of record-breaking activity in 1982. Overall trading volume reached 8.4 billion shares, the highest level in NASDAQ's 12-year

history. NASDAQ share volume was more than half the volume of the NYSE and more than six times that of the AMEX.

Monthly volume exceeded one billion shares for the first time in November and for a second time in December. A new all-time record for a single day was established on November 4, when 70.5 million shares were traded. In fact, nine of the top ten volume days in the history of NASDAQ occurred in the fourth quarter of 1982.

Composite Index Reaches New High

The price performance of NASDAQ securities is another clear indication of the vitality of the country's second-largest and fastest-growing securities market. The NASDAQ Composite Index and five of its six sub-indices reached record levels in 1982. The NASDAQ Composite Index, up 18.7 percent for the year, out-gained the NYSE Composite, the AMEX Market Value and the Standard & Poor's 500 indices.

Market Making Support Grows

NASDAQ securities continued to derive broad support from the competitive market maker system which is the lifeblood of the OTC market. In 1982, the average NASDAQ issue had 7.8 market makers, up from 7.2 in 1981. Leading NASDAQ companies are increasingly unwilling to forego the support of multiple market makers in favor of a single exchange specialist. Of the 3,664 NASDAQ issues, approximately 600 now meet NYSE listing criteria

and about 1,600 are eligible for the AMEX.

Media Visibility Increases as National List Stabilizes

Eighty-one leading newspapers are now publishing the National List of over 1,800 NASDAQ securities. Among those adding the list to their stock tables during 1982 were the *Chicago Sun-Times*, the *Minneapolis Tribune*, the *St. Louis Post-Dispatch*, the *San Jose Mercury*, and *USA Today*.

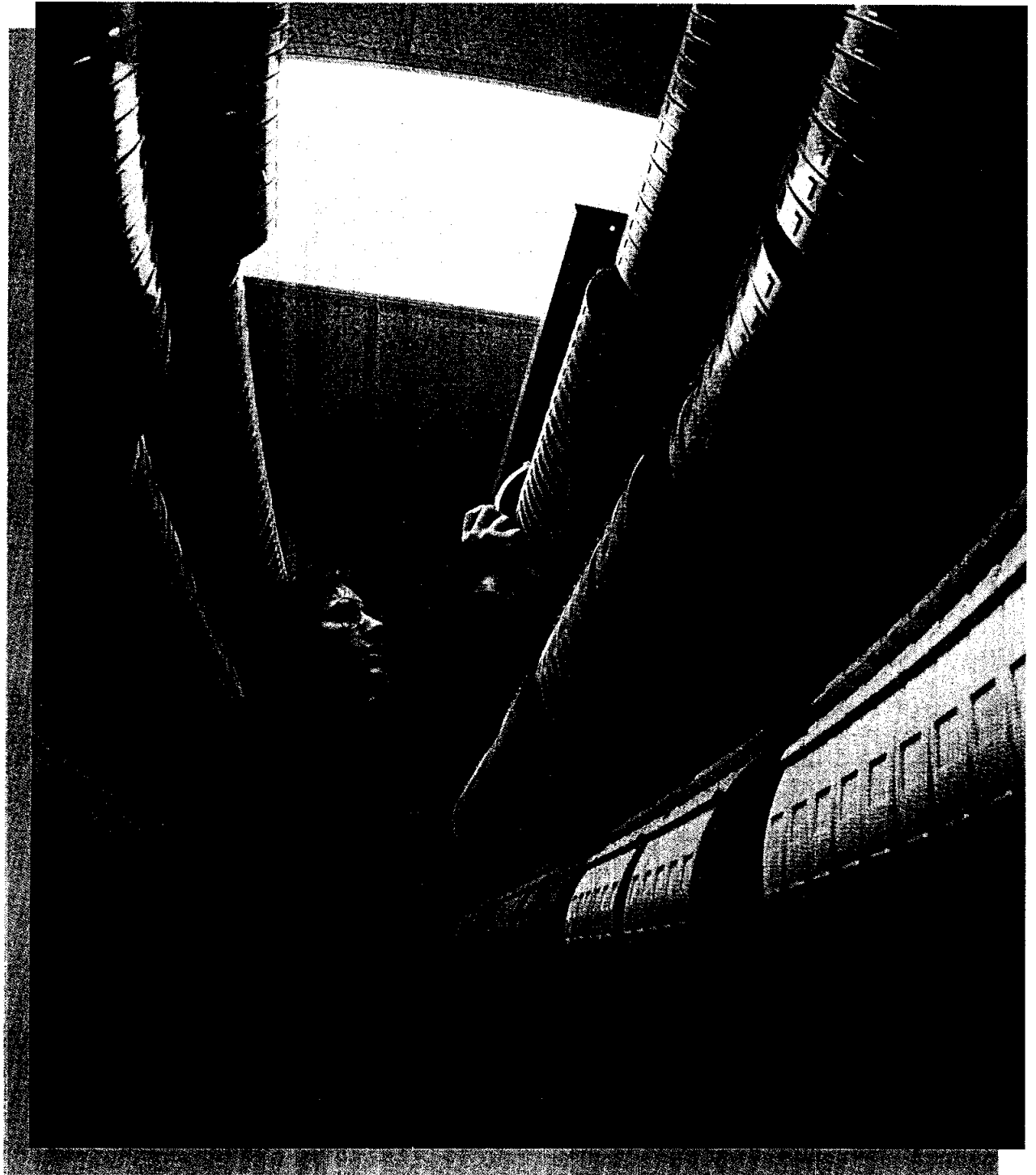
The National List has proven to be much more stable since financial criteria replaced dollar volume requirements in late 1981. Prior to the change, rerankings every six months based on dollar volume caused hundreds of companies to shift between the National and Additional Lists. Many NASDAQ companies and newspaper editors had complained that these abrupt changes caused widespread confusion among investors who could no longer find quotations for companies they followed. Moves into and out of the National List have now been reduced by well over 50 percent from prior years.

The NASDAQ System: Improvements Continue

Trading Demands Spur Expansion

During the past two years, NASDAQ's capabilities have been significantly enhanced by a \$22 million overhaul of the computerized core of the system.

NASD is using advanced technology to streamline administrative and back office procedures for members.



The crux of this effort was the replacement of the central computers in Trumbull, Connecticut, by a UNIVAC 1100/82 system with three times the memory capacity and twice the speed of its predecessor. In a related move, a new generation of Level 2 and Level 3 NASDAQ terminals was also introduced. These advanced terminals are designed to handle the so-

phisticated demands of NMS trading.

In late 1982, an interface was made available to trading firms which permits them to report NMS trades to NASDAQ via their in-house computer systems. This eliminates the need for a costly two-step entry process.

There were 1,700 Level 2 and 3 terminals installed

in trading rooms and other locations by year end. The number of desktop Level 1 terminals used by stockbrokers to get NASDAQ stock quotes rose to more than 81,000 from 70,000 in 1981 and 60,000 a year earlier.

Service Reliability Effort Helps Improve Performance

The NASD has also committed itself to a major effort to upgrade service

reliability throughout the system. The primary goal is to improve performance of Level 2 and 3 terminals. A NASDAQ terminal exchange program was begun in December 1982 to replace problem units with terminals having improved circuitry, shielding and grounding.

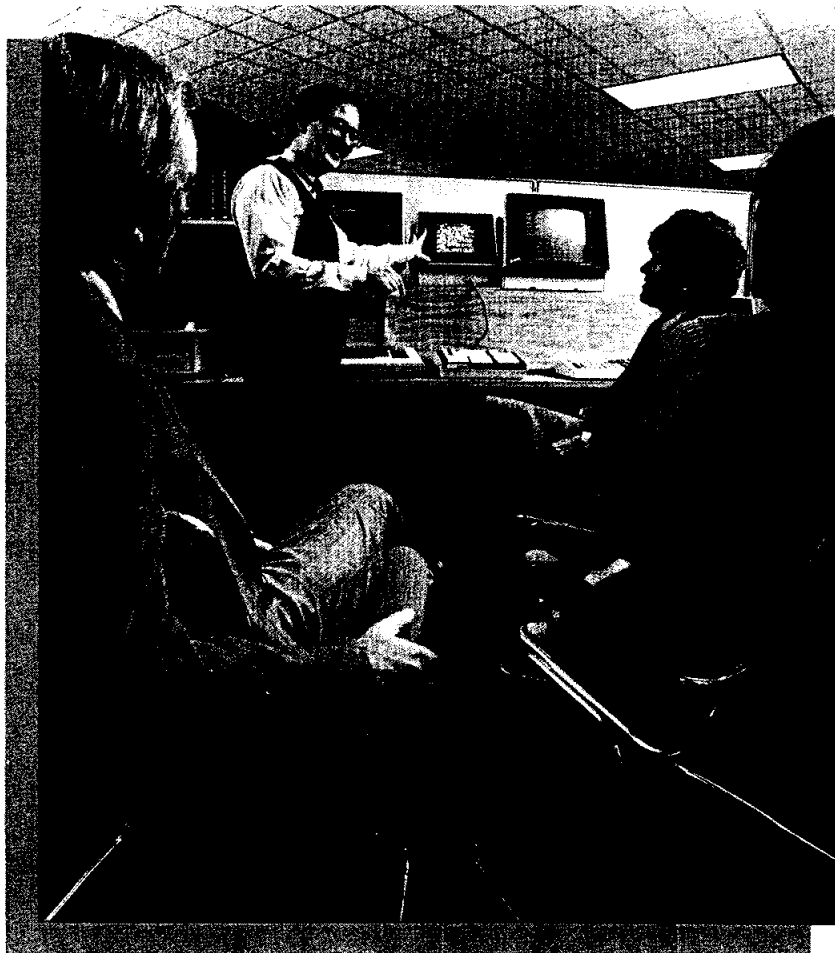
A number of other steps have also been taken. Response time for ter-

possible to switch a NASDAQ terminal from a faulty telephone line to a functioning one.

These steps helped increase NASDAQ's overall reliability from 95 percent to 98 percent during the year. The system handled a record volume of traffic in 1982. Average daily calls reached 905,788 and peak traffic for a single day hit 1,257,411 calls.

central processing capability by 50 percent. Regional concentrators in Chicago and San Francisco were replaced by more powerful computers and additional concentrator capacity is scheduled for the East Coast. These computers gather local messages and send them at high rates of speed to the central computers.

The NASD also plans to add sufficient phone lines during 1983 so that the average number of Level 2 and 3 terminals on a circuit will be reduced from 21 to 15. These improvements will significantly shorten response time for system users.



State-of-the-art systems monitor every NASDAQ security for price movements, volume trends, and other factors. Unusual activity will trigger an investigation by the NASD's Market Surveillance staff.

Market Surveillance: Advanced Systems Monitor Trading

Electronic Surveillance Spots Unusual Activity
State-of-the-art systems provide continuous surveillance of the NASDAQ market. Pre-set parameters for price, volume, and other factors are built into the system for every NASDAQ security, with unusual trading activity automatically triggering one or more parameter breaks. The NASD's Market Surveillance staff responds to these alerts by investigating the causes of unusual price movements and sudden increases in volume, as well as other questionable situations.

Among the tools available to the Association for monitoring the NASDAQ market are various computer-produced reports including the overnight

terminal repairs has been shortened. Telephone companies across the country have been pushed to improve maintenance of telephone lines. The numbers of circuits available for NASDAQ terminals has been increased to provide better load balancing on each circuit. Additional dial back-up capability has also been arranged. This makes it

More Enhancements Slated for 1983

With 50-million-share trading days now common on NASDAQ and new NMS-related services on the drawing board, the NASD plans to spend an additional \$5 million in 1983 to continue upgrading the NASDAQ System.

Early in 1983, the NASD will add a third UNIVAC computer, increasing the

stockwatch report, which signals unusual price fluctuations in the prior day's and prior week's trading in each NASDAQ issue. These reports are extremely useful to the NASD in its efforts to detect instances of possible insider trading and market manipulation.

In one insider-trading case in 1982, the stockwatch system helped uncover unusual volume prior to the dissemination of unfavorable news by a NASDAQ company. The NASD's market surveillance analysis discovered that a consultant to the company who was privy to the news executed short sales prior to the company's press release. As a result of the NASD investigation, the SEC pursued and disciplined the consultant.

In another recent case, the stockwatch system revealed a significant surge in trading and increase in price in a particular NASDAQ stock. Most of the volume had been generated by one market maker. The NASD's investigation discovered an illegal sale of unregistered securities.

Surveillance Statistics Reflect Record Volume

NASD market surveillance was extremely active in 1982. There were 5,240 on-line price parameter breaks, a 3 percent increase from 1981 and more than 26 percent above the level of two years ago. There were 706 formal reviews of unusual price or volume activity during the year. These led to 184 investigations during 1982, a 36 percent increase over 1981.

Quotation halts are another aspect of surveillance. In these situations, the NASD halts quotations in a security when there is material news pending about the issuer that could affect the price of its stock. Once the news is widely available to investors, quotations are resumed. The vast majority of quotation halts are undertaken with the full cooperation of NASDAQ companies. In 1982, there were 625 quotation halts, as compared to 627 in the prior year.

Special National Market Surveillance Instituted

In order to ascertain member compliance with NMS reporting rules, sophisticated computer programs have been designed to compare every NMS trade report against the last sale to identify those which are reported beyond pre-set parameters. NMS trades are also compared against "inside market" prices — the best bid and best offer.

The Association's statistics demonstrate widespread compliance with NMS requirements. For example, 99.8 percent of all NMS trades sampled during selected days in September and October were reported at the prevailing market or within an acceptable deviation from the last-sale price.

During the year, the Association's District Offices also conducted special on-site examinations of the accuracy and timeliness of NMS trade reports, required to be made within 90 seconds of execution, and the reporting of block transactions.

Member education was also an integral part of

NMS surveillance. The NASD conducted instructional seminars across the country which were supplemented by special materials and notices to all members.

Cooperation Aids Intermarket Surveillance

Two innovations in 1982 greatly reduced the duplication of effort and resources among self-regulatory organizations (SROs) participating in the Intermarket Surveillance Group. The first is a centralized data base of consolidated stock and options information. This data base assists the NASD and participating SROs in effectively monitoring off-board trading in listed securities — securities which are often traded across several markets.

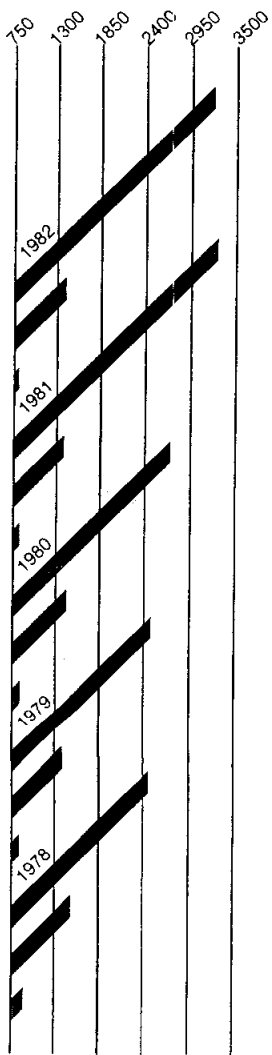
The second innovation involves the increasing degree of intermarket coordination by the Group in conducting formalized investigations. During the first half of 1982, a total of 12 of the more than 40 intermarket trading reviews conducted by the Group involved participation by the NASD.

Services to NASDAQ Issuers: NASD Targets High-Priority Areas

CEO Conferences Focus on NMS and Investor Relations

A key issue confronting CEOs of companies eligible for voluntary NMS designation — whether to apply for the National Market System — was one of two major topics at the

Number of Companies



■ NASDAQ
■ NYSE
■ AMEX

1982 NASDAQ Chief Executives' Conferences, held in 16 cities last October. The half-day consultations also focused on an ongoing concern of all NASDAQ companies — improving investor relations. The annual conferences, designed to provide an update on timely issues confronting management, were attended by some 600 company officers.

To help companies weigh the pros and cons of applying for voluntary NMS designation, the first panel presented the views of a NASDAQ company executive, a securities analyst, and an NASD Governor. These experts provided a wealth of practical advice on the specific factors each company should analyze before making its decision.

The second panel covered the art and practice of investor relations. An executive in charge of investor relations for a NASDAQ company, a financial public relations consultant, and the NASDAQ Corporate Consultant for the region discussed ways to reach the financial community and the key ingredients of a successful investor relations program.

A review of major developments in the NASDAQ market and a status report on continuing efforts to reach beneficial shareholders rounded out the conferences. A two-part report on the proceedings was subsequently mailed to issuers.

Corporate Consultants Assist More Issuers

The Corporate Consultants program continued

to offer individualized assistance to NASDAQ companies in 1982. Based on their extensive management and securities industry expertise, the consultants provide professional counsel to company management on matters such as securing more market makers, working effectively with investment bankers and securities analysts, and developing techniques for increasing the visibility of a company's securities.

During the year, more than 300 companies took advantage of the services provided by the consultants in their region:

Far West —

W. Eugene Cartwright (former Vice President and member of the Board of Directors, Merrill Lynch, Pierce, Fenner & Smith Incorporated)

Midwest —

Douglas H. Curtis (former Vice President-Finance of Franklin Electric Company and past Chairman of the NASD's Corporate Advisory Board)

Southeast —

Raymond J. Kiernan (former Vice President in charge of equity trading and member of the Board of Directors, Merrill Lynch, Pierce, Fenner & Smith Incorporated)

Northeast —

Lewis M. Weston (former General Partner of Goldman, Sachs & Co. and past Chairman of the NASD's Corporate Financing Committee)

Central and Rocky Mountain States —

Byron W. Cain, Sr. (former President and Chief Executive Officer of

the Southern Union Company in Dallas)

NASDAQ Investor Relations Guidebook Published

In addition to the NASDAQ Corporate Consultants program, NASDAQ companies now have a new source of information on the critical subject of investor relations. *Investor Relations: A Practical Guide for NASDAQ Companies* is a handbook prepared by the NASD and its public relations counsel, Adams & Rinehart.

This book provides the basic framework for issuers to build their own distinctive investor relations programs. Among the topics covered are disclosure requirements, press relations, cultivating the investment community, shareholder publications, the annual meeting, takeover defense, the development of quantitative data, tapping new markets, and where to turn for help in the investor relations field.

In a handy loose-leaf format, this reference is now part of the standard materials provided by the NASD to every NASDAQ issuer.

NASD Participates in SEC Forum on Small Business

The Association was an active participant in the SEC's *Government-Business Forum on Small Business Capital Formation* held in Washington last fall. Recommendations developed by the Forum were subsequently presented to a joint session of the Senate Small Business Committee and a subcommittee of the House Small Business Committee.

Included among the 20 recommendations

advanced by the Forum were proposals calling for:

- Further reducing the income tax rates and expanding the tax brackets for smaller corporations to enable them to retain more earnings to finance expansion and capital improvements.
- Allowing an 80 percent capital gains exclusion for the sale or exchange of in-

vestments in businesses with original equity investments of \$5 million or less.

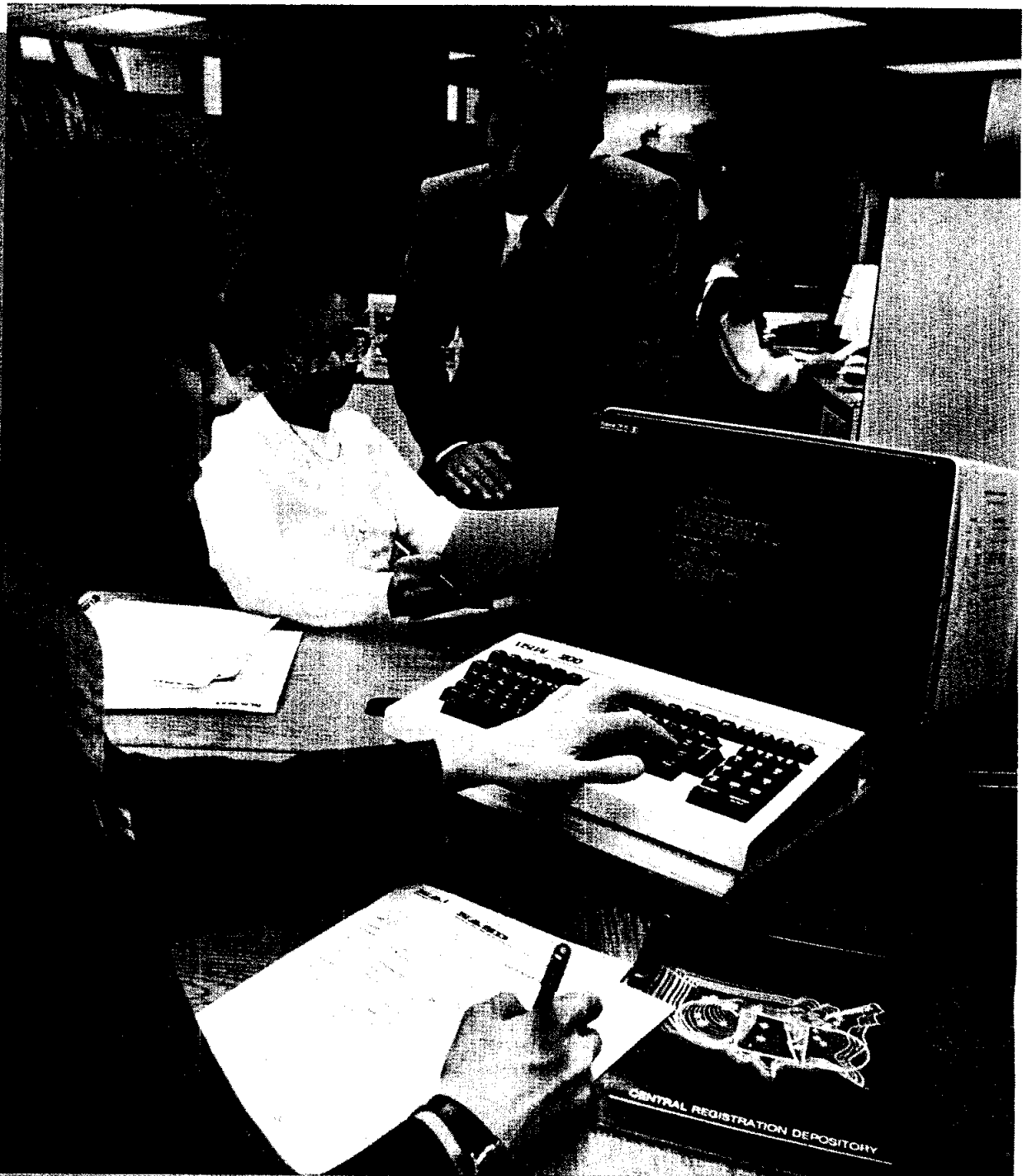
- Redefining the so-called "prudent man rule" of the Employee Retirement Income Security Act so that securities of smaller issuers are eligible for purchase by pension and other funds subject to ERISA.

Services to Members: NASD Expands Scope and Depth

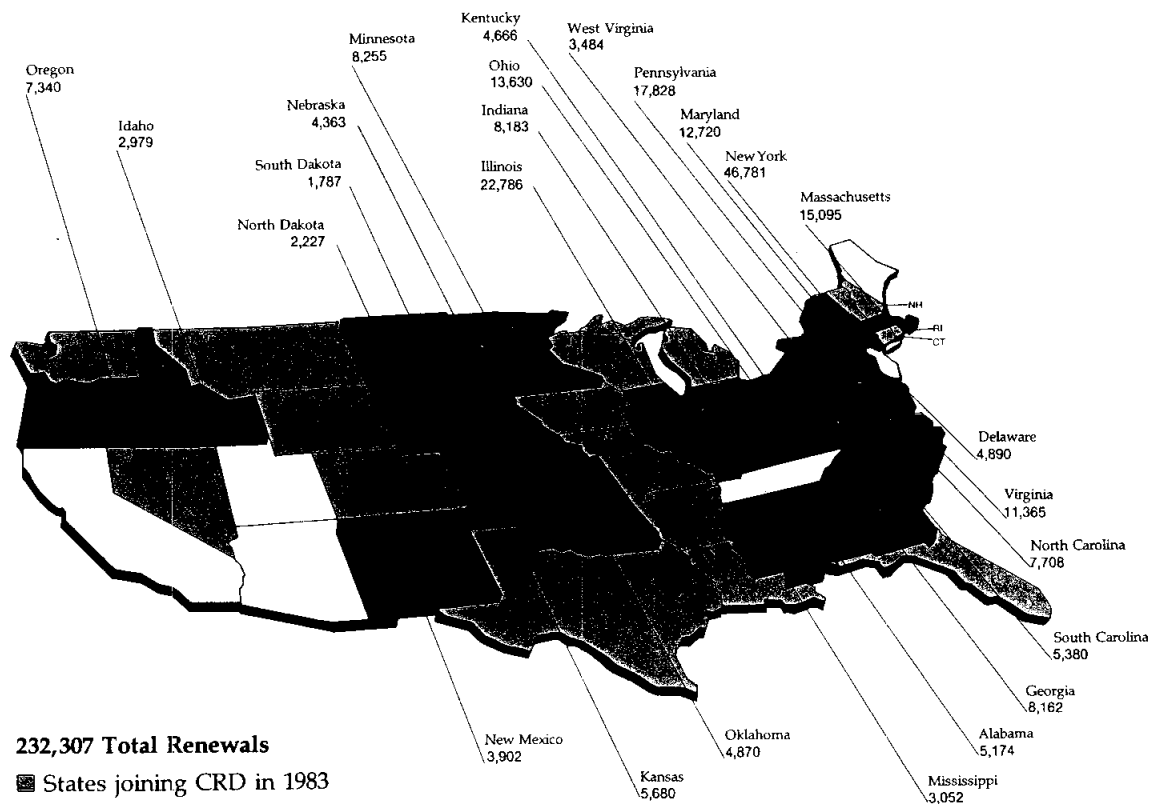
Membership Increases Sharply

The number of firms admitted as NASD members reached a 10-year high in 1982. Total membership at year-end stood at

The Central Registration Depository (CRD) is a computerized system which generates multiple state registrations and licenses for brokers from a single application form and check. At NASD headquarters in Washington, the CRD communications staff handles an average of 3,000 telephone inquiries and 500 letters a week.



Central Registration Depository (CRD)



3,697, a net increase of 432 firms for the year. Additional membership applications from over 400 firms were pending at year-end. Many of the new members are involved in the distribution of tax shelter products and other direct participation programs.

Industry expansion in 1982 was also reflected in an increase in registered representatives, who now number slightly more than 240,000, a 10 percent increase over 1981 totals. A significant portion of this increase is attributable to the diversification of insurance companies into related financial services areas.

CRD Now Serving 25 States

Participation in the Central Registration Depository (CRD) rose from 19

to 25 states in 1982. Eighteen additional states are scheduled to join the system by September 1983.

A joint undertaking of the NASD and the North American Securities Administrators Association, CRD is a computerized system that streamlines application and licensing procedures for registered representatives and other securities industry personnel across the country. It eliminates the cost and paperwork of separate identical filings with numerous states and SROs by automatically generating multiple registrations and licenses from a single application form and check.

The CRD System is also used to simplify the year-end registration and renewal process for

NASD members. As part of that program, in December 1982, the CRD processed 230,000 agent licenses on behalf of more than 2,000 members and their more than 113,000 individual agents.

Another recently added CRD function is on-line processing of the fingerprint cards of securities industry personnel. CRD handled 10,000 such cards in the first month.

During the past year, the NASD made a significant investment and took additional actions to reduce backlogs and improve equipment and programming to make the system more responsive to state and member needs. A communications operations staff was also established, which handles an average of

3,000 telephone inquiries and 500 letters a week.

PLATO System Linked to CRD

The CRD was linked in 1982 to the automated PLATO System of Control Data Corporation, which is widely used by the NASD in the administration of its qualifications testing program. This linkage substantially expedites the licensing procedure by enabling CRD to automatically schedule examinations on PLATO and to immediately post test results.

Automated Testing Continues to Increase

The NASD administered over 123,000 qualification examinations during 1982 for itself, other SROs, the states, the SEC, and commodity exchanges. This is 23 percent above last year's volume and more than double the figure of just two years ago.

In order to handle the sharp rise in qualification examinations, the NASD has increasingly sought to automate testing and to integrate it with CRD. Fully automated testing on PLATO accounted for more than 73 percent of total examinations in 1982. PLATO expedites the testing process by electronically recording answers and giving the user a final score.

During 1982, PLATO became available for the following examinations: Municipal Securities Rulemaking Board Representative, American Stock Exchange/Chicago Board Options Exchange/New York Stock Exchange Interest Rate Options, and Philadelphia Stock

Exchange Foreign Currency Options.

TARS To Improve Trade Processing

The Trade Acceptance and Reconciliation Service (TARS), an innovation in the final stages of development, has been designed by the NASD to improve the processing of uncompleted trades, especially during high-volume periods. It will provide an on-line data base of all trade information traditionally received through clearing corporations the morning after trades occur. TARS will enable members to view compared and "trouble" trades on NASDAQ terminals and immediately enter any necessary corrections.

TARS is scheduled to start on a pilot basis in 1983 at seven firms which currently account for 30 percent of trading activity at the National Securities Clearing Corporation (NSCC). Later in the year, 35 more firms, which handle 60 percent of NSCC volume, are scheduled to join the system. When fully operational, TARS will be available to all NASD members who belong to a participating clearing corporation.

CAES Becomes Operational

The Computer Assisted Execution System (CAES) was developed in 1981 by NASD Market Services, Inc., to facilitate competition between off-board market makers and exchange specialists in certain listed securities. This system, as contemplated by the 1975 Amendments, was designed

primarily to give market makers electronic access to order-entry firms comparable to the access that specialists have through the exchanges.

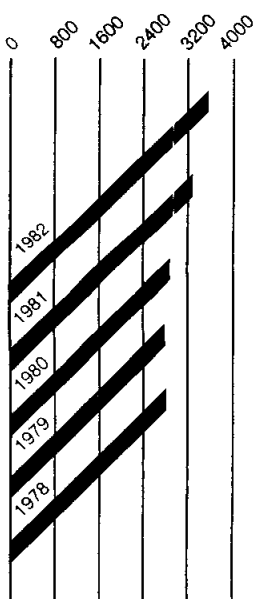
After a pilot phase, CAES was linked with the Intermarket Trading System (ITS) of the exchanges last April. Thus far, the experiment has proven uneventful mainly because order-entry firms are reluctant to route orders off-board for only 30 listed securities currently in the link.

An emerging function of CAES is the automatic routing, execution, and reporting of trades in NASDAQ NMS securities. Although there was only a limited number of initial subscribers in 1982, the expansion of NMS in 1983, coupled with more simplified operating procedures and possible new applications, is expected to result in a growing interest in CAES.

Report Highlights Outlook for Securities Industry

In November 1982, a special report entitled *The Financial Services Industry of Tomorrow*, was published and widely distributed by the NASD. The report identifies the changes taking place in the industry today, the reasons for these changes, and the implications for the future. The product of an 18-month study by the NASD's Committee to Examine the Future Structure of the Securities Industry, the report is based in large part on informal conversations of the Committee with a number of high-ranking

Number of Members



government officials and securities industry leaders.

The report paints a picture of growing uses of technology and telecommunications in this new financial world and a greater emphasis on strategic planning as industry participants prepare for the challenges of tomorrow. The report concludes that the changes now going on in the industry will not only continue, but they may also very well accelerate. It also predicts that the regulatory barriers separating tomorrow's competitors will ultimately be dismantled as the marketplace outpaces its regulatory framework. As these barriers erode, and firms take steps to position themselves for tomorrow's marketplace, new opportunities will appear for those who are prepared to take advantage of them.

According to the 50-page report, competitors in the financial services industry of tomorrow will range in size from single-product, specialty boutiques serving the unique needs of investors to large multi-product firms or financial "supermarkets" providing one-stop financial shopping. The report also states that tomorrow's consumer of financial services will be more knowledgeable about the marketplace and more informed as to his own needs. The consumer will also be better served through increased competition among financial services firms which will provide a growing number of innovative products and services.

Group Fidelity Bond Program Offers Savings

As a new service to its members, the NASD is now sponsoring a voluntary fidelity bond-buying program for members. By taking advantage of group premium rates, it is expected that participating members will enjoy aggregate savings of 35 to 40 percent. The program is currently available in 40 states.

Automated Mutual Fund Quotes Backed By Members

In view of the substantial increase in investor interest in money market funds and other mutual funds, the NASD has taken steps to streamline the collection of yield and price information for public dissemination. Based on overwhelming support by participating funds, the NASD Board approved the development of an automated system to allow mutual funds or their agents to enter quotation data directly into NASDAQ terminals. Implementation of the new system is scheduled to be completed in 1983. Price quotations for approximately 530 mutual funds, as well as yield and average maturity quotations for over 190 money market funds, are now collected daily by the NASD for transmission to newswires.

New Service Planned for Limited Partnership Interests

The development of an "electronic bulletin board," which would enable NASD members to exchange information through NASDAQ facilities about limited

partnership interests available for secondary trading, is moving toward completion. The result of several years of work, this innovation could provide a way for investors seeking to liquidate limited partnership interests to do so readily at prices which are established in an open market context. As such, the "electronic bulletin board" would provide an important new service in this burgeoning, but currently illiquid, investment area. The NASD's proposed rules for this computerized service have been filed with the SEC.

Securities Regulation: NASD Takes Active Stance

Through the submission of comments and appearances at public hearings during 1982, the NASD continued to participate actively in the rulemaking process. By advancing the interests of issuers, members, and investors, the NASD was able to achieve measurable progress in lessening a number of the burdens of regulation while, at the same time, preserving the overall quality of marketplace regulation.

Margin Requirements Reduced

The Federal Reserve Board revised the criteria for its OTC Margin List in 1982. This change made 1,576 NASDAQ issues eligible for margin, compared with 1,106 five years ago. Under the new criteria, nearly 300 foreign stocks and American Depositary

Receipts (ADRs) became eligible for the first time.

Margin qualifications were lowered to 400,000 shares outstanding (from 500,000) and \$4 million in capital and surplus (from \$5 million). The new requirements for continued eligibility are a bid price of at least \$2 a share (from \$3) and capital and surplus of at least \$1 million (from \$2.5 million).

recommendation would eliminate an inequitable difference in margin requirements that now exists between listed and NASDAQ securities.

Currently, many National List securities that are excluded from margin can become margin eligible by listing on any exchange. This phenomenon exists despite the fact that many exchange-

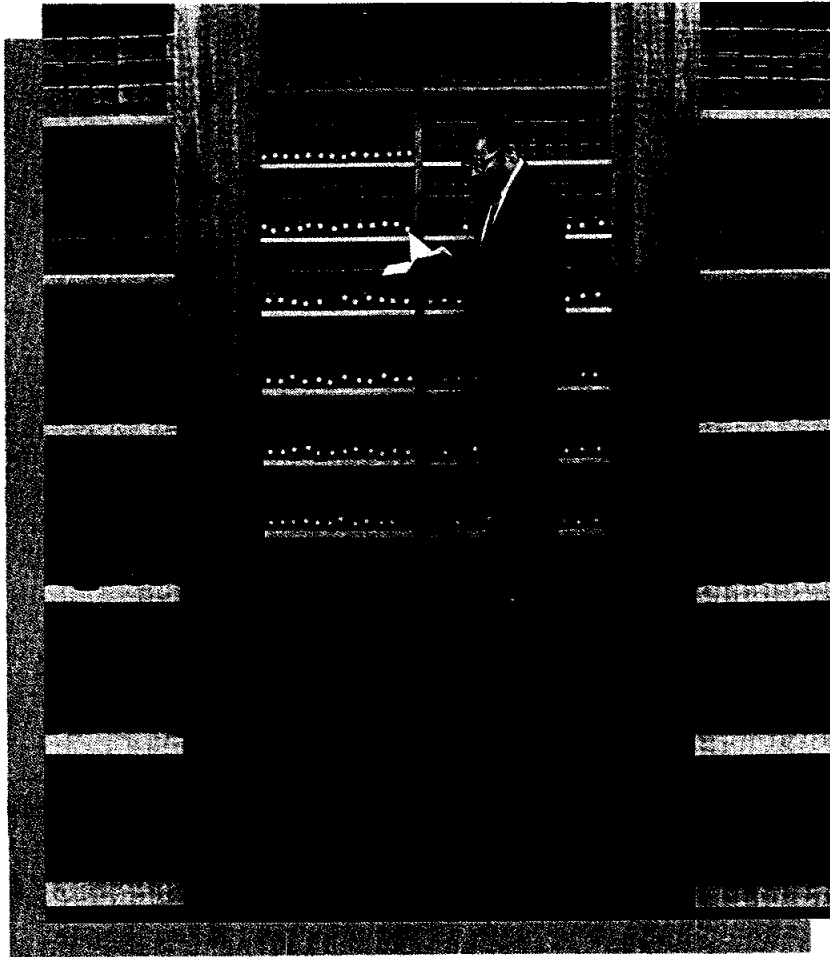
Rule 10b-6 "Cooling Off" Period Cut to Three Days

During 1982, the SEC proposed amendments to Rule 10b-6, a particularly troublesome rule that has long caused unnecessary market disruption. Market makers participating in a distribution had been required by the rule to withdraw from market making in the issue 10 days before the distribution. In proposing several formal amendments to the rule, the Commission announced a blanket "no-action" position which had the effect of immediately shortening the withdrawal period to three days in cases in which the NASDAQ issuer has been a reporting company for three years and meets certain other criteria.

NASD Proposed Further Relief

The Association has proposed to the SEC that Rule 10b-6 be further liberalized by shortening the cooling off period to two days and by making it applicable to all companies. The NASD believes that the three-year reporting requirement unfairly excludes many substantial NASDAQ companies that have recently gone public. The NASD informed the SEC that the length of time a company has been public does not necessarily determine the market depth or stability of its securities nor the availability of information on the company. The Association also reiterated a long-standing view that limited market making activity should be permitted during the "cooling off" period.

The NASD law library is an important resource at Washington headquarters. The Association participates actively in the rulemaking process through the submission of comments and appearances at public hearings.



NASD Urges Use of National List For Margin Purposes

Despite the recent liberalization of OTC Margin List criteria, the NASD has continued to present evidence to the Federal Reserve Board to support its position that all securities included in the NASDAQ National List should be eligible for margin. Adoption of this

listed stocks trade at prices substantially below the National List minimum bid criterion of \$3 per share. Also, it is well recognized that NASDAQ National List issues receive greater newspaper visibility and hence greater public exposure than stocks traded exclusively on a regional exchange.

More NASDAQ Companies Get "Blue Sky" Exemptions

More than 80 percent of NASDAQ companies are headquartered in states which now have a "blue sky" exemption from registration for new issues of their securities. This is the result of the NASD's work with the North American Securities Administrators Association and strong support from NASDAQ companies and NASD member firms. The NASD is now working closely with four additional states — Delaware, Illinois, Maryland, and Ohio. Adoption of exemptions by these states would bring the total coverage to nearly 90 percent of all NASDAQ companies.

SEC Amends Net Capital Rule and Studies NASD Proposal

The Association played a major role in shaping many of the amendments made during 1982 to the SEC's Net Capital Rule (15c3-1) and Customer Protection Rule (15c3-3). Key provisions supported by the NASD and adopted by the Commission included:

- Lowering the capital ratio under the alternate method of computing net capital;
- Allowing a sliding scale for short securities differences;
- Using an "add back to capital" provision for certain tax liabilities;
- Reducing early warning levels for "alternate" rule users.

Still under consideration by the SEC is a proposal made by the NASD last year to permit irrevocable letters of credit to be used as acceptable collateral for secured demand notes. The Association believes such a measure would "unlock" substantial amounts of capital for use in firms' day-to-day operations.

After submitting a detailed discussion paper analyzing the major points of the proposal from the perspectives of safety, economic uses and fairness, the NASD requested that its position be considered either as a proposed SEC rule amendment for public comment or that SEC staff consider granting no-action status to individual firms on a case-by-case basis.

NASD Sees No Need For Anti-Internalization Rule

In December 1982, the SEC published for comment a proposed rule, generally referred to as an "anti-internalization rule," which would require the exposure of customer orders in Rule 19c-3 securities. The proposed rule would limit over-the-counter and exchange market makers from executing customer transactions as principal or effecting in-house agency crosses unless such orders were exposed to other markets prior to execution.

The December proposal is a revised version of a proposal published in May 1982. The initial proposal is traceable to

arguments of the stock exchanges that such a rule is necessary to curb the potential regulatory abuses that could result from internalization. The Association's response to that proposal was that neither SEC nor NASD monitoring programs had revealed any negative consequences resulting from the limited trading that had as then taken place in 19c-3 securities. Furthermore none of the theoretical dangers previously cited had materialized. Specifically, since no demonstrable evidence existed which identified inferior executions in the over-the-counter market, the NASD informed the SEC that added rules and regulations to govern unsubstantiated problems were totally inappropriate.

Unlike the initial proposal, the basis for the Commission's revised version is not to curb the potential for regulatory abuse. The SEC has since concluded that "it has not observed any objectively identifiable negative impacts of internalization on Rule 19c-3 trading in the past that would justify the imposition of an order exposure rule." The SEC's basis for advancing the newer proposal is the potential benefits that may flow from order exposure and increased intermarket competition.

The NASD maintains, however, that the rule as proposed is unworkable, would result in substantial inefficiencies in executing transactions, and contains anti-competitive features which far outweigh any potential benefit. The proposal has

generated substantial interest among both members and issuers and can be expected to be a major agenda issue in 1983.

Options Program Gains New Life

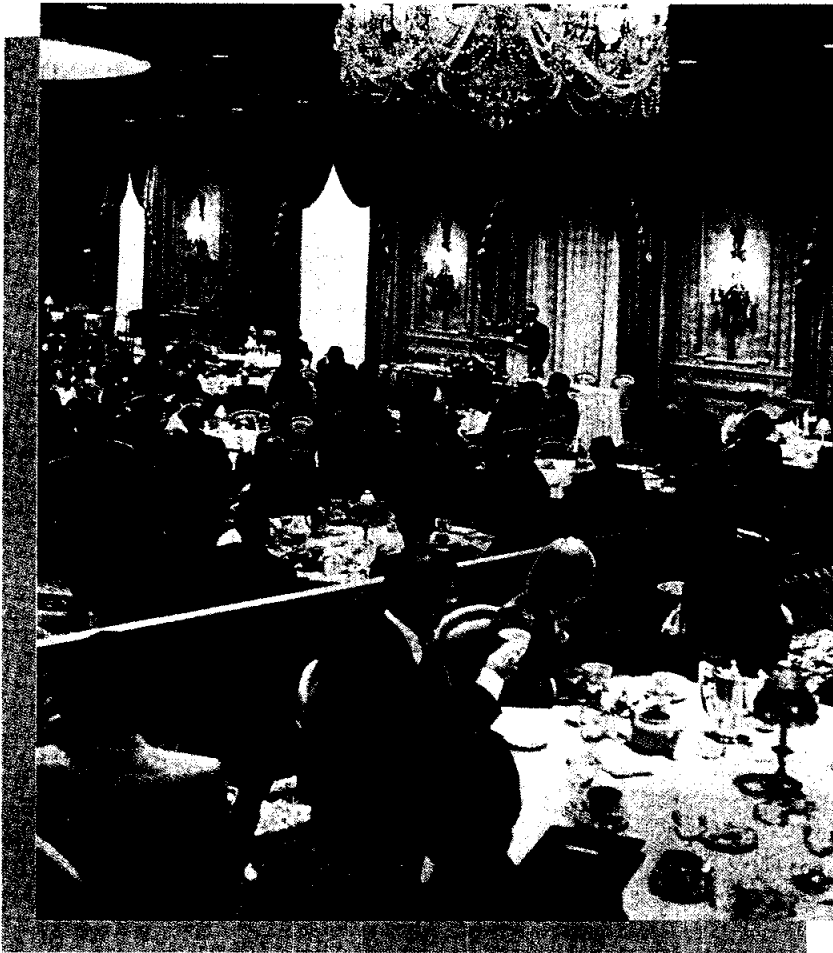
In response to a growing interest in options-based products, the NASD took action in 1982 to bring its long-standing NASDAQ options proposal, currently on file

SEC's prior concerns with the design of the NASDAQ Options Program have been addressed with the start-up of NASDAQ NMS and by a variety of other changes that have been made in the NASDAQ System since the original filing of the proposal. The development of appropriate rules to govern trading in NASDAQ options and technical

debt offerings of only the largest issuers. These spokesmen included President Gordon S. Macklin, former Governor William B. Madden of Schneider, Bernet & Hickman, Inc., Governor Bruce Mann of the law firm Pillsbury, Madison & Sutro, and J. Perry Ruddick of Smith Barney, Harris Upham & Co., Incorporated. In their testimony, the NASD representatives advised the SEC that Rule 415 will severely limit an underwriter's ability to conduct a meaningful due diligence investigation, thus adversely affecting the disclosure process; lead to a growing institutionalization of our securities markets, further precluding investor participation; and, among other things, work to undermine the fixed-price offering system that the Commission appeared to favor by approving the "Papilsky" rules just two years ago.

Courts Uphold NASD Arbitration

The U.S. Court of Appeals for the Ninth Circuit has upheld the ruling of the U.S. District Court for the District of Oregon which had rejected a challenge to the NASD arbitration process in 1981. The plaintiff, formerly a registered representative with an NASD member firm, had sought a judgment declaring that because he had terminated his registration with the NASD, he was not subject to the jurisdiction of an NASD arbitration panel in an action relating to his activities during the period he was registered.



NASD President Gordon S. Macklin discussing major NASDAQ developments at the 1982 NASDAQ Chief Executives' Conferences, held in 16 cities. This annual event provides an in-depth update on timely issues confronting management.

with the SEC, several steps closer to becoming a reality. Amended by the NASD in 1982, the proposal now calls for the display of standardized put and call options on eligible NMS securities as well as options on the various NASDAQ indices.

Recent discussions with the Commission suggest that many of the

enhancements to the NASDAQ System to accommodate options trading have become priority items in 1983.

NASD Testifies Against Permanent Shelf Registration

At a public hearing on temporary SEC Rule 415, NASD representatives called on the SEC to limit any permanent shelf registration rule to the

The appeals court upheld the NASD position. It ruled the plaintiff was presumed to have read and understood the arbitration obligation he undertook when he first registered with the NASD, the obligation to arbitrate remained in force despite the plaintiff's resignation from the NASD and the brokerage firm, and the NASD arbitration panel continues to have the jurisdiction to rule on whether the claim against the plaintiff had a time limitation.

Broker-Dealer Surveillance: Efficiency Increases

Disciplinary Actions Increase

The NASD continues to

focus its resources on high-priority examinations. For the second year in a row, District Offices were given the discretion to defer for one year the annual routine examinations of broker-dealers meeting stringent financial and operational standards as well as other criteria.

In 1982, the NASD conducted 3,481 routine and special examinations of member broker-dealers. This total includes 3,140 main office and 341 branch office examinations. As a result, 336 formal and summary complaints were issued and 48 Letters of Admission, Waiver and Consent were accepted. These actions led the NASD to expel 5 firms, bar 44 individuals, and suspend 5 firms and 43 individuals.

Denver Task Force Takes Swift Action

During the latter half of 1981 and in early 1982, there was a sharp decline in new offerings of speculative "penny" stocks. Generally declining prices and limited after-market trading in these issues raised serious concern about the financial condition of broker-dealers in the Denver region. As a result, swift action was taken by a joint NASD/SEC Special Financial Operations Group, which conducted immediate on-site examinations of 41 firms in Colorado, Utah, and Wyoming.

Although some firms were found to have serious financial problems, only three Securities Investor Protection Corporation (SIPC) trustees were needed. Seven

A staff meeting on broker-dealer surveillance is part of the day's work at NASD District Offices. This team is gathered in the District Office located in the World Trade Center in New York City.



firms were self-liquidated under NASD supervision without loss to customers or other broker-dealers. The NASD also monitored other firms through accelerated financial reporting and frequent on-site visits.

Trading Volume Surge Triggers "Early Warning" Effort

The Association kept a close watch on the dramatic increase in trading volume during the second half of 1982 to identify member firms which might be experiencing operational difficulties. The goal was to identify potential problems in the early stages.

The NASD's monitoring efforts included special surveys of members' handling of the volume surge and a review of standard regulatory reports and trade comparison data of various stock clearing corporations. This monitoring program revealed that the volume increase did not cause any major operational difficulties.

Self-Liquidations Function Smoothly

The NASD successfully monitored the self-liquidation of 11 member firms with financial problems in 1982. Since the start of the self-liquidation program in 1975, approximately \$190 million in cash and securities has been distributed to satisfy all outstanding obligations to customers and broker-dealers.

Cooperation Continues with SIPC

In 1982, eight broker-dealers were placed in liquidation under SIPC

auspices (all occurred during the first six months of the year). At the end of 1982, the NASD was the designated examining authority for a total of 3,362 members, 8 of which were on report to SIPC as being in or approaching financial difficulty.

Coordinated Examinations Cut Duplication

Duplicative examinations of dual members of various exchanges which are involved in options activities have been eliminated by what is known as the Multi-Party Options 17d-2 Agreement. Under the terms of this agreement, the NASD in 1982 coordinated its options examination responsibility with the Chicago Board Options Exchange and the American, Midwest, Pacific, and Philadelphia stock exchanges.

For firms that are members of two or more SROs, responsibility for conducting all options-related sales practice regulation is designated to a single participating SRO. Its responsibility includes conducting routine options examinations, handling options-related complaints from customers, and investigating terminations for cause of registered personnel. Each year, these options responsibilities are reallocated among the participating SROs.

The Association also continued as the designated examining authority for broker-dealer members of both the NASD and the Boston, Cincinnati, Midwest, Pacific, and Philadelphia

stock exchanges. These agreements have eliminated regulatory duplication in that examinations of these members are now conducted only by the NASD.

Pace of Public Offerings Picks Up in Fourth Quarter

A surge of activity in the fourth quarter brought to a record \$44.8 billion the aggregate registered amount of public offerings filed with the NASD for review of underwriting terms and arrangements. This represents a slight increase from the previous high of just over \$44 billion in 1981. The number of offerings filed declined in 1982 to 1,668 from 2,073 in the prior year.

While a soft oil and gas market contributed to a leveling off of direct participation programs in 1982 after several years of explosive growth, real estate activity continued strong. During the year, direct participation programs and real estate investment trusts (REITs) accounted for 478 filings, totaling \$11.9 billion. In 1981, there were 464 such filings, totaling about \$12.5 billion.

Advertising Reviews Up

Reflecting the growth in membership, the volume of advertising and sales literature submitted to the NASD's Advertising Department increased once again in 1982. The department reviewed over 12,000 items submitted by members and another 5,475 received in response to spot checks. Overall volume increased 14.3 percent from the 1981 level, continuing the trend of the past six years.

**NASD Officers
and Board
of Governors
1982**

The Board of Governors is the controlling body of the NASD and determines policy on a national scale. The Board consists of 21 representatives of the securities industry elected from the Association's Districts, nine Governors-at-Large and the President of the NASD. The Board meets six times a year.

Ernest F. Rice, Jr.
Blunt Ellis & Loewi Incorporated
Milwaukee, Wisconsin
Chairman, 1982

(center)
Gordon S. Macklin
President and Member of the Board

James W. Ratzlaff*
Capital Research and Management
Company
Los Angeles, California
Vice Chairman — Finance, 1982



Messrs. Rice and Ratzlaff to serve until January 1983

Norman T. Wilde, Jr.
Janney Montgomery Scott Inc.
Philadelphia, Pennsylvania
Chairman, 1983

A. James Jacoby
Asiel & Co.
New York, New York
Vice Chairman, 1983

B. Mills Sinclair
Young, Smith & Peacock, Inc.
Phoenix, Arizona
Vice Chairman-Finance 1983



To serve until January 1984

Edmund J. Cashman, Jr.
Legg Mason Wood Walker,
Incorporated
Baltimore, Maryland

L.H. Bayley
David A. Noyes & Company
Indianapolis, Indiana

Ruth S. Block*
The Equitable Life Assurance
Society of the United States
New York, New York

Russell H. Baumgardner*
Apogee Enterprises, Inc.
Minneapolis, Minnesota



To serve until January 1985

(Not pictured)

H. Lawrence Parker
Morgan Stanley & Co. Incorporated
New York, New York

To serve until January 1984

John F. Cogan, Jr.*
The Pioneer Group, Inc.
Boston, Massachusetts

William G. McGowan*
MCI Communications Corporation
Washington, D.C.

Roland M. Trafton*
SAFECO Corporation
Seattle, Washington

To serve until January 1986



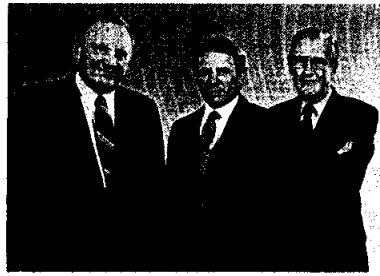


Frances B. Dyleski
Robert C. Carr & Co., Inc.
Manchester, New Hampshire

Benjamin L. Lubin
Janney Montgomery Scott Inc.
Darien, Connecticut

Robert H. Atkinson, Jr.
Atkinson and Company
Portland, Oregon

To serve until January 1983



Conrad S. Young*
United of Omaha
Omaha, Nebraska

Donald E. Weston
Gradison & Company Incorporated
Cincinnati, Ohio

Vernon B. Willis
Dain, Bosworth Incorporated
Las Vegas, Nevada

To serve until January 1983



Shannon Michael Drew
Kidder, Peabody & Co. Incorporated
San Francisco, California

(front)
J.M. (Mac) Hill*
Rangaire Corporation
Cleburne, Texas

Ray J. Groves*
Ernest & Whinney
Cleveland, Ohio

To serve until January 1984

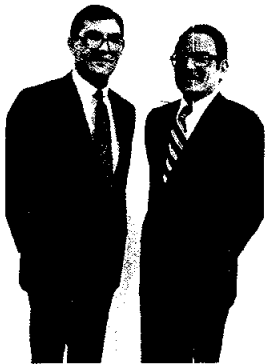


Glenn R. Oxner
Interstate Securities Corporation
Charlotte, North Carolina

Bruce A. Mann*
Pillsbury, Madison & Sutro
San Francisco, California

Walter N. Trulock, III
Dean Witter Reynolds Inc.
Pine Bluff, Arkansas

To serve until January 1984



Richard R. West*
Amos Tuck School of Business
Administration
Dartmouth College
Hanover, New Hampshire

Peter K. Loeb
Shearson/American Express
New York, New York

To serve until January 1985



Carl P. Sherr
Carl P. Sherr & Company
Worcester, Massachusetts

Carl Hohnbaum
B.C. Christopher Securities Co.
Kansas City, Missouri

David M. Underwood
Underwood, Neuhaus & Co., Incorporated
Houston, Texas

Donald W. Crowell
Crowell, Weedon & Co.
Los Angeles, California

To serve until January 1985



Douglas E. DeTata
Prudential-Bache Securities, Inc.
San Francisco, California

J. Philip Boesel, Jr.
R. G. Dickinson & Co.
Des Moines, Iowa

David C. Grove
Somers, Grove & Co., Inc.
Portland, Oregon

James C. Stone, III
J.J.B. Hilliard, W.L. Lyons, Inc.
Louisville, Kentucky

To serve until January 1986



Herbert A. Sarkisian, Jr.
Moors & Cabot, Inc.
Boston, Massachusetts

Leonard Mayer
Mayer & Schweitzer, Inc.
Jersey City, New Jersey

Peter D. Byrne
Dean Witter Reynolds Inc.
New York, New York

To serve until January 1986

National Committees 1982

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

Executive

- *Ernest F. Rice, Jr.
Chairman
- *Frances B. Dyleski
- *A. James Jacoby
- *David Marcus
- *James W. Ratzlaff
- *Donald E. Weston
- *Norman T. Wilde, Jr.
- *Gordon S. Macklin
President

Finance

- *James W. Ratzlaff
Chairman
- *Robert H. Atkinson, Jr.
- *Shannon Michael Drew
- *Benjamin L. Lubin
- *Ernest F. Rice, Jr.
- *B. Mills Sinclair
- *Vernon B. Willis
- *Conrad S. Young
- *Gordon S. Macklin
President
- Jack A. Schindel
Treasurer, (Ex Officio)

Business Conduct

- *A. James Jacoby
Chairman
- *Walter N. Trulock, III
Vice Chairman
- *Russell H. Baumgardner
- *L. H. Bayley
- *Donald W. Crowell
- *Carl Hohnbaum
- *Peter K. Loeb
- *Carl P. Sherr
- *David M. Underwood

Nominating

- *Ernest F. Rice, Jr.
Chairman
- James F. Keegan
- David W. Mesker
- L. C. Petersen
- J. Stephen Putnam
- *Gordon S. Macklin
President, (Ex Officio)

Arbitration

- *David Marcus
Chairman
- Edward S. Arnold
- Eugene Arnold, Jr.
- *L. H. Bayley
- John D. Berl
- J. Gordon Cooney
- Stephen L. Hammerman
- Philip J. Hoblin
- Peter Keber
- *Benjamin L. Lubin
- John F. X. Peloso
- *B. Mills Sinclair
- A. A. Sommer, Jr.
- *Walter N. Trulock, III

Capital & Margin

- *Benjamin L. Lubin
Chairman
- *Frances B. Dyleski
- Vincent P. Fay
- Joseph A. Gottlieb
- Albert Kopin
- *Glenn R. Oxner
- *B. Mills Sinclair
- Daniel P. Son
- Eli Weinberg

Commodities

- William B. Madden
Chairman
- Richard B. Anspacher
- Neil Aslin
- *L. H. Bayley
- *David Marcus
- *Glenn R. Oxner
- Theodore Thornte
- James F. Wade

Corporate Advisory Board

- *J. M. Hill
Chairman
- *Russell H. Baumgardner
- David R. Cowart
- John A. Elorriaga
- *Ray J. Groves
- B. Lee Karns
- Lawrence A. Leser
- William G. McGowan
- Harold W. Patton, Jr.
- Donald A. Pels
- Philip F. Searle
- Lawrence R. Thielen

Corporate Financing

- Peter A. Bernard
Chairman
- Andrew M. Blum
- *Donald W. Crowell
- Alan B. Levenson
- *Peter K. Loeb
- *Bruce A. Mann
- John T. McGuire
- Joseph McLaughlin
- *H. Lawrence Parker
- J. Perry Ruddick
- *Donald E. Weston

Direct Participation Programs

- Mason T. New
Chairman
- Jeffrey H. Brotman
- *Edmund J. Cashman
- Samuel M. Chase, Jr.
- Edwin H. Hall
- C. Andrew Graham
- *Carl Hohnbaum
- William B. Madden
- J. Stephen Putnam
- Charles Ramsey
- Terry Sheldon
- Linda Wertheimer
- *Donald E. Weston

Fidelity Bonding

Nelson S. Burbank
Chairman
*Robert H. Atkinson, Jr.
*Frances B. Dyleski
John C. Harden
Richard E. Hyder
Francis X. LeMunyon
William Z. Suplee, III
James F. Wade
*Conrad S. Young

Information

*Vernon B. Willis
Chairman
Nancy M. Bacon
*Russell H. Baumgardner
Andrew M. Blum
Bruce D. Cowen
*J. M. Hill
Richard M. Hufnagel
*A. James Jacoby
Jeremiah A. Mullins
Lawrence W. Schoch
W. S. Stuckey, Jr.
George Ureke
William R. Woodworth
*Conrad S. Young

Insurance Trustees and Insurance

James J. McCormack
Chairman
Nelson S. Burbank
*B. Mills Sinclair
*Conrad S. Young
*Gordon S. Macklin
President
Jack A. Schindel
Treasurer

International

*David Marcus
Chairman
Andrew M. Blum
Albert J. Coffey
*H. Lawrence Parker
Walter Schnabel
David Stein
Barthold von Ribbentrop

Investment Companies

*James W. Ratzlaff
Chairman
John W. Bachmann
George S. Bissell
H. Day Brigham, Jr.
John M. Butler
John F. Cogan, Jr.
J. Paul Erickson
John W. Galbraith
David A. Hughey
Julian A. Lerner
James J. McCormack
Richard P. Strickler

Long Range Planning

J. Stephen Putnam
Chairman
Robert R. Googins
James F. Keegan
L. C. Petersen
John A. Orb
*Ernest F. Rice, Jr.
A. A. Sommer, Jr.
John A. Wing
*Gordon S. Macklin
President

Municipal Securities

Charles S. Garland, Jr.
Chairman
Richard J. Ackerman
*Robert H. Atkinson, Jr.
Bill B. Beavers
Bernard R. Bober
J. Kevin Kenny
Stephen Kenny
Eugene B. Shepherd
*Walter N. Trulock, III
*Norman T. Wilde, Jr.
Thomas K. Yardley

National Market System Design

J. Stephen Putnam
Chairman
Richard L. Bove
Michael Calabro
Roland A. Catalano
Bernard L. Madoff
John J. McCarthy
Raymond Meselsohn
James Murray
*H. Lawrence Parker
Harold A. Rich
Kenneth J. Wessels

National Market System Securities Qualifications

James F. Keegan
Chairman
*Russell H. Baumgardner
*Shannon Michael Drew
Robert D. Hedberg
*J. M. Hill
*Benjamin L. Lubin
William B. Madden
Leonard Mayer
William G. McGowan
David W. Mesker
Jeremiah A. Mullins
L. C. Petersen
*Ernest F. Rice, Jr.
*Carl P. Sherr

Options

*David Marcus
Chairman
James E. Brucki, Jr.
Mike Epstein
John Felber
*Benjamin L. Lubin
Carroll W. Owens, Jr.
Richard Purkiss
Theodore M. Perkowski
Judith G. Shepard

Qualifications

James J. McCormack
Chairman
Thomas J. Asher
John D. Berl
D. Laird Blue
Gerald B. Brenzel
*Frances B. Dyleski
Terry Nelson
John V. Campana
Glen Givens
*David Marcus
Thomas J. McAllister
W. Lincoln Mossop, Jr.
Alan Pessin
*David M. Underwood
Linda Wertheimer
*Vernon B. Willis

Real Estate

Samuel M. Chase, Jr.
Chairman
John D. Ellsworth
Robert L. Franklin
Arnold L. Hoffman
*Carl Hohnbaum
Richard L. Howell
Richard E. Landau
William B. Madden
W. Lincoln Mossop, Jr.
Mason T. New
Alan Parisse
Terry Sheldon
Walter A. Turner, Jr.
*Donald E. Weston

Registration

*David Marcus
Chairman
R. Gerald Baker
Edward E. Hill
Philip J. Hoblin
James J. McCormack
Renee B. Pazan
W. Stewart Storie
*Vernon B. Willis
David H. Wunder

Retirement Plan Review

John A. Wing
Chairman
*J. M. Hill
James J. McCormack
*James W. Ratzlaff
*Conrad S. Young

Trading

*Norman T. Wilde, Jr.
Chairman
*Russell Baumgardner
Murray L. Finebaum
*J. M. Hill
*A. James Jacoby
Hugh P. Lowenstein
Raymond Meselsohn
Thomas M. Mink
Hugh J. Quigley
Patrick C. Ryan
Owen L. Saddler, Jr.
*Carl P. Sherr
Thomas W. Sullivan
Howard Tepper
Kenneth J. Wessels
*Donald E. Weston
Jery Williams

Uniform Practice

Henry C. Alexander
Chairman
Robert C. Dissett
*Frances B. Dyleski
*Benjamin L. Lubin
*Carl P. Sherr
*B. Mills Sinclair
Joe C. Weller

Variable Contracts

James J. McCormack
Chairman
Bruce Avedon
Lee Bodenhamer
Robert Butler
John Longmore
*James W. Ratzlaff
Milton F. Svetanics, Jr.
*Conrad S. Young

AD HOC COMMITTEES

Future Structure of the Securities Industry

*H. Lawrence Parker
Chairman
William B. Madden
James J. McCormack
L. C. Petersen
*James W. Ratzlaff
*Ernest F. Rice, Jr.
John A. Wing
*Gordon S. Macklin
President
(*Ex Officio*)

Rule and By-Law Amendments

John A. Wing
Chairman
Gerald B. Brenzel
Robert R. Googins
*David Marcus
J. Stephen Putnam
John R. Winsor

SEC Rule 10b-6

Peter A. Bernard
Chairman
Alan B. Levenson
William B. Madden
*Bruce A. Mann
Joseph McLaughlin
*Ernest F. Rice, Jr.

*Member, NASD Board of Governors



District Committees 1982

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

District 1

ALASKA
IDAHO
MONTANA
OREGON
WASHINGTON

Chairman
William G. Papesh
Murphey Favre, Inc.
Spokane, Washington



F. Davis Finch
Vice Chairman
Merrill Lynch, Pierce,
Fenner & Smith Incorporated
Portland, Oregon

Samuel J. Goodwin
Kidder, Peabody & Co.
Incorporated
Portland, Oregon

William O. Hammerbeck
Hammerbeck and Company,
Inc.
Portland, Oregon

Richard L. Hinton
Campbell, Waterman Inc.
Seattle, Washington

Robert D. Kraus
Smith Barney, Harris Upham
& Co. Incorporated
Portland, Oregon

William J. Rex
Foster & Marshall/American
Express Inc.
Seattle, Washington

Alan T. Robertson
Piper, Jaffray & Hopwood
Incorporated
Seattle, Washington

Phillip L. Sandberg
P.L. Sandberg & Co.,
Incorporated
Spokane, Washington

Bradford M. Patterson
Director
One Union Square
Suite 1911
Seattle, Washington 98101
(206) 624-0790

District 2

CALIFORNIA
NEVADA
HAWAII

Co-Chairman
Charles G. Bragg
Quincy Cass Associates,
Incorporated
Los Angeles, California



Co-Chairman
Kenneth E. Nitzberg
Equitec Securities Company
Lafayette, California



Richard J. Becker
Bateman Eichler, Hill
Richards, Incorporated
Los Angeles, California

Miles Z. Gordon
University Securities
Corporation
Long Beach, California

James D. Klein
Paine, Webber, Jackson &
Curtis Inc.
San Francisco, California

Walter Klosterman
Dean Witter Reynolds Inc.
Laguna Hills, California

Thomas E. Mullen
San Diego Securities
Incorporated
San Diego, California

Richard C. Otter
Davis, Skaggs & Co., Inc.
San Francisco, California

Gilman Robinson
Judy & Robinson Securities,
Inc.
Menlo Park, California

Arthur P. Rowsell
Cantor, Fitzgerald &
Company, Inc.
Beverly Hills, California

Ernest H. Ruehl
Henry F. Swift & Co.
San Francisco, California

Jeffrey P. Schackett
Crowell, Weedon & Co.
Los Angeles, California

John T. Schmidt
The First Boston Corporation
San Francisco, California

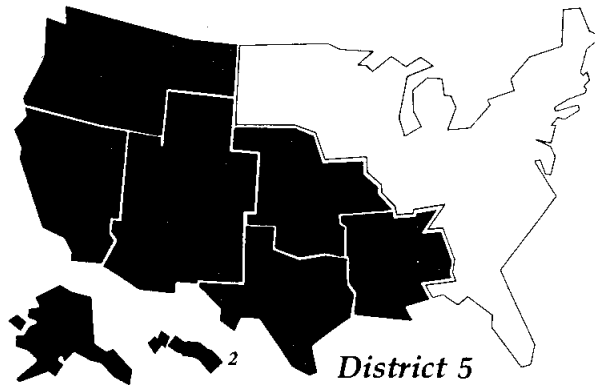
Arnold Seidel
Morton Seidel & Company, Inc.
Los Angeles, California

G. Stuart Spence
Kidder, Peabody & Co.
Incorporated
San Francisco, California

Daniel E. Stone
Stone & Youngberg
San Francisco, California

Kye Heilmers
Director
727 W. Seventh Street
Los Angeles, California 90017
(213) 627-2122

Theodore F. Schmidt
Director
425 California Street
Room 1400
San Francisco, California
94104
(415) 781-3434



District 3

ARIZONA
COLORADO
NEW MEXICO
UTAH
WYOMING

District 4

KANSAS
MISSOURI
NEBRASKA
OKLAHOMA

District 5

ALABAMA
ARKANSAS
LOUISIANA
MISSISSIPPI
WESTERN TENNESSEE

District 6

TEXAS

Chairman
James Peck
Dain, Bosworth Incorporated
Casper, Wyoming



Larry D. Hayden
Vice Chairman
Hanifen, Imhoff Inc.
Denver, Colorado

Allen R. Aden
First Financial Securities, Inc.
Denver, Colorado

John L. Brown
Wall Street West, Inc.
Denver, Colorado

J. Wendell Garrett
J. W. Garrett and Company
Phoenix, Arizona

Richard Hufnagel
Boettcher & Company
Denver, Colorado

John F. Mohar
Quinn and Co., Inc.
Albuquerque, New Mexico

Robert W. Plenge
Plenge, Thomas & Nofer
Incorporated
Phoenix, Arizona

George J. Potter
Potter Investment Co
Salt Lake City, Utah

Samuel Wilson
Wilson-Davis & Co.
Salt Lake City, Utah

Frank J. Birgfeld
Director
909 17th Street, Room 608
Denver, Colorado 80202
(303) 825-7234

Chairman
F. Scott Perkins
Perkins and Company, Inc.
Garden City, Kansas



A. Wayne Harrison
Vice Chairman
Independent Investors
Services, Inc.
Overland Park, Kansas

Robert L. Bagby
A. G. Edwards & Sons, Inc.
St. Louis, Missouri

Ernest C. Dippel
E. F. Hutton & Company Inc.
Kansas City, Missouri

Norman Frager
Scherck, Stein & Franc, Inc.
St. Louis, Missouri

Gerald Geiger
Woolsey & Company,
Incorporated
Oklahoma City, Oklahoma

Karl B. Groth
Chiles, Heider & Co. Inc.
Omaha, Nebraska

Robert L. Smart
Smart, Moreland & Neuner
Investment Corporation
Kansas City, Missouri

Lawrence R. Sobol
Edward D. Jones & Co.
Maryland Heights, Missouri

Floyd Steiner
First Securities Company of
Kansas, Incorporated
Wichita, Kansas

Bill T. Wall
Stern Brothers & Co.
Kansas City, Missouri

Jack Rosenfield
Director
911 Main Street, Suite 2230
Commerce Tower Building
Kansas City, Missouri 64105
(816) 421-3930

Chairman
John B. Levert, Jr.
Howard, Weil, Labouisse,
Friedrichs Incorporated
New Orleans, Louisiana



Joseph C. Weller
Vice Chairman
Morgan, Keegan & Company,
Inc.
Memphis, Tennessee

Das. A. Borden
Das A. Borden & Associates
Muscle Shoals, Alabama

R. Baxter Brown
Brown, Geary & McInnes,
Incorporated
Jackson, Mississippi

Bill R. Carty
Carty & Company, Inc.
Memphis, Tennessee

Benjamin F. Hamel, Jr.
Merrill Lynch, Pierce, Fenner
& Smith Incorporated
Mobile, Alabama

Joseph D. Jolly, Jr.
Joe Jolly & Co., Inc.
Birmingham, Alabama

W. W. (Bick) Satterfield
Powell & Satterfield, Inc.
Little Rock, Arkansas

John J. Zollinger, III
Scharff & Jones Inc.
New Orleans, Louisiana

Edward J. Newton
Director
1004 Richards Building
New Orleans, Louisiana
70112
(504) 522-6527

Chairman
C. Thomas May, Jr.
May, Cullum, Ragland &
Brittain, Inc.
Dallas, Texas



Charles E. Zivney
Vice Chairman
Paine, Webber, Jackson &
Curtis Inc.
Fort Worth, Texas

Saul P. Baker
First Southwest Company
Dallas, Texas

Alan K. Goldfarb
Financial Strategies
Investment Corporation
Dallas, Texas

Robert J. Moosy
Merrill Lynch, Pierce, Fenner
& Smith, Incorporated
Lubbock, Texas

J. Marvin Moreland, Jr.
Greer Moreland Fosdick
Shepherd Inc.
Houston, Texas

William E. Read
William E. Read & Co., Inc.
Dallas, Texas

Richard C. Webb
Lovett Mitchell Webb, Inc.
Houston, Texas

John H. Williams
Schneider, Bernet & Hickman,
Inc.
Dallas, Texas

Peter M. Walker
Director
1610 Metropolitan Federal
Savings Building
1407 Main Street
Dallas, Texas 75202
(214) 742-4103

District 7

FLORIDA
GEORGIA
SOUTH CAROLINA
EASTERN TENNESSEE
PUERTO RICO
CANAL ZONE
VIRGIN ISLANDS

Chairman
John L. Watson, III
The Robinson-Humphrey
Company, Inc.
Atlanta, Georgia



David J. Fischer
Vice Chairman
Fischer, Johnson, Allen &
Burke, Inc.
St. Petersburg, Florida

Nelson B. Arrington, Jr.
V. M. Manning & Co., Inc.
Greenville, South Carolina

Richard T. Barksdale
Wiley Bros., Inc.
Nashville, Tennessee

Raphael M. Kelly
E. F. Hutton & Company Inc.
Jacksonville, Florida

Roy D. Neal, Jr.
Paine, Webber, Jackscn &
Curtis Inc.
Miami, Florida

Alan S. Pareira
First Equity Corporation of
Florida
Miami, Florida

Robert M. Varn
Kidder, Peabody & Co.
Incorporated
Atlanta, Georgia

Bennett Whippie
Director
1100 Atlanta Center
250 Piedmont Ave., NE
Atlanta, Georgia 30308
(404) 658-9191

District 8

ILLINOIS
INDIANA
IOWA
MICHIGAN
MINNESOTA
NORTH DAKOTA
SOUTH DAKOTA
WISCONSIN

Chairman
Robert M. Leonhardt
Robert W. Baird & Co.,
Incorporated
Milwaukee, Wisconsin



Theodore M. Perkowski
Vice Chairman
Howe, Barnes & Johnson,
Inc.
Chicago, Illinois

Robert A. Cooper
The Milwaukee Company
Milwaukee, Wisconsin

Victor Etting, III
The Chicago Corporation
Chicago, Illinois

C. Edward Fisher
Kemper Financial Services,
inc.
Chicago, Illinois

William A. Goldstein
Burton J. Vincent, Chesley &
Co.
Chicago, Illinois

Patricia C. Ladavac
Chambers & Chase, Inc.
Indianapolis, Indiana

Plato A. Mavroulis
John G. Kinnard and
Company, Incorporated
Minneapolis, Minnesota

Patrick A. Noonan
Dixon Bretscher Noonan, Inc.
Springfield, Illinois

Richard A. Pecaut
Pecaut & Co.
Sioux City, Iowa

James A. Richter
Wm. C. Roney & Co.
Detroit, Michigan

David E. Rosedahl
Piper, Jaffray & Hopwood
Incorporated
Minneapolis, Minnesota

John R. Scott
Smith Barney, Harris Upham
& Co. Incorporated
Chicago, Illinois

Edward M. Silverstein
H. B. Shaine & Co., Inc.
Grand Rapids, Michigan

Thomas B. Summers
Summers & Company, Inc.
Fort Wayne, Indiana

E. Craig Dearborn
Director
Three First National Plaza
Suite 1680
Chicago, Illinois 60602
(312) 236-7222

District 9

KENTUCKY
OHIO

Chairman
James C. Stone, III
J.J.B. Hilliard, W.L. Lyons,
Inc.
Louisville, Kentucky



William B. Summers, Jr.
Vice Chairman
McDonald & Company
Cleveland, Ohio

David L. Baker
Baker & Co., Incorporated
Cleveland, Ohio

W. Pat Conners
Conners & Company, Inc.
Cincinnati, Ohio

Robert A. Greenberg
Robert W. Baird & Co.,
Incorporated
Columbus, Ohio

William K. McCormick
Cowen & Co.
Dayton, Ohio

Sigmund J. Munster
Dean Witter Reynolds Inc.
Columbus, Ohio

Gerald L. Oaks
Bartlett & Co.
Cincinnati, Ohio

Alexander S. Taylor
Kidder Peabody & Co.
Incorporated
Cleveland, Ohio

George W. Mann, Jr.
Director
100 Erieview Plaza
Cleveland, Ohio 44114
(216) 694-4545

District 10

DISTRICT OF
COLUMBIA
MARYLAND
NORTH CAROLINA
VIRGINIA

Chairman
William C. Boines
Craigie Incorporated
Richmond, Virginia



Thomas C. Looney
Vice Chairman
Wheat, First Securities, Inc.
Charlotte, North Carolina

Ruth G. Adler
A. G. Edwards & Sons, Inc.
Chevy Chase, Maryland

John J. Craddock
Legg Mason Wood Walker,
Incorporated
Lynchburg, Virginia

Joseph R. Hardiman
Alex. Brown & Sons
Baltimore, Maryland

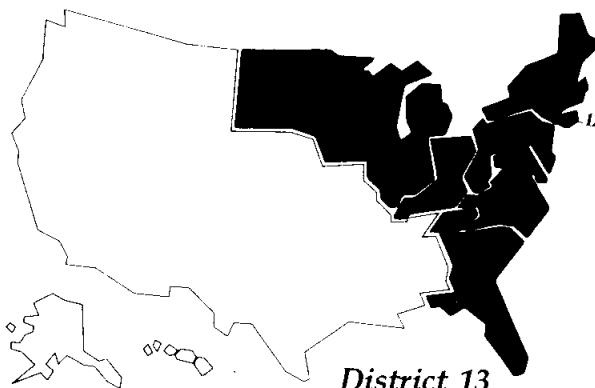
Donald C. McMillion
McMillion/Eubanks Securities,
Inc.
Greensboro, North Carolina

Richard O'Brien
Blyth Eastman Paine Webber
Incorporated
Baltimore, Maryland

Richard E. Smith
Manna Financial Planning
Corporation
Falls Church, Virginia

Wendie L. Wachtel
Wachtel & Co., Inc.
Washington, D.C.

Thomas P. Forde
Director
1735 K Street, N.W., 9th Floor
(202) 728-8400

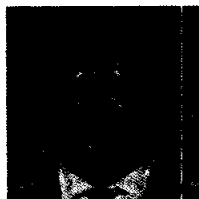


District 11

DELAWARE
PENNSYLVANIA
WEST VIRGINIA
NEW JERSEY, with the
exception of counties
adjacent to New York City

Chairman

Samuel R. Robb, Jr.
Shearson/American Express
Inc.
Pittsburgh, Pennsylvania



Evan R. Rosser, Jr.
Vice Chairman
Evan R. Rosser & Company
Williamsport, Pennsylvania

Thomas A. Akins, Jr.
Smith, Akins & Lerch, Inc.
Bryn Mawr, Pennsylvania

Peter Bedell
W. H. Newbold's Son & Co.,
Inc.
Philadelphia, Pennsylvania

David C. Boyer
Dean Witter Reynolds Inc.
Wilmington, Delaware

Thomas A. Grey
Butcher & Singer Inc.
Philadelphia, Pennsylvania

James S. Head
Parker/Hunter Inc.
Pittsburgh, Pennsylvania

Arthur F. Kalbhenn
Paine, Webber, Jackson &
Curtis Inc.
Philadelphia, Pennsylvania

Nicholas D. Meyer
N. D. Meyer & Co., Inc.
Philadelphia, Pennsylvania

Karl F. Meyers
Babbitt, Meyers & Company,
Inc.
Pittsburgh, Pennsylvania

Harold F. Scattergood Jr.
Boenning & Scattergood Inc.
Philadelphia, Pennsylvania

William O. Schach
Merrill Lynch, Pierce, Fenner
& Smith Incorporated
Pittsburgh, Pennsylvania

John P. Nocella
Director
1818 Market Street, 12th Fl.
Philadelphia, Pennsylvania
19103
(215) 665-1180

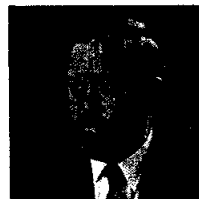
219 MEMBERS
503 BRANCHES

District 12

NEW YORK CITY
including adjacent NY
and NJ counties

Chairman

Leonard Mayer
Mayer & Schweitzer, Inc.
Jersey City, New Jersey



Peter D. Byrne
Vice Chairman
Dean Witter Reynolds Inc.
New York, New York

Timothy E. Barnes
Tucker Anthony & R. L. Day,
Inc.
New York, New York

Arthur E. Bender
Roosevelt & Cross,
Incorporated
New York, New York

Robert M. Berson
Moore & Schley, Cameron &
Co. Securities Inc.
New York, New York

Edward T. Braniff
Oppenheimer & Co., Inc.
New York, New York

Saul S. Cohen
Lehman Brothers Kuhn Loeb
Incorporated
New York, New York

George J. Bergen
Director
Two World Trade Center
South Tower, 98th Fl.
New York, New York 10048
(212) 839-6200

878 MEMBERS
569 BRANCHES

District 13

CONNECTICUT VERMONT
MAINE NEW YORK, with the
MASSACHUSETTS exception of New
NEW HAMPSHIRE York City and
RHODE ISLAND adjacent counties

Chairman

Robert E. Witt
E. F. Hutton & Company Inc.
Boston, Massachusetts



Stephen W. Adams
Vice Chairman
CIGNA Securities, Inc.
Hartford, Connecticut

Sheldon M. Fechter
Fechter, Detwiler & Co., Inc.
Boston, Massachusetts

John G. Higgins
Kidder Peabody & Co.
Incorporated
Boston, Massachusetts

Richard Hilliker
S. C. Parker & Co., Inc.
Buffalo, New York

John B. Stevenson
Glickenhous & Co.
New York, New York

Thomas W. Sullivan
Smith Barney, Harris Upham
& Co. Incorporated
New York, New York

Jonathan R. Knowles
Cummings & Co., Inc.
Providence, Rhode Island

Eugene Lawlor
Tucker Anthony & R. L. Day,
Inc.
Hartford, Connecticut

Paul B. Means
Means Investment Company
Bangor, Maine

Eric Pierce
Eaton & Howard, Vance
Sanders Distributors, Inc.
Boston, Massachusetts

Jack Rubens
Monroe Securities, Inc.
Rochester, New York

Thomas J. Tagliamonte
NEL Equity Services
Corporation
Boston, Massachusetts

317 MEMBERS
616 BRANCHES

**Consolidated
Balance Sheets**

(dollars in thousands)

	September 30	
	<u>1982</u>	<u>1981</u>
Assets		
Current assets		
Cash	\$ 403	\$ 413
Marketable debt securities, principally U.S. Government, at cost (approximate market value for 1982: \$21,302; for 1981: \$22,281)	21,288	23,985
Interest and other receivables	<u>2,971</u>	<u>2,815</u>
Total current assets	24,662	27,213
Investment in National Securities Clearing Corporation, at cost	300	300
Fixed assets		
Land, building and improvements	6,704	5,577
Data processing, subscriber equipment and software	23,520	21,362
Furniture, equipment and leasehold improvements	<u>3,106</u>	<u>2,439</u>
	33,330	29,378
Less accumulated depreciation and amortization	<u>6,397</u>	<u>7,359</u>
	26,933	22,019
Other assets	<u>923</u>	<u>812</u>
	<u>\$52,818</u>	<u>\$50,344</u>
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued expenses	\$ 6,057	\$ 6,807
Prepaid fees and deposits	3,707	3,130
Loans payable, 5%-6%	520	320
Current portion of mortgage payable	139	131
Current portion of obligations under capital lease	<u>862</u>	<u>833</u>
Total current liabilities	11,285	11,221
Obligations under capital lease	3,091	3,953
Mortgage payable	312	451
Other liabilities	<u>367</u>	<u>286</u>
Total liabilities	15,055	15,911
Equity	37,763	34,433
Commitments and contingencies		
	<u>\$52,818</u>	<u>\$50,344</u>

**Consolidated
Statements of
Operations and
Equity**

(dollars in thousands)

	Year Ended September 30	
	<u>1982</u>	<u>1981</u>
Income		
NASDAQ user service fees	\$15,854	\$14,264
Member assessments and branch office fees	15,079	10,651
Registered representative fees	9,727	6,337
NASDAQ issuers fees	5,539	5,896
Interest and other	4,501	4,646
Corporate finance fees	2,886	3,502
Regulatory service for NSCC	1,089	1,519
	<u>54,675</u>	<u>46,815</u>
Expenses		
Salaries and employee benefits	26,928	21,845
Office expense	4,396	3,323
Data processing and transmission	4,383	3,142
Professional and other services	3,939	2,697
Depreciation and amortization	3,614	1,698
Travel, meetings and investigations	2,889	2,461
Publication, supplies and postage	2,695	2,019
NASDAQ System operating expenses	1,937	2,967
Interest	267	306
Other	297	322
	<u>51,345</u>	<u>40,780</u>
Net income	3,330	6,035
Equity at beginning of year	34,433	28,398
Equity at end of year	<u>\$37,763</u>	<u>\$34,433</u>

**Consolidated
Statements of
Changes in
Financial Position**

(dollars in thousands)

	Year Ended September 30	
	<u>1982</u>	<u>1981</u>
Financial resources were provided by:		
Net income	\$ 3,330	\$ 6,035
Add (deduct) items not affecting working capital		
Depreciation and amortization	3,614	1,698
Loss (gain) on disposal of equipment	<u>213</u>	<u>(13)</u>
Working capital provided by operations	7,157	7,720
Proceeds from sale of fixed assets	261	42
Increase in other liabilities	81	
Increase in obligations under capital lease		3,953
	<u>7,499</u>	<u>11,715</u>
Financial resources were used for:		
Additions to fixed assets	9,002	17,073
Increase in other assets	111	36
Decrease in long-term mortgage payable	139	131
Decrease in long-term obligations under capital lease	<u>862</u>	<u> </u>
	<u>10,114</u>	<u>17,240</u>
Increase (decrease) in working capital	<u>\$(2,615)</u>	<u>\$(5,525)</u>
 Analysis of Changes in Working Capital		
Increase (decrease) in current assets		
Cash	\$ (10)	\$ 31
Marketable debt securities	(2,697)	(1,874)
Interest and other receivables	<u>156</u>	<u>436</u>
	<u>(2,551)</u>	<u>(1,407)</u>
Decrease (increase) in current liabilities		
Accounts payable and accrued expenses	750	(4,271)
Prepaid fees and deposits	(577)	(1,007)
Loans payable	(200)	
Current portion of mortgage payable	(8)	(7)
Current portion of capital lease obligation	(29)	(833)
Current portion of note payable		2,000
	<u>(64)</u>	<u>(4,118)</u>
Increase (decrease) in working capital	<u>\$(2,615)</u>	<u>\$(5,525)</u>

Notes to Consolidated Financial Statements

September 30, 1982 and 1981

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the National Association of Securities Dealers, Inc. (NASD) and its wholly owned subsidiaries, NASDAQ, Inc., NASD Market Services, Inc. (MSI) and National Clearing Corporation (NCC) after elimination of all significant intercompany transactions.

Depreciation and Amortization

Fixed assets are depreciated on a straight-line basis over useful lives as follows:

Buildings	30 to 38 years
Building improvements	10 years
Data processing, subscriber equipment and software	5 to 6 years
Furniture and equipment	4 to 10 years

Capitalized leases are amortized on a straight-line basis over the term of the leases.

Software Costs

Purchased software, developed by others, is capitalized if it has a continuing value and is considered an integral part of purchased hardware. All other software research and development costs are charged to expense as incurred.

Income Taxes

NASD and NASDAQ, Inc. are tax-exempt not-for-profit organizations. In March 1981, the Internal Revenue Service ruled MSI a taxable entity. MSI recognizes certain expenses, principally depreciation, in different periods for income tax purposes than for financial reporting purposes. Investment tax credits, to the extent available, are accounted for under the flow-through method.

2. Business Segments

NASD is a not-for-profit membership association established to regulate the over-the-counter securities market.

NASDAQ, Inc. owns and operates the nationwide, electronic NASDAQ quotation information system.

In November 1979, MSI was formed primarily for the purpose of establishing national market facilities to assist the NASD in carrying out its regulatory responsibilities and for the benefit of NASD members in their pursuit of efficient execution of securities transactions.

NCC owns a one-third interest in the National Securities Clearing Corporation (NSCC). NCC's operations are not significant. The assets (consisting principally of the investment in NSCC), liabilities and operations of NCC have been consolidated with NASD in the following segment information. The investment in NSCC is carried at cost since that corporation is controlled by the users of the clearing facilities and does not intend to pay dividends to its shareholders.

Intercompany billings, payables and receivables have been eliminated from the consolidated financial data.

Business Segments (in thousands)

	NASD	NASDAQ	MSI	Consolidated
1982				
Income	\$38,060	\$17,580	\$ 503	\$54,675
Expenses	<u>33,227</u>	<u>16,543</u>	<u>3,043</u>	<u>51,345</u>
Net income (loss):				
NASD	4,833			
Subsidiaries	<u>(1,503)</u>			
	<u>\$ 3,330</u>	<u>\$ 1,037</u>	<u>\$(2,540)</u>	<u>\$ 3,330</u>
Total assets	\$45,774	\$23,601	\$ 640	\$52,818
Equity (deficit):				
NASD	\$26,154			
Subsidiaries	<u>11,609</u>			
	<u>\$37,763</u>	\$16,340	\$(3,580)	\$37,763
1981				
Income	\$31,134	\$16,144	\$ -	\$46,815
Expenses	<u>26,122</u>	<u>13,832</u>	<u>1,289</u>	<u>40,780</u>
Net income (loss):				
NASD	5,012			
Subsidiaries	<u>1,023</u>			
	<u>\$ 6,035</u>	<u>\$ 2,312</u>	<u>\$(1,289)</u>	<u>\$ 6,035</u>
Total Assets	\$41,780	\$24,083	\$ 580	\$50,344
Equity (deficit):				
NASD	\$21,321			
Subsidiaries	<u>13,112</u>			
	<u>\$34,433</u>	\$15,303	\$(1,540)	\$34,433

3. Related Party Transactions

NASD provides NSCC regulatory services relating to NASD members who are also members of NSCC. Billings from NASD for the years ended September 30, 1982 and 1981 for these services were \$1,089,000 and \$1,519,000, respectively. Accounts receivable from NSCC were \$276,000 and \$314,000 at September 30, 1982 and 1981, respectively.

4. Debt

NASD's Washington, D.C. land and building are pledged as security for a 5½% mortgage. The mortgage loan is payable through 1985 in equal monthly instalments of principal and interest of \$13,000.

In March 1982, NASDAQ, Inc. obtained an unsecured \$3,000,000 line of credit with interest at prime rate from Riggs National Bank. During the year ended September 30, 1982, the line was not utilized.

5. Capitalized Lease

Data processing, subscriber equipment and software at September 30, 1982 and 1981 includes the capitalization of a computer lease of \$5,133,000. Amortization expense was \$855,000 and \$428,000 in 1982 and 1981, respectively, and related accumulated amortization at September 30, 1982 is \$1,283,000. The initial term of the lease is 76 months. Minimum lease payments are \$928,000 per year for 1983 through 1986 and \$327,000 in 1987. The present value of future minimum lease payments is \$3,953,000 resulting in imputed interest of \$289,000.

6. Retirement Benefits

NASD maintains a savings plan and a defined benefit pension plan for the benefit of all eligible employees. Current service costs are funded as they accrue. Unfunded prior service costs are being funded over a period of 30 years.

Savings plan expense for the years 1982 and 1981 was \$310,000 and \$257,000, respectively.

Pension expense for the years 1982 and 1981 aggregated \$1,170,000 and \$1,010,000, respectively. A comparison of accumulated pension plan benefits and net pension plan assets as of the most recent valuation dates is presented below:

	January 1	
	1982	1981
Actuarial present value of accumulated plan benefits:		
Vested	\$2,730,000	\$2,318,000
Nonvested	<u>1,249,000</u>	<u>910,000</u>
	<u>\$3,979,000</u>	<u>\$3,228,000</u>
Net assets available for plan benefits	<u>\$5,394,000</u>	<u>\$4,570,000</u>

The average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6% for 1982 and 1981.

7. Income Taxes

MSI has net operating loss and investment tax credit carryforwards available for future utilization as follows:

Year Expires	Net Operating Loss		Investment Tax Credit Book and Tax
	Book	Tax	
1995	\$ 901,000	\$ 901,000	\$25,000
1996	1,289,000	1,312,000	20,000
1997	<u>2,540,000</u>	<u>2,564,000</u>	<u>2,000</u>
	<u>\$4,730,000</u>	<u>\$4,777,000</u>	<u>\$47,000</u>

MSI has not incurred any federal income tax liability since its organization.

8. Commitments and Contingencies

In connection with its operations, NASD incurred office and equipment rental expense of \$2,546,000 and \$1,889,000 during the years ended September 30, 1982 and 1981, respectively. Minimum lease payments for the succeeding fiscal years are as follows: \$1,563,000 in 1983, \$1,501,000 in 1984, \$1,441,000 in 1985, \$1,321,000 in 1986, \$958,000 in 1987 and \$4,381,000 from 1988 through 1995. No lease extends beyond 1995. The majority of these leases contain escalation clauses based on increases in property taxes and building operation costs.

During the current year NASDAQ entered into contractual agreements for the purchase of computer hardware and software. At September 30, 1982, the amount outstanding on these agreements was approximately \$4,265,000.

There are legal proceedings pending against the NASD separately or with others. Management believes, based upon the opinion of counsel, that liabilities arising from these proceedings, if any, will not have a material effect on the NASD.

Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and equity and of changes in financial position present fairly the financial position of the National Association of Securities Dealers, Inc. and its subsidiaries at September 30, 1982 and 1981, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Washington, D.C.
December 21, 1982



Ernest F. Rice, Jr.
Chairman
James W. Ratzlaff
Vice Chairman—Finance

Gordon S. Macklin
President

C. Richard Justice
Executive Vice President
Automation

John T. Wall
Executive Vice President
Member and Market Services

Frank J. Wilson
Executive Vice President
Legal and Compliance

John H. Hodges, Jr.
Senior Vice President
Market Services

Vice Presidents

Robert L. Andrews
System Planning and Review

Molly G. Bayley
NASDAQ Operations

George J. Bergen
District Director

Robert L. Butler
Investment Companies—Advertising

Alberto Casanova
System Development

Raymond Cocchi
Congressional/State Liaison

Frank Coyle
System Operations

Gerard F. Foley
Membership

Frank J. Formica
*Deputy General Counsel
Legal and Compliance*

Dennis C. Hensley
Corporate Financing

Enno R. Hobbing
Information

Frank J. McAuliffe
Qualifications

Douglas F. Parrillo
Policy Research

John E. Pinto, Jr.
Surveillance

Randall K. Sampietro
System Engineering

Jack A. Schindel
Treasurer

A. John Taylor
Variable Contracts

S. William Broka
Secretary

National Association of
Securities Dealers, Inc.
1735 K Street, N.W.
Washington, D.C. 20006
(202) 728-8000

NASD

National Association of
Securities Dealers, Inc.
1735 K Street, N.W.
Washington, D.C. 20006
(202) 728-8000