

The National Association of Securities Dealers, Inc., is the not-for-profit, self-regulatory organization for the over-the-counter securities market. More than 6,600 broker-dealer firms — or virtually all firms that do a securities business with investors in the U.S. — belong to the NASD and agree to abide by its rules as a condition of membership. More than 404,000 employees of these organizations are registered with the NASD.

Through its self-regulatory activities and the activities of its subsidiary organizations, NASDAQ, Inc., and NASD Market Services, Inc., the NASD seeks to facilitate efficient domestic and international financial markets for the benefit of investors, NASDAQ companies and NASD member firms.

In keeping with the true spirit of self-regulation, the NASD is governed by a member-controlled Board of Governors. In addition, a nationwide system of committees conducts peer reviews of members' actions, develops rules and regulations and designs new services for the market.

About the Cover:

The evolution of the NASDAQ System continues. Shown in the background on this 1986 annual report cover is the original NASDAQ terminal. Manufactured by the Bunker Ramo Corporation, this terminal provided yeoman-like service to market makers and other professionals throughout the 1970s. It was replaced in 1980 with a more sophisticated terminal (middle ground), manufactured for NASDAQ by the Harris Corporation. This terminal delivered substantially more information to subscribers at twice the speed. In 1986, the latest generation of terminals (foreground) was born. The new version will capitalize on the latest in personal computer technology by providing subscribers with a wealth of new features never before available on NASDAQ equipment: market minding, dynamic screen updates, personalized ticker service, parameter break alerts and trade quote reviews.

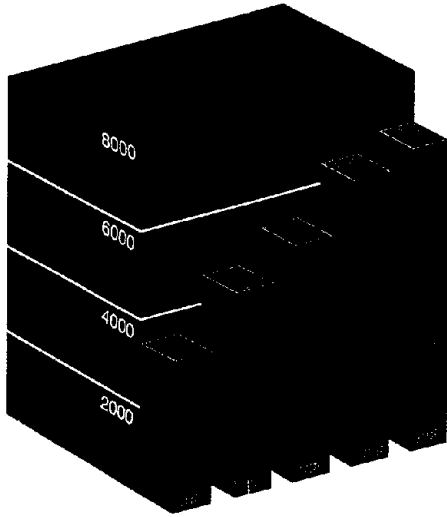


Table of Contents

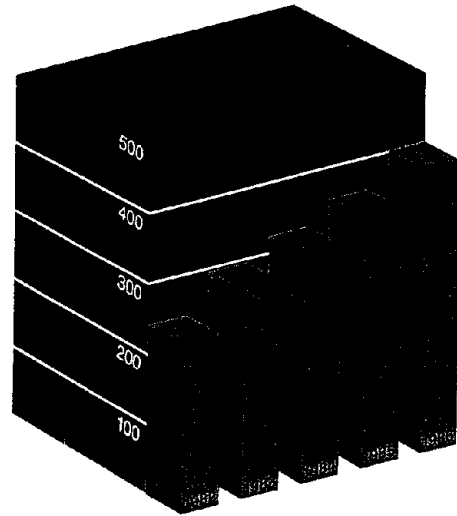
1	1986 Highlights
2	NASD Five-Year Review
3	NASDAQ Five-Year Review
4	Chairman's and President's Report
7	NASDAQ — The Year in Review
8	International Expansion
11	New Facilities and Improved Systems
12	Member and Market Services
15	Market Regulation
16	Member Regulation
19	1986 Investor Protection Highlights
20	NASD Board of Governors
24	1986 National Committees
26	1986 District Committees
32	Financial Statements
38	NASD Officers
39	Senior Management Group
40	NASDAQ/MSI Boards

- Membership in the NASD grows to its highest level ever — 6,658 member firms operating 18,014 branch offices. The number of registered principals and representatives tops 404,000.
- The NASDAQ market celebrates its 15th anniversary with a record-breaking performance: the volume of shares traded reaches 28.7 billion, a 39 percent increase over 1985, the prior record year; NASDAQ dollar volume exceeds \$378 billion, 62 percent above the prior record also achieved in 1985.
- The NASD opens its new \$173-million computer operations center in Rockville, Maryland. The 110,000-square-foot facility supports NASDAQ's 200-million-share trading days and provides the first complete, back-up computer communications system of any securities market in the world.
- NASDAQ and the London Stock Exchange create an "electronic bridge" by linking the two international markets.
- Responding to recommendations in a study of short-selling practices by former SEC Commissioner Irving M. Pollack, the NASD began collecting and publicly disseminating open short-interest positions of members and customers in all NASDAQ securities.
- In its fifth year, the Central Registration Depository expands its automated capabilities to encompass broker-dealer registrations. CRD processes more than 1.8 million filings for the NASD, 51 jurisdictions and six exchanges.
- Kansas, Florida and Rhode Island join a growing number of states that grant NASDAQ/NMS companies automatic exemptions from their securities registration requirements.
- As a companion to its Trade Acceptance and Reconciliation Service, the NASD implements "MBARS," a system to facilitate the clearance and settlement of transactions in municipal bonds.
- The NASD launches a pilot program to develop methods for regulating registered investment advisers and financial planners.

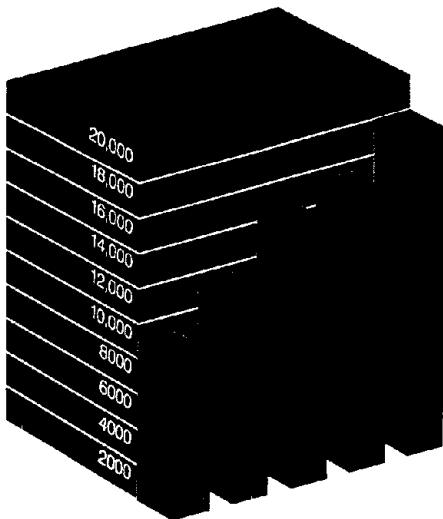
Member Firms



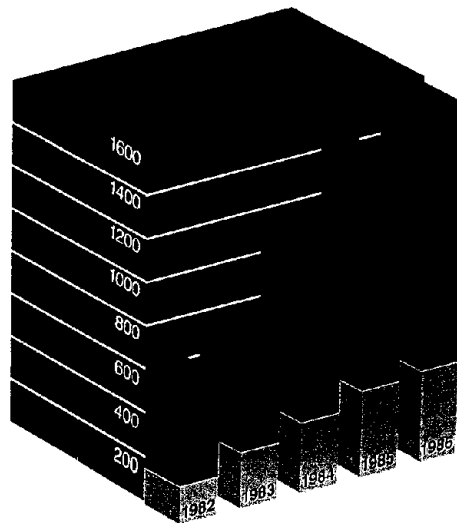
**Registered Representatives
(in thousands)**




Branch Offices

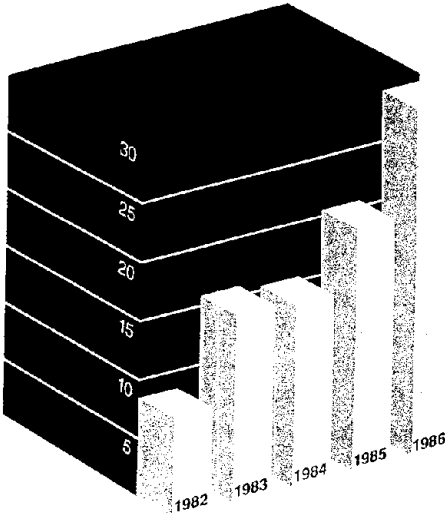


Arbitrations

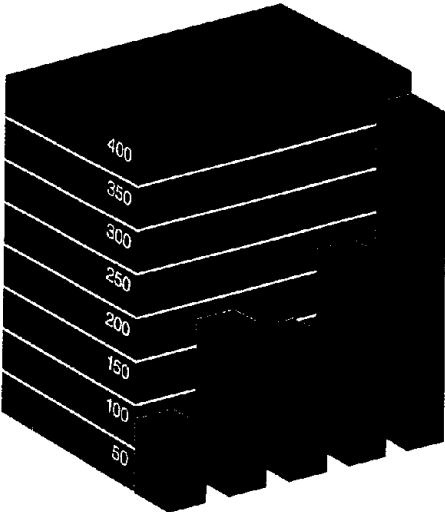


 Total Cases Filed
Small Claims

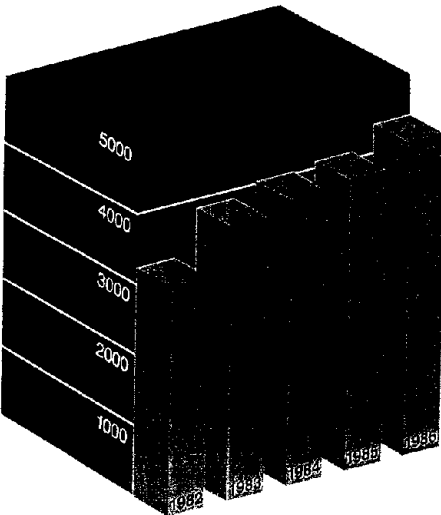
Share Volume
(in billions)



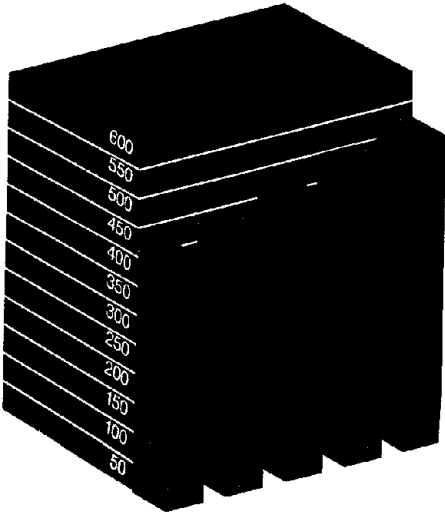
Dollar Volume
(in billions)



Companies



Market Makers



The NASD and the NASDAQ market grew at an extraordinary rate in 1986 — a year in which we improved our domestic operations and strengthened the international reach of our market.

At year end, the number of member firms reached an unprecedented 6,658, a 5.6 percent increase over 1985. Commensurate with that growth, the number of branch offices climbed to 18,014, up 17 percent over the prior year. At the same time, the number of registered representatives employed by members soared to 404,000, another first.

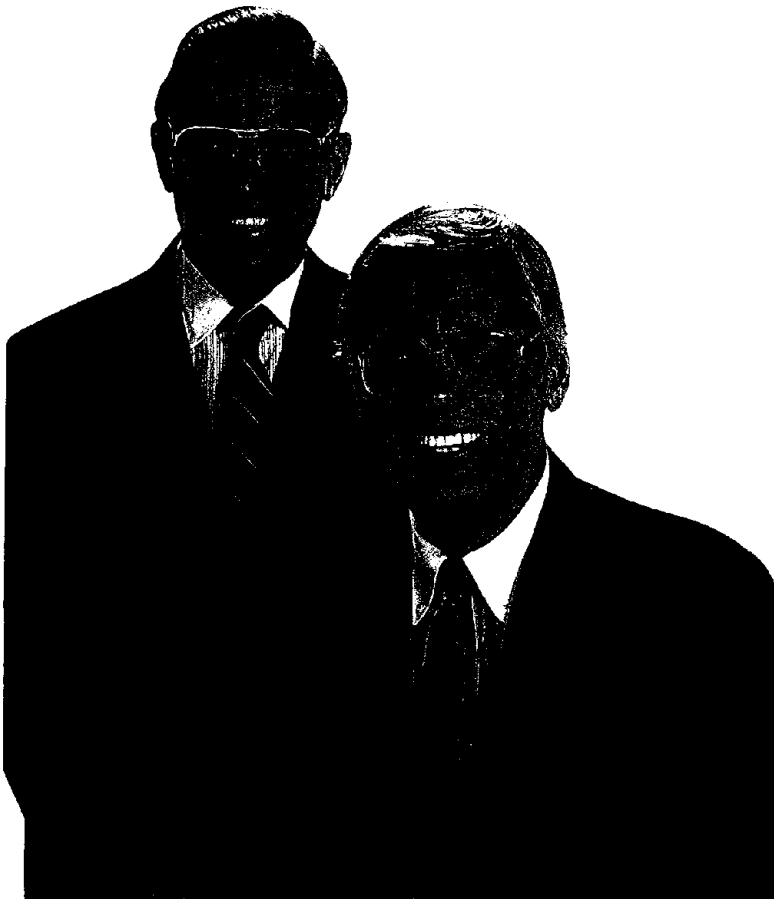
The NASDAQ market also broke numerous records in 1986. The dollar value of trading reached \$378 billion, up a full 62 percent from 1985. NASDAQ's annual share volume aggregated 28.7 billion shares, for a daily average of 113.5 million shares, up 39 percent from 1985. In the same period, the number of companies in our market climbed to 4,417; and the number of securities, to 5,189. The aggregate market value of NASDAQ securities reached \$341 billion, up 19 percent.

Ten of NASDAQ's 11 market indices reached new highs in 1986. The Transportation Index and the Bank Index showed the greatest gains at year end, at 19.6 and 18.1 percent, respectively. Our broadest index, the NASDAQ Composite, composed of 4,219 securities, reported a more modest 7.4 percent gain for the year.

Two landmark events for our organization and our market occurred in 1986: the inauguration of NASDAQ's electronic link with the London Stock Exchange in April and the opening of our new NASD Operations Center in Maryland in September.

The NASDAQ and London Stock Exchange link, the first intercontinental link of

major world markets, involves the exchange of real-time quotations for more than 550 issues via satellite. Today, the Topic terminals of the Stock Exchange, located in the offices of securities firms and financial institutions throughout the U.K., display the individual quotations of market makers for each NASDAQ security included in the link. Conversely, the NASDAQ System now carries the quotations of London market makers for nearly 300 London-traded securities.



*Gordon S. Macklin, President
(left) and David W. Hunter,
1986 NASD Chairman.*

The benefits of the link: improved access to the global market for investors, new business opportunities for members and greater international visibility for many NASDAQ companies.

Our new 110,000 square-foot operations center houses automation, registration and communications service personnel, as well as the hardware needed to support our expanding market and a growing array of services for members. In addition, the facility provides a complete computer communications back-up to the NASDAQ System in the event of a major outage at our central processing facility in Trumbull, Connecticut. The center also gives the NASDAQ System reserve capacity for future expansion.

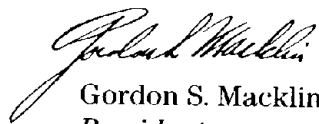
In the coming year, we look forward to offering several next-generation services. A new data broadcast service will enhance NASDAQ Level 2 and 3 services with a wealth of features never before available on NASDAQ. Also, a new ticker service will allow subscribers to monitor trades in NASDAQ/NMS securities on a real-time, transaction-by-transaction basis. In addition, we expect to introduce a semi-automated facility for trading in any order size.

We will continue to explore promising opportunities — both at home and abroad — for improving our market and the quality of our programs and services.

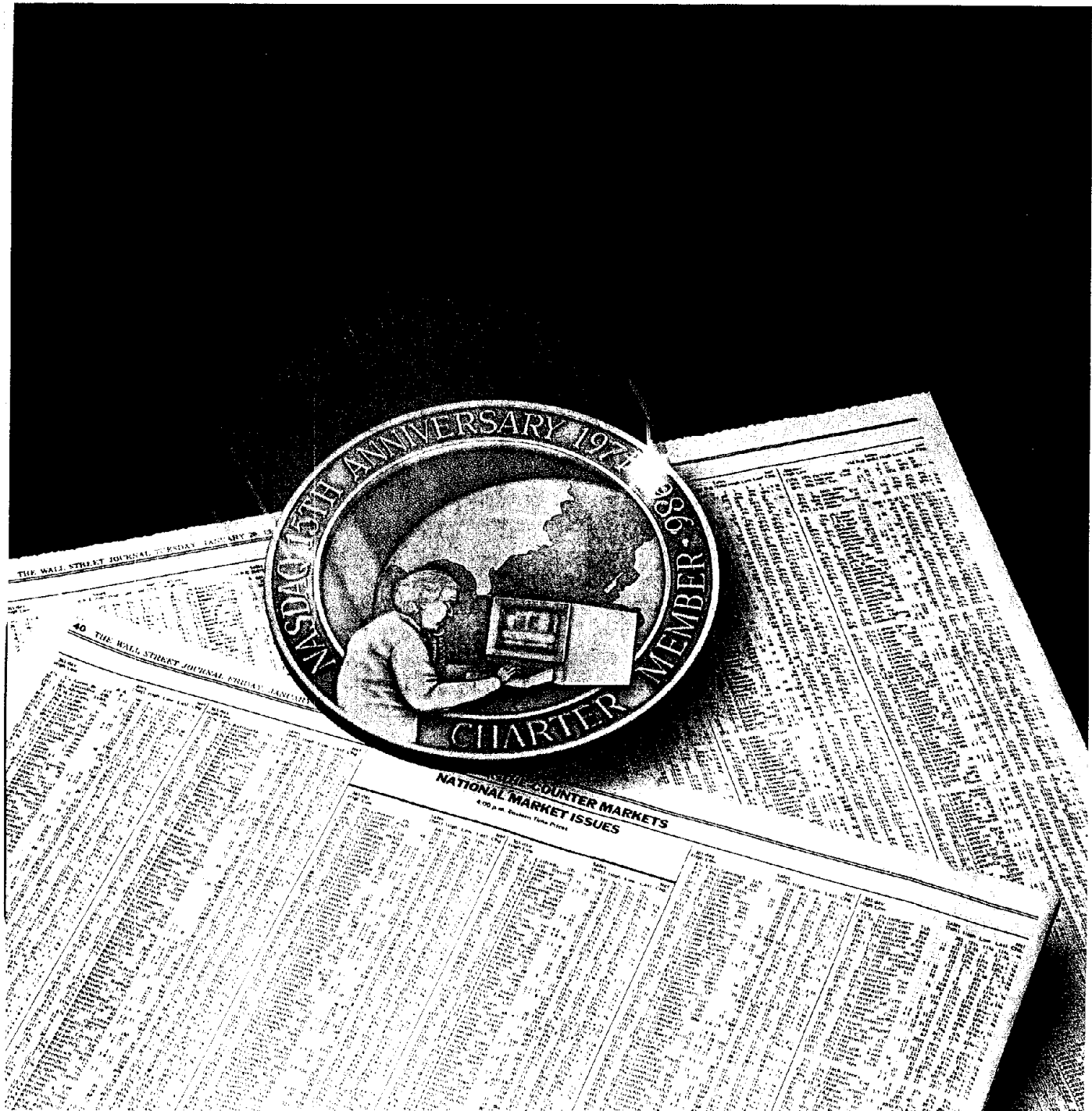
In 1986, as in past years, the accomplishments of the NASD were made possible by the dedicated efforts of hundreds of men and women in the securities industry who volunteer their time and energy to the work of our organization and by the support of a dedicated staff. We look to the future with gratitude for their efforts and with confidence that our organization is well prepared to meet the challenges of tomorrow.



David W. Hunter
1986 Chairman



Gordon S. Macklin
President



In 1986, NASDAQ's 15th anniversary year, the NASDAQ market grew at a record pace and acquired major new international dimensions.

In 1986, NASDAQ's 15th anniversary year, share volume in the NASDAQ market reached 28.7 billion shares, 39 percent more than 1985, and dollar volume climbed to \$378.2 billion, a 62 percent increase. Daily share volume exceeded that of the New York Stock Exchange on 21 days, and weekly share volume exceeded the NYSE's on three occasions. Meeting the challenge of increasing volume, NASDAQ System "up-time" averaged over 99 percent.

The annual share volume of the NASDAQ National Market System (NASDAQ/NMS) rose 50 percent, to 19.7 billion shares. About 42 percent of those shares traded in blocks of 10,000 shares or more, with the average block transaction exceeding 20,000 shares. Use of the NASD's Small Order Execution System (SOES), which provides automated execution of customer agency trades of 1,000 shares or less, increased 212 percent in 1986, with nearly a half-billion shares traded through the system.

In 1986, two NASD-commissioned studies were completed that provide an insight into the demographics of investors in the NASDAQ market. Opinion Research Corporation (ORC) conducted a survey of individual investors, and the Rodney L. White Center of the University of Pennsylvania's Wharton School examined institutional participation in the NASDAQ market.

According to the findings of ORC, the typical NASDAQ shareowner is a well-educated, sophisticated investor with a diversified portfolio and total assets significantly above those of the overall shareholder population. The survey also found that NASDAQ households are more active in and familiar with securities markets than the shareowning population overall.

Of U.S. investors whose stocks could be classified by market, nearly 9 million own at least one NASDAQ/OTC security; 83 percent of this group, or about 7.3 million individuals, own at least one NASDAQ security. Fifty-six percent of all OTC shareowners hold equity mutual funds and listed securities, and about 4 million shareowners hold NASDAQ/OTC stocks exclusively.

According to the Wharton study, the dollar value of NASDAQ/OTC stocks in institutional investor portfolios more than tripled from 1980 to 1985. The survey data show that the holdings of NASDAQ/OTC stocks in institutional portfolios rose from \$20 billion at year-end 1979 to \$68.6 billion in mid-1985, an increase of 243 percent. Additional data provided by Vickers Research reflect an acceleration of this trend. As of year-end 1986, institutional investment in the NASDAQ market passed \$100 billion.



“ Companies that prize creativity and vision do not merely make the future possible—they become the future. The NASDAQ market and its companies epitomize the trends propelling our world into the future: technology, competition, diversity, growth. ”

John Naisbitt
 Chairman
 The Naisbitt Group
 NASD Governor-at-Large

The past year was a pivotal one in the evolution of global equity trading, and the NASDAQ market played a leading role in it.

Volume in the 88 American Depositary Receipts (ADRs) and 178 foreign securities in the NASDAQ market increased more than 70 percent from 1985, to 2.4 billion. In the same period, the dollar volume of trading in ADRs and foreign securities doubled to nearly \$25 billion. In addition, the overseas network of terminals now carrying NASDAQ data grew by 30 percent. Today, 20,000 terminals, out of a total of 155,000, are located in 44 foreign countries.

NASDAQ's international operations moved into high gear in April 1986 with the inauguration of a link with the London Stock Exchange, the first intercontinental link of major securities markets. In due course, this quotation link will be enhanced by an exchange of actual trade data, an automated execution capability and an international clearance and settlement linkage.

Today, London's TOPIC terminals display the bids and offers of competing U.S. market makers for 270 NASDAQ issues.

These include the stocks of 200 major U.S. companies and the ADRs of 70 non-U.K. firms. NASDAQ terminals now carry quotations on 288 stocks from London, including the 100 issues in the Financial Times-Stock Exchange Index and 188 international stocks traded in the London market.

More than 20 percent of the institutions that invested in the NASDAQ market in 1986 are located overseas, with the largest numbers in Canada, the United Kingdom, France, Switzerland and West Germany. Financial institutions in other countries in Europe, the Middle East and the Pacific Basin

also actively invest in NASDAQ securities.

In 1986, the Zurich-based Association of International Bond Dealers (AIBD) retained the NASD as a consultant to design an automated system for the \$3.6 trillion Eurobond market, the largest capital market after the U.S. Treasury market. The computerized system, designated AIBDQ, for AIBD Quotations, would make the Eurobond market the first fixed-income market to offer computer displays of market data, including current quotations.

NASD representatives continue to work cooperatively with overseas markets and regulatory bodies to help formulate rules, procedures and automated systems for global trading. Last year, the NASD participated in meetings with industry and government officials in Australia, Brazil, Canada, Denmark, Ecuador, Finland, Hong Kong, Indonesia, Japan, Korea, New Zealand, Singapore, Sweden, Taiwan, the United Kingdom and West Germany.

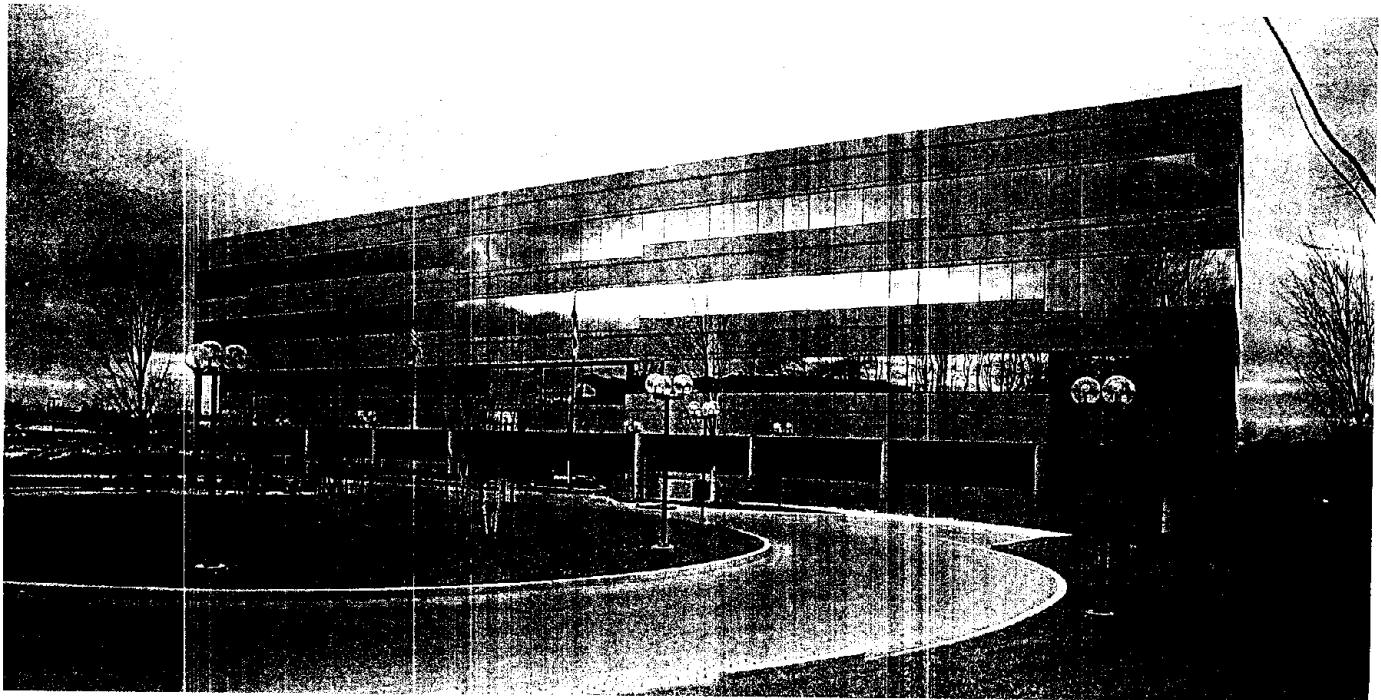
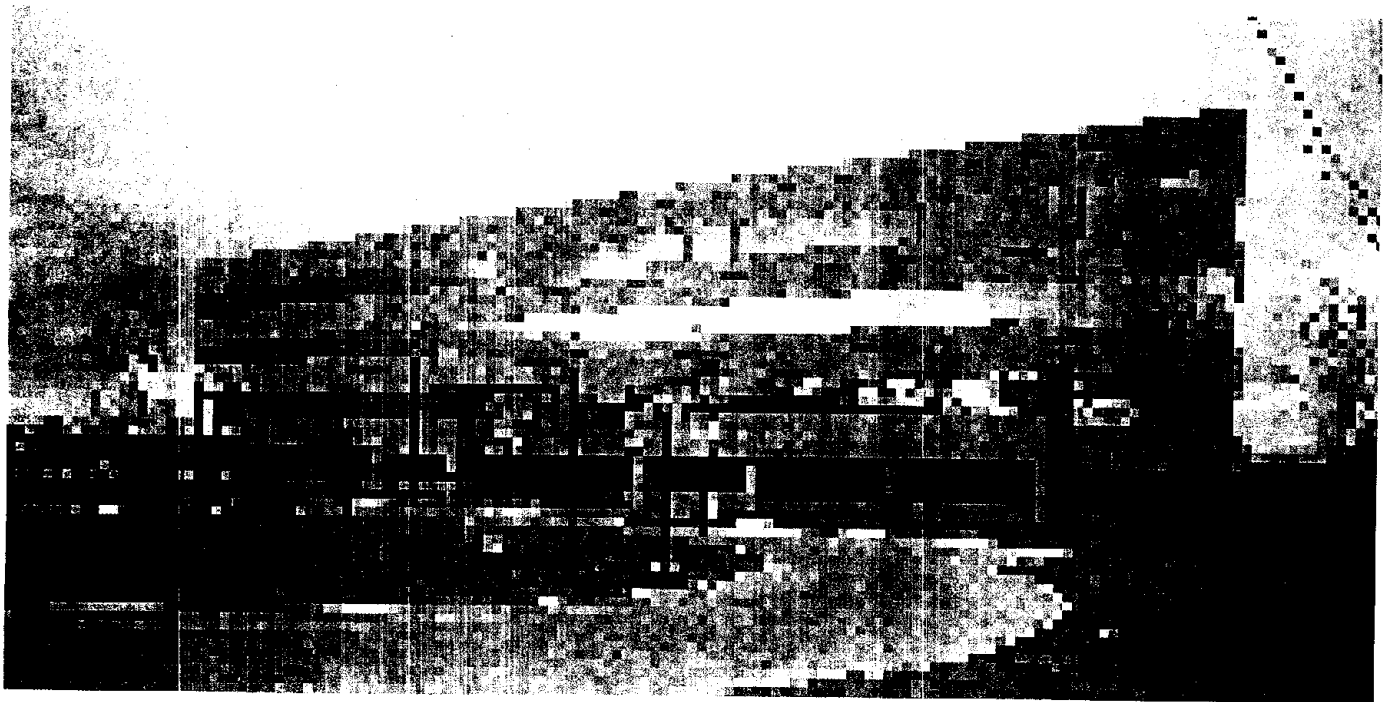


“The world equity market is emerging as a network of national automated market systems linked by telecommunication networks. The NASDAQ System provides markets worldwide with the prototype system for global trading.”

Bernard L. Madoff
Senior Partner
Bernard Madoff
Investment Securities
Chairman, NASD
International Committee



More foreign securities are on NASDAQ than any other U.S. market. Also, the number of overseas terminals receiving NASDAQ data has doubled from 10,000 to 20,000 in the last two years.



In 1986, the NASD opened a 110,000-square-foot operations center, giving NASDAQ the first complete back-up communications system of any securities market in the world.

The NASD continues to prepare the NASDAQ System for its growing participation in the world equities market. The addition of a new operations center in Rockville, Maryland, gives the NASD and NASDAQ the capability to meet today's needs and provides an almost unlimited capacity for future growth.

This new ultra-modern 110,000-square-foot center, built at a cost of \$17.3 million, houses the first complete disaster-recovery and back-up system of any securities market in the world. The center, which supports the NASDAQ System's current 200-million-share-per-day capacity, is designed to ensure continuous operation of the NASDAQ market in the event of a major system outage — whether at the data processing center in Trumbull, Connecticut, at a major communication facility, at concentrator sites or in communication trunk lines.

About 350 automation and administrative support personnel now work in the operations center, including NASD Membership operations, which manages the Central Registration Depository (CRD). CRD is an on-line, computerized system that streamlines the application and licensing procedures for more than 400,000 securities professionals and their broker-dealer employers.

The NASD last year installed four high-capacity processors to handle the more than 1.8 million registration filings for the NASD, 49 states, the District of Columbia, Puerto Rico and six U.S. securities exchanges.

In 1986, the NASD and the Control Data Corporation implemented a partnership arrangement to jointly manage the nationwide network of education centers that administers computerized qualification examinations to prospective registered representatives and other industry professionals. In 1986, the NASD administered nearly 178,000 computerized examinations and 84,000 paper-and-pencil tests for itself, other regulatory organizations, the states, the SEC, the commodity exchanges and other certifying organizations.

The NASD also purchased and installed equipment to enable high-speed transfer of information among the diverse computers used in the NASDAQ System. Other System improvements include the addition of four network processors, the completion of a major expansion of the NASDAQ Data Center in Trumbull, Connecticut, and the acquisition of an additional Sperry Univac 1100/84 mainframe.



“The NASD's daily challenge is to apply new technology in ways that will benefit members, issuers and investors. The new Operations Center provides a fitting arena for that work.”

David W. Hunter
Chairman
Parker/Hunter
Incorporated
1986 NASD Chairman

The NASD recently completed developmental work on a variety of member and market services.

Most important is the next generation of NASDAQ terminals. Like the existing terminal, the new version will be used by brokers and dealers to update their quotations and monitor the market. But unlike the existing version, the new terminal is a personal computer that accepts an encoded data stream and stores virtually the complete NASDAQ database. The technology incorporated in the new terminal will provide a wealth of features never before available on NASDAQ equipment: market minding, limit watching, local inquiry with dynamic screen update, personalized tickers, and more. Traders participating in previews have responded enthusiastically to the new terminals, which will be introduced in mid-1987.

Work is also underway on a semi-automated facility for processing trades of every size. After telephone negotiations of orders between traders, trade detail can be entered into the system for display on the contra-party's terminal. When all aspects of the

trade are properly entered, the trade will be treated as locked-in and will be automatically reported to the trade dissemination system and the clearing corporation. Thus, benefits already available to users of the NASD's Small Order Execution System will also be available for conventional orders of every size.

A new ticker broadcast service will soon help members and investors monitor trading activity in the NASDAQ market. It will provide a continuous, electronic tape of all trades in NASDAQ National Market System securities as they are reported.

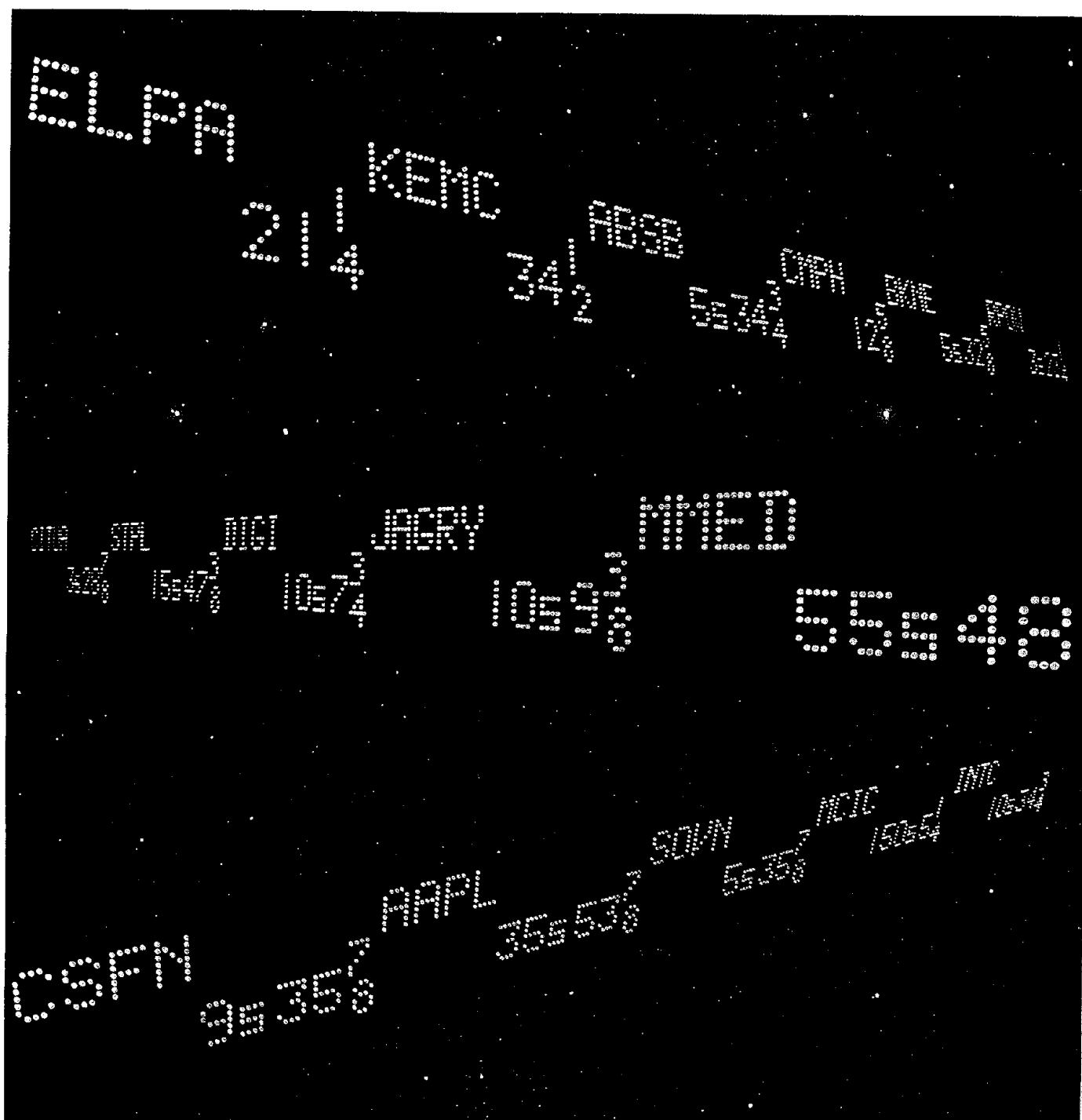
For firms that do a municipal securities business, the NASD in 1986 introduced its Municipal Bond Acceptance and Reconciliation Service (MBARS) to provide an on-line data service to expedite the settlement of trades. MBARS also enables users to electronically submit trade records to the clearing corporations.

Also, in 1986, the University of Chicago's Center for Research in Security Prices (CRSP) completed a three-year project to develop a comprehensive data base of historical prices for 4,700 NASDAQ common stocks. The CRSP files now contain daily information about trading, capitalization and returns for all common stocks quoted on the NASDAQ System since December 1972. Financed jointly by the NASD and Dimensional Fund Advisers, Inc., the project will facilitate academic and institutional research of the NASDAQ market.

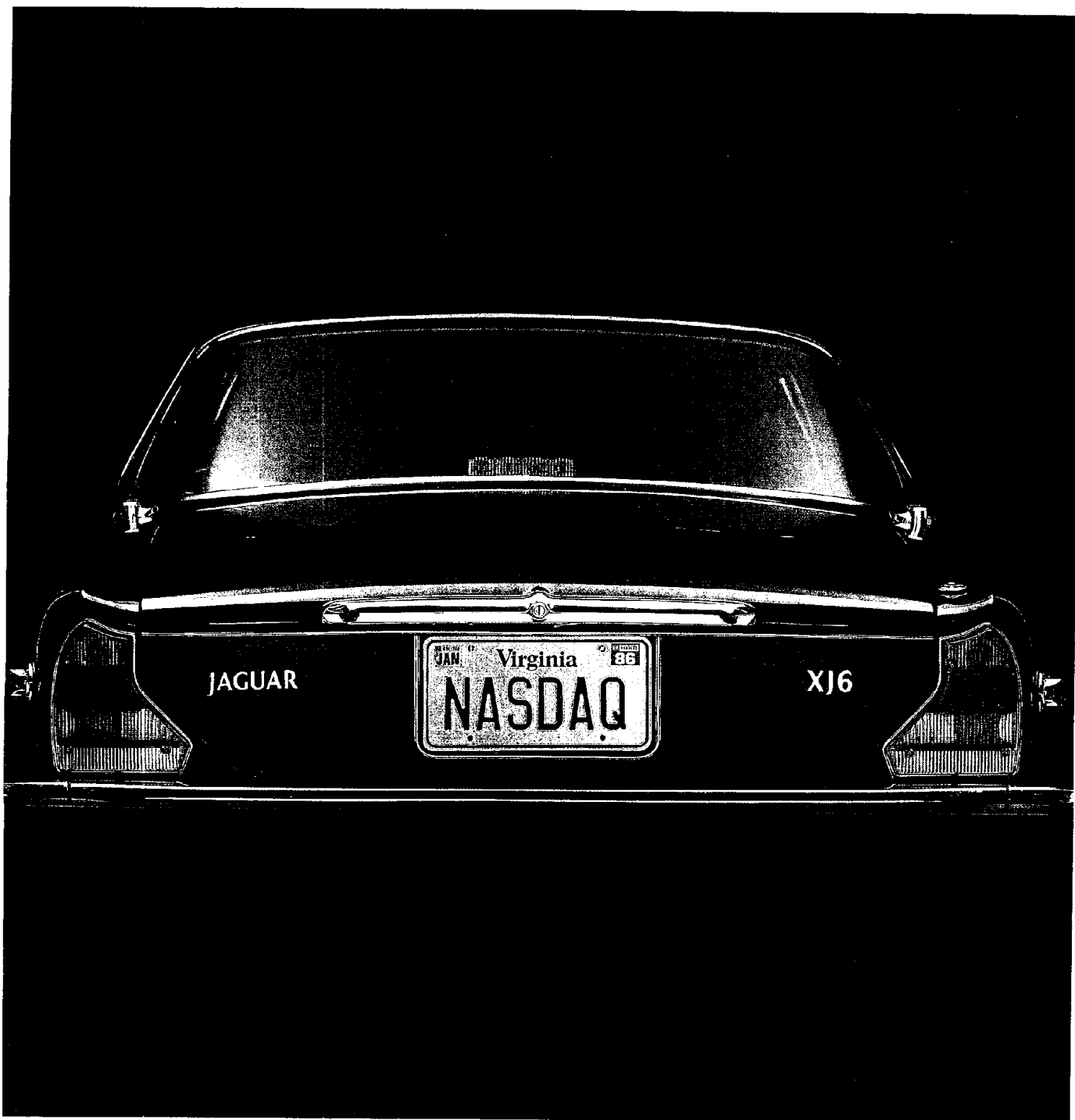


“ The NASDAQ ticker, the next-generation NASDAQ terminals and the expansion of the NASDAQ System to a 350-million-shares-a-day capacity will all provide improved industry services to investors. ”

Joseph R. Hardiman
*Managing Director
 and Chief
 Operations Officer
 Alex. Brown & Sons
 Incorporated
 1987 NASD Chairman*



One of many new services is a broadcast ticker display, which will provide up-to-the-second trade information for securities in the NASDAQ National Market System.



Jaguar traded more than 257 million shares in 1986, making it the most active overseas security in the NASDAQ National Market System.

During the year, the NASD implemented a series of recommendations to regulate short-selling practices in the over-the-counter market. Former SEC Commissioner Irving M. Pollack developed the recommendations after conducting a comprehensive study of short-selling practices for the NASD. As a result, in November 1986, the NASD began to publicly disseminate, via the financial press, members' and customers' open short-interest positions in NASDAQ securities.

To prevent trading on information not generally available to the public, the NASD proposed a rule in 1986 that would authorize it to suspend trading in an issue while a NASDAQ company disseminates material news. Presently, the NASD only has authority to halt quotations in NASDAQ securities pending an issuer's dissemination of material news.

In 1986, the SEC proposed transferring to the NASD the authority to set qualification standards for NASDAQ/NMS securities. The proposal would remedy a technical problem the NASD has encountered in seeking to adopt corporate governance rules as additional NASDAQ/NMS eligibility criteria.

Both the SEC and the Congress in 1986 debated the issue of shareholder voting rights. To address the subject's many dimensions, the NASD commissioned University of Chicago Professor Daniel Fischel, a noted economist and lawyer, to analyze the legal, economic and public interest issues involved. In March, the NASD distributed more than 14,000 copies of his report. Professor Fischel found that while one-share/one-vote was the preferred standard for a majority of publicly held companies, there was no pattern of abuse to warrant a legally mandated standard of one-share/one-vote. As the year ended, the debate continued.

In 1986, Florida, Kansas and Rhode Island joined a growing number of states in exempting NASDAQ/NMS securities from registration requirements under state blue-sky laws. These exemptions recognize the parity of NASDAQ/NMS issues with securities traded on the New York and American stock exchanges. Additional states are expected to take similar action in 1987.

Throughout 1986, the NASD worked with interested exchanges on a plan for exchange trading of certain NASDAQ securities under an SEC-approved rule granting exchanges unlisted trading privileges. The plan would require participating exchanges to transmit quotations and transaction reports in eligible securities to NASDAQ as the information processor. The parties resolved many of their differences, and a pilot is likely to begin in 1987.



“ Companies choose the NASDAQ market for three main reasons—its technological efficiency, its competing multiple market makers and the quality of the NASD's regulation. ”

Wilson C. Wearn
Chairman and CEO,
Multimedia, Inc.
Chairman,
NASD Corporate
Advisory Board

In 1986, the NASD increased its regulatory staff positions by 15 percent, bringing the total number of compliance personnel to nearly 800. A significant number of these staff members conduct on-site examinations of members to determine their compliance with applicable rules and regulations and, through sophisticated automated systems, surveil the NASDAQ market to detect questionable activities and improper trading practices.

As part of its equity audit trail plan, the NASD put into place an on-line, integrated journal that provides a detailed record of all quotation changes, transaction data and clearing information.

To strengthen its ability to detect insider trading, the NASD initiated work on a new automated surveillance tool, the Retail Account Name Search (RANS). Expected to become operational in mid-1987, RANS will immediately identify retail accounts that have exhibited questionable trading activity. It will supplement the Insider Exception System and other computerized surveillance programs such as Pricewatch, Volumewatch, Blockwatch, Quote/Trade Comparison System and NASDAQ Stockwatch Report.

In 1986, the NASD initiated a pilot program for examining SEC-registered investment advisers who are also NASD members. The program, which was conducted with the cooperation of the SEC, is designed to develop a blueprint for regulation of members who are registered investment advisers, including those who are financial planners, and to evaluate the costs of such a program. The NASD Board will review the program's findings in 1987 to determine whether a broader program of examining

investment advisers is practicable.

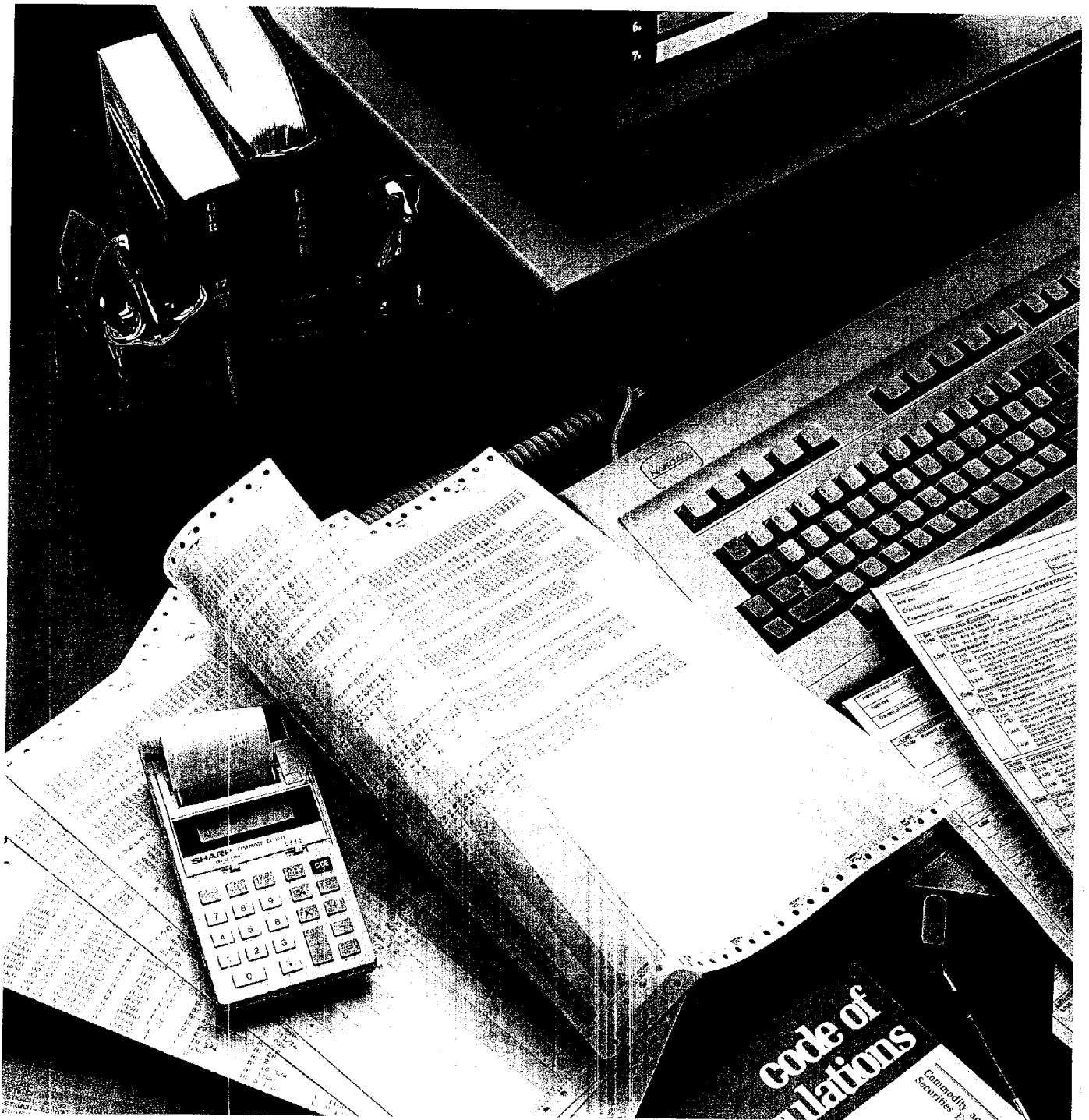
The NASD testified before a congressional committee studying federal regulation of the government securities market and provided input to congressional staff in the preliminary drafting session which led to the Government Securities Act of 1986. This law requires a government securities broker or dealer to register with the SEC and to become a member of the NASD or a national securities exchange. Congress passed this requirement to ensure that government securities brokers and dealers comply with regulations developed by the U.S. Treasury Department.

Throughout the year, the NASD also participated in numerous hearings affecting the securities industry. NASD representatives testified before congressional committees and the SEC on such matters as insider trading, the regulation of financial planners and shareholder voting rights.



“The majority of the NASD’s professional staff engage in regulatory activities vital to the integrity of the NASDAQ market. Although the NASD’s business mix has greatly expanded in recent years, regulation continues to be its principal mission.”

James M. Davin
Managing Director
First Boston Corporation
1986 Chairman
NASD National Business
Conduct Committee



The NASD fulfills its statutory responsibilities by enforcing federal securities laws and its Rules of Fair Practice, which require members to observe high standards of commercial honor.

**ADVERTISING
REVIEWS**

**ON-SITE EXAM
OF MEMBERS**

**QUALIFICATION
TESTING**

**ENFORCEMENT
ACTIONS**

**NASDAQ
MARKET
SURVEILLANCE**

REGISTRATION

ARBITRATION

**UNDERWRITING
REVIEWS**

The NASD carries out a number of activities to promote high standards of commercial honor among its broker-dealer members.

- The NASD's 14 District Offices conduct 4,479 routine and special examinations, and review 4,252 customer complaints and 1,357 other special sales-practice-related situations.
- As a result of 668 formal disciplinary actions ordered, the NASD's District Business Conduct Committees render 322 disciplinary decisions and accept 182 letters of acceptance, waiver and consent and 16 summary complaints. These actions lead to the expulsion of eight firms, the barring of 85 individuals and the suspension of 10 firms and 76 individuals.
- Supervising the self-liquidation of 10 firms, the NASD distributes \$679 million to 11,300 customers and broker-dealers, and averts the need for a SIPC trustee.
- Automated market surveillance of NASDAQ trading triggers 16,556 on-line price and volume alerts leading to 256 formal investigations.
- The Market Surveillance Committee orders a number of major disciplinary actions for market-related violations — such as non-compliance with SOES rules, manipulation, fraudulent mark-ups and marking the close — and metes out penalties that include the suspension of two member firms as market makers in NASDAQ securities, the suspension of four individuals for periods up to 90 days and the assessment of fines totaling nearly \$600,000.
- The NASD Board submits a rule to the SEC that would require all NASD members to halt trading in NASDAQ securities while issuers disseminate material news to the public. The NASD imposes 1,065 quotation halts.
- The number of qualification testing centers expands to 55 in 36 states; the NASD administers 262,000 tests during the year.
- The number of public offerings filed with the NASD for review of underwriting terms continues its upward trend and creates a new review record — 3,694 corporate equity, debt, REIT and direct participation program offerings, for an aggregate of \$162 billion.
- Arbitration claims filed with the NASD pass the 1,587 mark, a 13 percent increase from 1985, triggering an expansion of staff, facilities and hearing-panel participants.
- The NASD reviews 20,951 pieces of advertising and sales literature, up 22.7 percent from last year, and spot-checks nearly half the NASD membership.



To Serve Until January 1987

(seated left to right)

LARRY D. HAYDEN
Hayden Financial Management,
Inc.
Arvada, Colorado

GORDON S. MACKLIN
NASD President and
Member of the Board
Washington, D.C.

DAVID W. HUNTER
Parker/Hunter Incorporated
Pittsburgh, Pennsylvania
NASD Chairman, 1986

BERNARD L. MADOFF
Bernard Madoff Investment
Securities
New York, New York

(standing left to right)

*ALEX HAMMOND-CHAMBERS
Ivory & Sime PLC
Edinburgh, Scotland

ROBERT P. RITTEREISER
E.F. Hutton & Company Inc.
New York, New York

*B. LEE KARNIS
Comprehensive Care
Corporation
Newport Beach, California

MURRAY L. FINEBAUM
Instinet Corporation
New York, New York
NASD Vice Chairman, 1986

JOHN B. LEVERT, JR.
Howard, Weil, Labouisse,
Friedrichs Incorporated
New Orleans, Louisiana
*NASD Vice Chairman-Finance,
1986*

THOMAS J. ASHER
The Robinson-Humphrey
Company Inc.
Atlanta, Georgia

*ALAN B. LEVENSON
Fulbright & Jaworski
Washington, D.C.

**Governor-at-Large*



To Serve Until January 1988

(seated left to right)

JOHN G. HIGGINS
Kidder Peabody & Co.
Incorporated
Boston, Massachusetts

RICHARD C. ROMANO
Romano Brothers and Company
Evanston, Illinois
NASD Vice Chairman, 1987

JOSEPH R. HARDIMAN
Alex. Brown & Sons, Inc.
Baltimore, Maryland
NASD Chairman, 1987

THOMAS W. BORDEN
Stone & Youngberg
San Francisco, California

(standing left to right)

*WALTER B. GERKEN
Pacific Mutual Life Insurance
Company
Newport Beach, California

JAMES M. DAVIN
The First Boston Corporation
New York, New York
*NASD Vice Chairman-Finance,
1987*

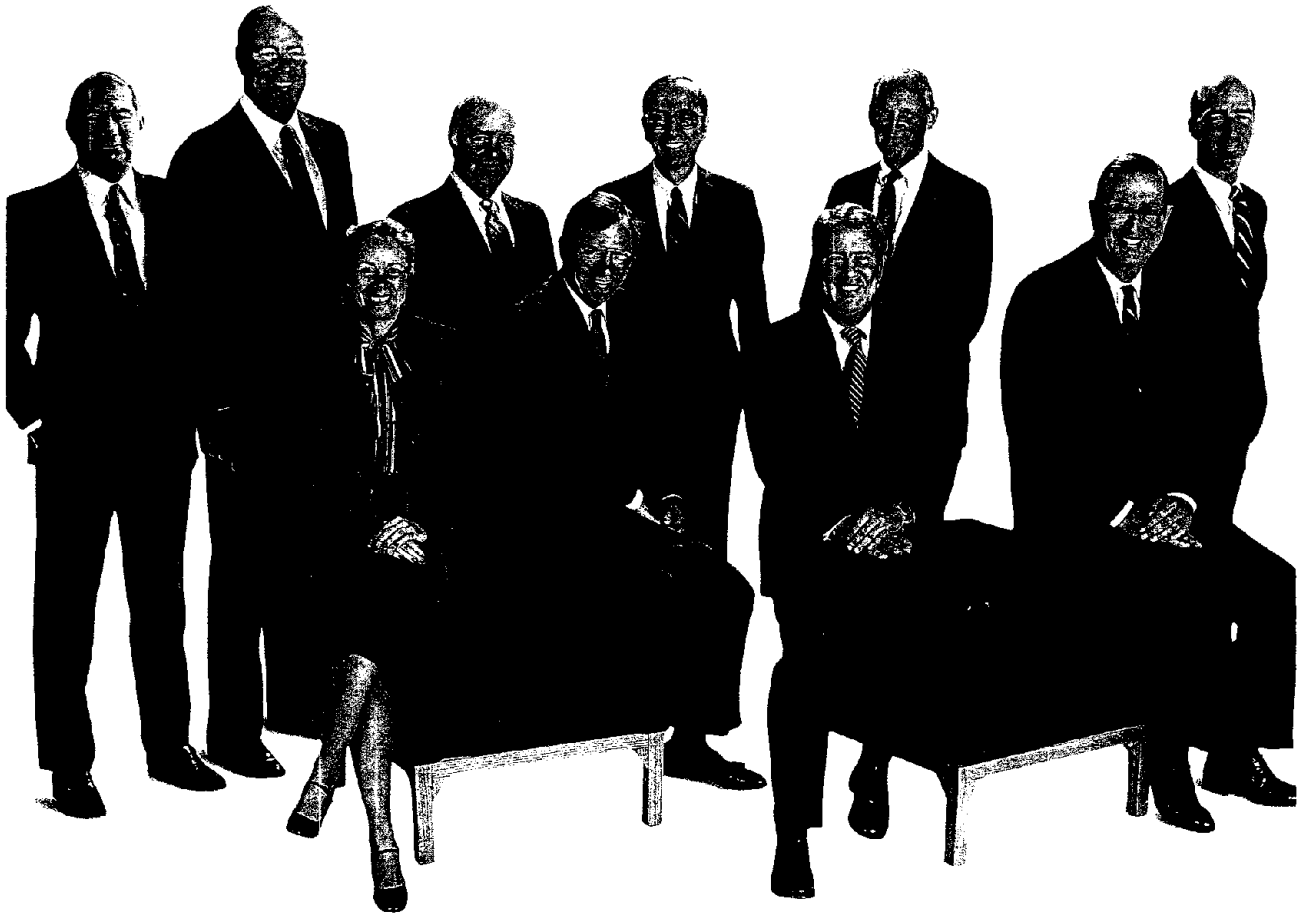
CHARLES E. ZIVNEY
PaineWebber Incorporated
Fort Worth, Texas

BILL T. WALL
George K. Baum & Company
Kansas City, Missouri

*WILSON C. WEARN
Multimedia, Inc.
Greenville, South Carolina

*JOHN NAISBITT
The Naisbitt Group
Washington, D.C.

**Governor-at-Large*



To Serve Until January 1989

(seated left to right)

JUDITH G. BELASH
Goldman, Sachs & Co.
New York, New York

ALLEN WEINTRAUB
Advest, Inc.
Hartford, Connecticut

***THOMAS C. SULLIVAN**
RPM, Inc.
Medina, Ohio

LYNN P. REITNOUER
Crowell, Weedon & Co.
Los Angeles, California

(standing left to right)

***STEPHEN L. HAMMERMAN**
Merrill Lynch & Co., Inc.
New York, New York

JOSEPH V. MISSETT, III
Oppenheimer & Co., Inc.
New York, New York

DAVID L. BAKER
Baker & Co., Incorporated
Cleveland, Ohio

RICHARD L. HINTON
Campbell, Waterman Inc.
Seattle, Washington

***GEORGE PUTNAM**
Putnam Group of Funds
Boston, Massachusetts

VICTOR ELTING, III
The Chicago Corporation
Chicago, Illinois

** Governor-at-Large*



To Serve Until January 1990

(seated left to right)

WILLIAM R. TIMKEN
Hambrecht & Quist Incorporated
San Francisco, California

RUDOLPH C. SANDER
Janney Montgomery Scott Inc.
Philadelphia, Pennsylvania

JAMES F. PECK
Wyoming Financial Securities,
Inc.
Casper, Wyoming

***DAVID HUGH FITZWILLIAM-LAY**
G.T. Management (Japan)
Limited
London, England

(standing left to right)

HOWARD L. BLUM, JR.
Ladenburg, Thalmann & Co., Inc.
New York, New York

WILLIAM L. TEDFORD, JR.
Stephens, Inc.
Little Rock, Arkansas

***JOHN G. McDONALD**
Stanford University, Graduate
School of Business
Stanford, California

B. H. RUTLEDGE MOORE
Johnson, Lane, Space, Smith &
Co., Inc.
Savannah, Georgia

***GRAHAM H. WHITEHEAD**
Jaguar plc
Leonia, New Jersey

**Governor-at-Large*

Members of the National Committees, who are appointed by the NASD Board of Governors, make recommendations to the Board on their various areas of responsibility. The Executive, Finance & Audit and National Business Conduct Committees meet before each Board meeting; all other committees meet as necessary. In addition, special or ad hoc committees and task forces are appointed to study current issues as the need arises.

EXECUTIVE

- *David W. Hunter, Chairman
- *James M. Davin
- *Murray L. Finebaum
- *Joseph R. Hardiman
- *Alan B. Levenson
- *John B. Levert, Jr.
- *Bernard L. Madoff
- *Gordon S. Macklin, President

FINANCE & AUDIT

- *John B. Levert, Jr., Chairman
- *Thomas J. Asher
- J. Philip Boesel, Jr.
- *Murray L. Finebaum
- *Alex Hammond-Chambers
- *Larry D. Hayden
- *John G. Higgins
- *David W. Hunter
- *B. Lee Karns
- *Robert P. Rittereiser
- *Bill T. Wall
- *Gordon S. Macklin, President
- Jack A. Schindel, Treasurer
(Ex Officio)

NATIONAL BUSINESS CONDUCT

- *James M. Davin, Chairman
- *Richard C. Romano,
Vice Chairman
- *David L. Baker
- *Judith G. Belash
- *Victor Elting, III
- *Richard L. Hinton
- *Joseph V. Missett, III
- *Edward E. Phillips
- *George Putnam
- *Lynn P. Reitnouer
- *Thomas C. Sullivan
- *Allen Weintraub

NATIONAL NOMINATING

- *David W. Hunter, Chairman
- Peter D. Byrne
- Ernest F. Rice, Jr.
- Carl P. Sherr
- Norman T. Wilde, Jr.
- *Gordon S. Macklin, President
(Ex Officio)

ARBITRATION

- *James C. Stone, III, Chairman
- L. H. Bayley
- *Thomas W. Borden
- A. James Jacoby
- *Alan B. Levenson
- Peter K. Loeb
- Leonard Mayer
- David W. Mesker
- Anthony R. Pierno
- *Richard C. Romano
- David L. Sandborg
- *Charles E. Zivney

BOARD SURVEILLANCE

- Peter C. Barnes
- J. Philip Boesel, Jr.
- Edmund J. Cashman, Jr.
- Douglas E. DeTata
- *Murray L. Finebaum
- David C. Grove
- *Larry D. Hayden
- *David W. Hunter
- *John B. Levert, Jr.
- William B. Madden
- *Bernard L. Madoff
- Leonard Mayer
- Glenn R. Oxner
- L. C. Petersen
- Alfred J. Rauschman, Sr.
- Herbert A. Sarkisian, Jr.
- Carl P. Sherr
- James C. Stone, III

CAPITAL & MARGIN

- *Murray L. Finebaum, Chairman
- Richard L. Bove
- *Victor Elting, III
- Robert Ferrentino
- John P. Geelan
- *Larry D. Hayden
- Nelson S. Kibler
- *Bernard L. Madoff
- *Richard L. Hinton

CORPORATE ADVISORY BOARD

- *Wilson C. Wearn, Chairman
- *Alex Hammond-Chambers
- Jeffrey H. Coors
- Preston B. Heller, Jr.
- *B. Lee Karns
- John C. Kikol

- John H. McConnell
- William G. McGowan
- James M. Nolan
- Roy H. Park, Sr.
- Robert D. Ray
- *Thomas C. Sullivan
- William R. Thomas
- Walker M. Treece
- Graham W. Whitehead

CORPORATE FINANCING

- *James M. Davin, Chairman
- Andrew M. Blum
- J. Philip Boesel, Jr.
- Edmund J. Cashman, Jr.
- Douglas E. DeTata
- William J. Grant, Jr.
- *Joseph R. Hardiman
- *Alan B. Levenson
- *John B. Levert, Jr.
- *Joseph V. Missett, III
- G. Peter O'Brien
- Norman Pessin
- Herbert A. Sarkisian, Jr.
- Sabin C. Streeter
- *Thomas C. Sullivan

DIRECT PARTICIPATION PROGRAMS/ REAL ESTATE

- David C. Grove, Chairman
- Joseph W. Armbrust, Jr.
- L. H. Bayley
- J. Philip Boesel, Jr.
- John J. Gray
- *Larry D. Hayden
- Richard L. Howell
- Howard R. Moskof
- Herbert A. Sarkisian, Jr.
- William W. Stark, Jr.
- Stephen Treadway
- Stanley F. Witkowski
- Theil Michael Woods

FIDELITY BONDING

- *Larry D. Hayden, Chairman
- *David L. Baker
- *Victor Elting, III
- Leonard Mayer
- Herbert A. Sarkisian, Jr.
- *Bill T. Wall

FINANCIAL COMMUNICATIONS AND INVESTOR RELATIONS

- *Thomas C. Sullivan, Chairman
- William R. Thomas, Co-Chairman
- William J. Amdall
- Susanne G. Clark
- Charles C. Francis
- John H. Grunewald
- Charles E. Jones, Jr.
- James A. Kirkpatrick
- William B. Lynn
- Edward Reynolds, Jr.
- Irving B. Schoenberg
- Thomas C. Trexler
- Philip J. Keuper (Ex Officio)

INFORMATION

- Douglas E. DeTata, Chairman
- Peter C. Barnes
- Andrew M. Blum
- Mat M. Johnson
- *B. Lee Karns
- *John Naisbitt
- H. Lawrence Parker
- *Lynn P. Reitnouer
- *Thomas C. Sullivan
- John N. Tognino
- *Wilson C. Wearn
- *Allen Weintraub
- William R. Woodworth

INSURANCE TRUSTEES AND INSURANCE

- James J. McCormack, Chairman
- J. Philip Boesel, Jr.
- *Thomas W. Borden
- David B. Coates
- *Richard L. Hinton
- *Richard C. Romano
- *Bill T. Wall
- *Allen Weintraub

INTERNATIONAL

- *Bernard L. Madoff, Chairman
- Peter D. Byrne
- John F. Cogan, Jr.
- Peter J. DaPuzzo
- *James M. Davin
- *Alex Hammond-Chambers
- *Joseph R. Hardiman
- *B. Lee Karns
- *John B. Levert, Jr.
- Bruce A. Maru
- *Joseph V. Missett, III
- *George Putnam
- John N. Tognino
- Alvin M. Zubasky

INSTITUTIONAL INVESTOR

John T. Johnson, Chairman
David Bronner
Terry W. Goodwin
Raymond Kurtz
Alexander Lamont
Robert A. McLaughlin
Charles L. Mehlhouse
Rupert M. Richards
James F. Rothenberg
Dennis G. Sherva
Binkley C. Shorts

INVESTMENT COMPANIES

John F. Cogan, Jr., Chairman
Tarrant Cutler
William W. Hewitt, Jr.
*John G. Higgins
Charles M. Kierscht
Harry J. Lister
W. Gary Littlepage
Ronald P. Lynch
Sam Scott Miller
*George Putnam
James S. Riepe
John M. Smith

LONG-RANGE PLANNING

Peter D. Byrne, Chairman
John F. Cogan, Jr.
*David W. Hunter
*Bernard L. Madoff
Bruce A. Mann
*John Naisbitt
Carl P. Sherr
*Wilson C. Wearn
Norman T. Wilde, Jr.

MARKET SURVEILLANCE

Carl P. Sherr, Chairman
James E. Brucki, Jr.
Ralph J. Costanza
James Hagency
John C. Kikol
Walter Rosley
William R. Rothe
Arthur P. Rowsell
Patrick C. Ryan
Thomas Sanders
James C. Stone, III
Arnold P. Wolter

MUNICIPAL SECURITIES

*Bill T. Wall, Chairman
*David L. Baker
Bernard R. Bober
William C. Boinest
*Thomas W. Borden
W. Pat Connors
Theodore Lisee
John J. Lynch, Jr.
*Richard C. Romano
*Charles E. Zivney

OPTIONS

Peter D. Byrne, Chairman
Ted H. Baker
*Judith G. Belash
James E. Brucki, Jr.
Gerald Kuschuk
Peter B. Madoff
Leonard Mayer
John A. Michnowitz
Robert I. Schulman
Ray Skelton
James C. Stone, III
John N. Tognino
Kenneth J. Wessels

QUALIFICATIONS

David M. Underwood, Chairman
*Thomas J. Asher
Bruce Avedon
*Judith G. Belash
Lewis W. Brothers, Jr.
John F. Cogan, Jr.
*Larry D. Hayden
*John G. Higgins
Thomas J. McAllister
Glenn R. Oxner
Allan Pessin
*Bill T. Wall

REGISTRATION

J. Philip Boesel, Jr., Chairman
*Thomas J. Asher
*Victor Elting, III
George E. Hartz
*Larry D. Hayden
H. Wayne Howell
James J. McCormack
*Lynn P. Reitnauer
John States
William J. Szilasi
Thomas J. Tagliamonte

RETIREMENT PLAN REVIEW

Edmund J. Cashman, Jr., Chairman
*Edward E. Phillips
*Richard C. Romano
B. Mills Sinclair
Norman T. Wilde, Jr.

TRADING

*Bernard L. Madoff, Chairman
*David L. Baker
Richard A. Bruno
*Murray L. Finebaum
E. E. Geduld
James Hagency
Raymond Meselsohn
Jeremiah A. Mullins
Rupert M. Richards
William R. Rothe
Norman Shapiro
*Wilson C. Wearn
Victor Wright

UNIFORM PRACTICE

Leonard Mayer, Chairman
Nicola L. Caporale
John Cirrito
Herbert I. Levitt
Benjamin M. O'Callaghan
James L. Owens
Wendie L. Wachtel
*Bill T. Wall
William J. Winter

VARIABLE CONTRACTS

John M. Smith, Chairman
Stephen W. Adams
Robert E. Carlson
*Walter B. Gerken
Jerome S. Golden
W. Gary Littlepage
Cynthia M. Orcutt
Jerold H. Rosenblum
Robert G. Sharp

AD HOC COMMODITIES LIAISON

L. H. Bayley, Chairman
Ronald H. Filler
Glenn R. Oxner
*Charles E. Zivney

AD HOC COMMITTEE ON GOVERNMENT SECURITIES

*Murray L. Finebaum, Chairman
Stephen D. Barrett
Robert C. Brown
*James M. Davin
*John G. Higgins
Mark Kessenich
*Richard C. Romano
Glenn R. Shipway
John B. Sprung
Robert F. Tighe

AD HOC COMMITTEE ON LIMIT ORDERS

Peter D. Byrne, Chairman
*Murray L. Finebaum
*Alan B. Levenson
James C. Stone, III

AD HOC COMMITTEE ON THE REGULATION OF FINANCIAL PLANNERS

John F. Cogan, Jr., Chairman
*Murray L. Finebaum
*Larry D. Hayden
Terry Sheldon
John M. Smith
Richard E. Smith
James C. Stone, III

AD HOC COMMITTEE ON RULE AND BY-LAW AMENDMENTS

*Murray L. Finebaum, Chairman
Gerald B. Brenzel
*Larry D. Hayden
J. Stephen Putnam
*Bill T. Wall

AD HOC COMMITTEE ON SCHEDULE D

*Murray L. Finebaum, Chairman
*James M. Davin
J. M. Hill
Peter K. Loeb
Hugh J. Quigley
Patrick C. Ryan

AD HOC COMMITTEE ON UNLISTED TRADING PRIVILEGES

*David W. Hunter
Peter D. Byrne
*Murray L. Finebaum
*John B. Levert, Jr.
*Bernard L. Madoff
James C. Stone, III

TASK FORCE— INVESTMENT ADVISER REGULATION

James C. Stone, III, Chairman
*Thomas J. Asher
John F. Cogan, Jr.
*Murray L. Finebaum
*Joseph R. Hardiman
*Larry D. Hayden
*Alan B. Levenson
*John B. Levert, Jr.
J. Stephen Putnam
*Richard C. Romano
*Bill T. Wall
*Charles E. Zivney

*Member, NASD Board of Governors

Members of the District Committees, who are elected by NASD member firms in their respective areas, supervise NASD programs in the Districts and serve on Business Conduct Committees. In this capacity, they review reports of NASD examiners, investigate complaints against members, conduct disciplinary proceedings and impose penalties for violations of federal and state laws and the NASD's Rules of Fair Practice. The Chairmen of the District Committees make up the Advisory Council to the Board of Governors.

DISTRICT 1 ■ Alaska, Idaho, Montana, Oregon and Washington ■ 195 Members, 1,000 Branches



William S. Buteux, Chairman
Northwest Securities, Inc.
Spokane, Washington

Kenneth J. Carl, Vice Chairman
Carl & Company, Incorporated
Portland, Oregon

R. A. Adolphson
Foster & Marshall Inc.
Seattle, Washington

William W. Gallagher
Gallagher Capital Corp.
Portland, Oregon

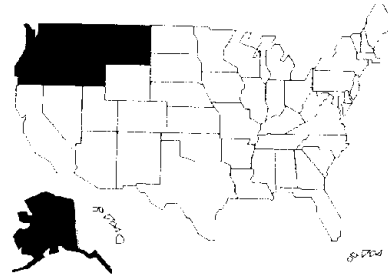
Earl C. May
May & Camp Inc.
Oswego, Oregon

Robert J. Mortell, Jr.
Cable, Howse & Ragen
Seattle, Washington

R. H. Peterson
Peterson & Company, Inc.
Spokane, Washington

Robert I. Sheeran
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Seattle, Washington

Kenneth M. Snider
KMS Financial Services, Inc.
Seattle, Washington



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

DISTRICT 2 ■ California, Nevada and Hawaii ■ 917 Members, 2,748 Branches



James P. Clifton, Co-Chairman
E. F. Hutton & Company Inc.
Los Angeles, California

John B. Weingart, Co-Chairman
Smith Barney, Harris Upham & Co.
Incorporated
San Francisco, California

David L. Allard
Investment Marketing Inc.
Carmel, California

David H. Brazil
Bateman Eichler, Hill Richards, Incorporated
San Francisco, California

Douglas A. Campbell
D. A. Campbell Company, Inc.
Los Angeles, California



Charles B. Johnson
Franklin Distributors, Inc.
San Mateo, California

Barbara M. Lange
Equitec Securities Company
Oakland, California

Anthony W. Martin
Prudential Bache Securities Inc.
Reno, Nevada

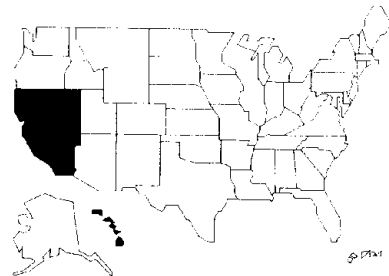
William M. O'Connor
Chilton & O'Connor, Inc.
Los Angeles, California

David C. Ruth
Titan Capital Corporation
Tustin, California

John J. Sanders
Robertson, Colman & Stephens
San Francisco, California

F. Van Kasper
Van Kasper & Company
San Francisco, California

Richard E. Waldron
The First Boston Corporation
Los Angeles, California



Kye Hellmers, Director
300 South Grand Avenue
16th Floor
Los Angeles, California 90071
(213) 627 2122

Theodore F. Schmidt, Director
425 California Street, Room 1400
San Francisco, California 94101
(415) 781-3434

1986 DISTRICT COMMITTEES

27

DISTRICT 3 ■ Arizona, Colorado, New Mexico, Utah and Wyoming ■ 369 Members, 1,117 Branches



Thomas W. Schneider, Chairman
Schneider Securities, Inc.
Denver, Colorado

James Coughlin, *Vice Chairman*
Coughlin and Company, Inc.
Denver, Colorado

Keith A. Cannon
Covey & Company, Inc.
Salt Lake City, Utah

Paul N. Davis
Wilson-Davis & Co.
Salt Lake City, Utah
Stanley R. Fallis
Boettcher & Company, Inc.
Denver, Colorado

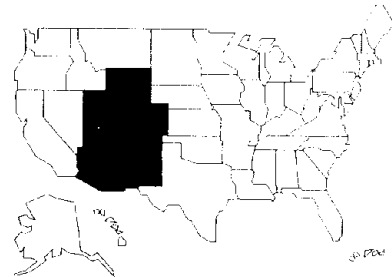
James M. Finn
A. G. Edwards & Sons, Inc.
Albuquerque, New Mexico

Robert A. Fitzner, Jr.
Pittock Financial Corporation
Englewood, Colorado

J. Phillip Oelze
Dean Witter Reynolds, Inc.
Scottsdale, Arizona

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

Douglas B. Reeves
Reeves and Company, Investments and
Securities, Inc.
Cheyenne, Wyoming



Frank J. Birgfeld, Director
1401 17th Street, Suite 700
Denver, Colorado 80202
(303) 298-7234

DISTRICT 4 ■ Kansas, Missouri, Nebraska and Oklahoma ■ 231 Members, 971 Branches



Peter C. Barnes, Chairman
Kidder, Peabody & Co. Incorporated
Kansas City, Missouri

Cornelius W. Krentz, *Vice Chairman*
Krentz, Meyer & McClellan Investment
Corporation
St. Louis, Missouri

Douglas C. Black
B. C. Christopher Securities Co.
Kansas City, Missouri

Ronald E. Buesinger
A. G. Edwards & Sons, Inc.
St. Louis, Missouri

W. David Holthouse
Smith Barney, Harris Upham & Co. Incorporated
Kansas City, Missouri

Rodney O. McWhinney
Waddell & Reed, Inc.
Kansas City, Missouri

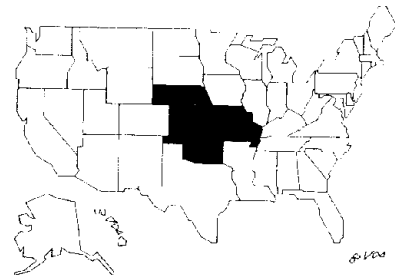
Jerry P. Oakley
Stifel, Nicolaus & Company, Incorporated
Oklahoma City, Oklahoma

John M. Phelan
Edward D. Jones & Co.
Maryland Heights, Missouri

Robert L. Schaeffer
The Columbian Securities Corporation
Topeka, Kansas

Frank A. Toplikar
Zahner and Company
Kansas City, Missouri

James T. Warren
First Mid America Inc.
Omaha, Nebraska



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

DISTRICT 5 ■ Alabama, Arkansas, Louisiana, Mississippi and Western Tennessee ■ 246 Members, 668 Branches

William L. Tedford, Jr., Chairman
Stephens, Inc.
Little Rock, Arkansas

William "Bo" Flanders, Jr., Vice Chairman
First Birmingham Securities Corporation
Birmingham, Alabama

Claude H. Paddock
Morgan, Keegan & Company, Inc.
Memphis, Tennessee

William T. (Dale) Patterson
Geary & Patterson, Incorporated
Jackson, Mississippi

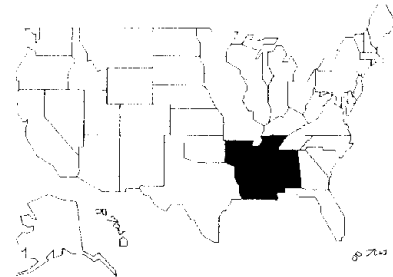
Jerry Roberts
Hill, Crawford and Lanford, Inc.
Little Rock, Arkansas

Michael B. Smuck
Equity Group Investments, Inc.
Metairie, Louisiana

Kenneth P. Toler
A. G. Edwards & Sons, Inc.
Jackson, Mississippi

James L. Vining
Vining-Sparks Securities, Inc.
Memphis, Tennessee

George M. Wood, Jr.
George M. Wood & Company, Inc.
Montgomery, Alabama



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

DISTRICT 6 ■ Texas ■ 471 Members, 1,122 Branches

Don A. Buchholz, Chairman
Southwest Securities, Inc.
Dallas, Texas

H. Malcolm Lovett, Jr., Vice Chairman
Lovett Mitchell Webb & Garrison, Inc.
Houston, Texas

Thomas M. Anderlitch
Rauscher Pierce Refsnes, Inc.
San Antonio, Texas

John C. Crank
May Financial Corporation
Dallas, Texas

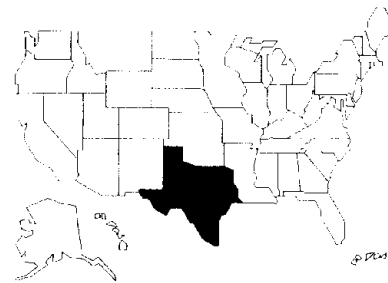
John M. Greer
Greer Moreland Fosdick Shepherd Inc.
Houston, Texas

Thomas K. Mercer
Mercer Diversified Securities, Inc.
Houston, Texas

Richard D. Neimann
Shearson Lehman Brothers Inc.
Corpus Christi, Texas

Philip E. Nichol
Kidder Peabody & Co. Incorporated
Amarillo, Texas

Larry A. Weil
Underwood, Neuhaus & Co., Incorporated
Dallas, Texas



Peter M. Walker, Director
1999 Bryan Street, Suite 1450
Olympia & York Tower
Dallas, Texas 75201
(214) 969-7050

DISTRICT 7 ■ Florida, Georgia, South Carolina, Eastern Tennessee, Puerto Rico, Canal Zone and Virgin Islands ■ 652 Members, 2,296 Branches

Edgar M. Norris, Jr., Chairman
Edgar M. Norris & Co., Inc.
Greenville, South Carolina

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

James R. Baynes
The First Boston Corporation
Atlanta, Georgia

Maxwell E. Benson, Jr.
Southern Financial Securities Corporation
Brentwood, Tennessee

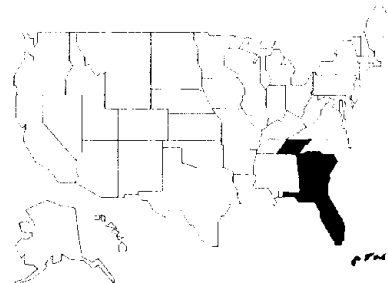
Henry T. Blackstock
Blackstock & Co., Inc.
Jacksonville, Florida

John B. Keeble, III
FSC Securities Corporation
Atlanta, Georgia

William L. M. Knox, Jr.
W. L. Knox & Company
Atlanta, Georgia

Patrick E. Mann
Williams Securities Group, Inc.
Tampa, Florida

John R. Smith, Jr.
Lowry Financial Services Corporation
North Palm Beach, Florida



Bennett Whipple, Vice President, Director
One Securities Centre, Suite 500
3490 Piedmont Road, N.E.
Atlanta, Georgia 30305
(404) 239-6100

DISTRICT 8 ■ Illinois, Indiana, Iowa, Michigan, Minnesota, North Dakota, South Dakota and Wisconsin ■ 841 Members, 3,008 Branches



Robert S. Petersen, Jr., Chairman
William Blair & Company
Chicago, Illinois

Donald L. Condon, *Vice Chairman*
Dain, Bosworth Incorporated
Minneapolis, Minnesota

Eugene P. Albers, Jr.
Smith, Hague & Co., Incorporated
Detroit, Michigan

Jack A. Bloomfield
E. F. Hutton & Company Inc.
Milwaukee, Wisconsin

John L. Burbridge
IDS Financial Services, Inc.
Minneapolis, Minnesota

Robert M. Chambers
M. Wittenstein & Co.
Des Moines, Iowa

Gary W. Griffin
Griffin, Kubik, Stephens & Thompson, Inc.
Chicago, Illinois

Gerald A. Horwitz
G. A. Horwitz & Co., Inc.
Skokie, Illinois

Conrad W. Koski
First of Michigan Corporation
Detroit, Michigan

Thomas J. McAllister
Governors Capital, Inc.
Olympia Fields, Illinois

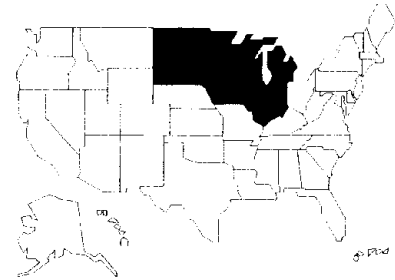
Richard E. Neal
City Securities Corporation
Indianapolis, Indiana

George H. Shelton
Howe, Barnes & Johnson, Inc.
Chicago, Illinois

John E. Sundeen
Robert W. Baird & Co. Incorporated
Milwaukee, Wisconsin

Michael D. Vick
M. B. Vick & Company
Chicago, Illinois

Kenneth J. Wessels
Wessels, Arnold & Henderson, L.P.
Minneapolis, Minnesota



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

DISTRICT 9 ■ Kentucky and Ohio ■ 184 Members, 889 Branches



W. Everett Thomas, Chairman
The Ohio Company
Toledo, Ohio

Richard A. Evans, *Vice Chairman*
Verco & Company, Inc.
Columbus, Ohio

W. Michael Brady
Dean Witter Reynolds Inc.
Columbus, Ohio

Dewey E. Hall
Prudential-Bache Securities, Inc.
Columbus, Ohio

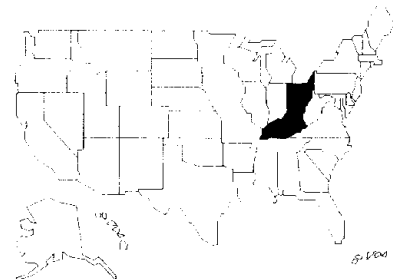
James A. Kaval
CLPS Securities Inc.
Cleveland, Ohio

G. James McCloy
Cowen & Co.
Cincinnati, Ohio

Michael P. Saracuse
McDonald & Company Securities, Inc.
Cleveland, Ohio

Rudy L. Vincent
J. C. Bradford & Co., Incorporated
Louisville, Kentucky

Margaret M. Wehmeyer
Gradison & Company, Inc.
Cincinnati, Ohio



William H. Jackson, Jr., *Director*
1940 East 6th Street
Fifth Floor
Cleveland, Ohio 44114
(216) 694-4545

DISTRICT 10 ■ Maryland, North Carolina, Virginia and the District of Columbia ■ 299 Members, 1,060 Branches

Anthony J. Frank, Chairman
Branch, Cabell & Company
Richmond, Virginia

John C. Engler, Vice Chairman
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Charlotte, North Carolina

William F. Calliott
Investment Corporation of Virginia
Norfolk, Virginia

Bedford Chapin
Chapin, Davis and Company, Inc.
Baltimore, Maryland

William B. Lucas
Wheat, First Securities, Inc.
Richmond, Virginia

John G. Mergner
Riviere Securities Corporation
Washington, D.C.

Robert T. Reeves
Ferris & Company, Incorporated
Annapolis, Maryland

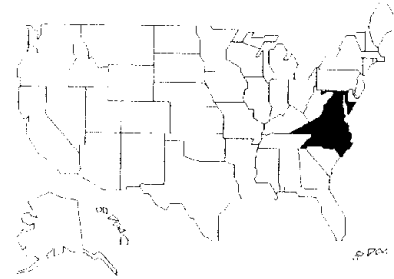
Joseph J. Roberts
Baker, Watts & Co.
Baltimore, Maryland

Patrick C. Ryan
Johnston, Lemon & Co. Incorporated
Washington, D.C.

Randall N. Smith
DeRand Investment Corporation of America
Arlington, Virginia

Frank H. Stringfellow
Jefferson-Pilot Investor Services, Inc.
Greensboro, North Carolina

Ben T. Vernon
Dean Witter Reynolds Inc.
Charlotte, North Carolina



Thomas P. Forde, Director
1735 K Street, N.W.
Washington, D.C. 20006-1506
(202) 728-8400

DISTRICT 11 ■ Delaware, Pennsylvania, West Virginia and New Jersey (except counties adjacent to New York City) ■ 396 Members, 994 Branches

Edward T. Borer, Chairman
Hopper Soliday & Co., Inc.
Philadelphia, Pennsylvania

Clarence Z. Wurts, Vice Chairman
Edward C. Rorer & Co., Inc.
Philadelphia, Pennsylvania

James L. Anfang
Cunningham, Schmertz & Co., Inc.
Pittsburgh, Pennsylvania

Thomas J. Chancler
Boening & Scattergood Inc.
Philadelphia, Pennsylvania

Phillip S. Cottone
RESCORP Inc.
Philadelphia, Pennsylvania

Roger L. Dietz
Kidder, Peabody & Co. Incorporated
Philadelphia, Pennsylvania

Arthur Judson, III
Collings Legg Mason, Inc.
Philadelphia, Pennsylvania

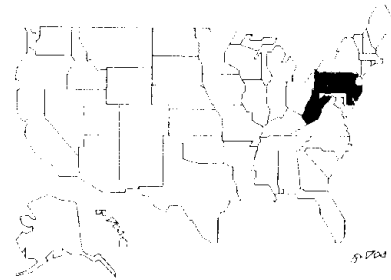
Richard B. Meyer
Scheetz, Smith & Co., Incorporated
Pittsburgh, Pennsylvania

Francis J. Morrissey, Jr.
F. J. Morrissey & Co., Inc.
Philadelphia, Pennsylvania

Richard M. O'Brien
Parker/Hunter Incorporated
Pittsburgh, Pennsylvania

James H. Pyle
Elmer E. Powell & Company
Pittsburgh, Pennsylvania

Gordon E. Wright
W. H. Newbold's Son & Co., Inc.
Philadelphia, Pennsylvania



John P. Nocella, Director
1818 Market Street, 14th Floor
Philadelphia, Pennsylvania 19103
(215) 665-1180

DISTRICT 12 ■ New York City (including adjacent New York and New Jersey counties) ■ 1,327 Members, 815 Branches



Donald V. Hanson, Chairman
Josephthal & Co. Incorporated
New York, New York

Gene Apruzzi
Cyrus J. Lawrence Incorporated
New York, New York

Howard L. Blum, Jr.
Ladenburg, Thalmann & Co., Inc.
New York, New York

Richard R. F. Chapdelaine
Chapdelaine & Company
New York, New York

Daniel J. Cristofano
Ernst & Company
New York, New York

Peter A. Fried
Rothschild, Inc.
New York, New York

James Hagency
Salomon Brothers, Inc.
New York, New York

Edward E. Hill
Mony Securities Corp.
New York, New York

M. David Hyman
Bear, Stearns & Co. Inc.
New York, New York

John B. Kemp, III
Dean Witter Reynolds Inc.
New York, New York

J. Kevin Kenny
J. J. Kenny Co., Inc.
New York, New York

Gerald P. McBride
Prudential Bache Securities Inc.
New York, New York

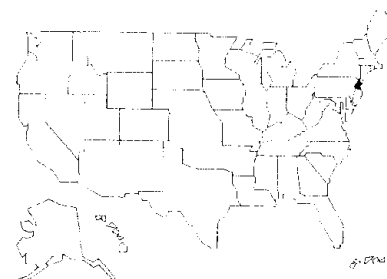
Edward W. Niemiec
Securities Settlement Corporation
New York, New York

Leopold Swergold
Swergold, Chefitz & Sinsabaugh Inc.
New York, New York

John N. Tognino
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
New York, New York

Francis M. Trotta
Moore & Schley, Cameron & Co.
New York, New York

Bruce Tullo
E. F. Hutton & Company Inc.
New York, New York



Richard B. Wigton
Kidder, Peabody & Co. Incorporated
New York, New York

William S. Clendenin, Vice President, Director
Two World Trade Center
South Tower, 98th Floor
New York, New York 10048
(212) 839-6200

DISTRICT 13 ■ Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont and New York (except New York City and adjacent counties) ■ 530 Members, 1,275 Branches



Daniel E. Overcash, Jr., Chairman
Bodell Overcash Anderson & Company, Inc.
Jamestown, New York

Vincent J. McCauley, *Vice Chairman*
Conning & Company
Hartford, Connecticut

Robert L. Butler
SMA Equities, Inc.
Worcester, Massachusetts

S. Paul Crabtree
E. F. Hutton & Company Inc.
Boston, Massachusetts

Richard J. Deagazio
Exchange Securities, Inc.
Boston, Massachusetts

Ernest E. Dunbar
Colonial Investment Services, Inc.
Boston, Massachusetts

J. Donald Gracey
Travelers Equities Sales, Inc.
Hartford, Connecticut

David T. Griffith
M. Griffith, Inc.
Utica, New York

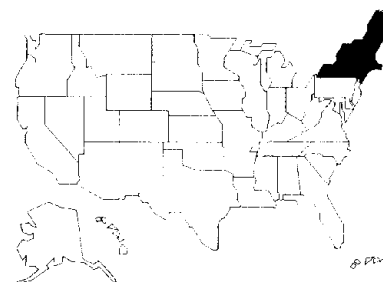
John G. Higgins
Kidder, Peabody & Co. Incorporated
Boston, Massachusetts

Edward J. Hughes
Harbor Securities Corporation
Boston, Massachusetts

Daniel J. Murphy
Burgess & Leith Incorporated
Boston, Massachusetts

Gerald H. Powers
Cantella & Co. Inc.
Boston, Massachusetts

Lewis J. Sperber
Sperber, Adams & Co.
Westport, Connecticut



Robert N. Unsworth
Brown, Lisle & Marshall Incorporated
Providence, Rhode Island

Robert D. Watral
Quick & Reilly, Inc.
Boston, Massachusetts

Willis H. Riccio, Vice President, Director
260 Franklin Street, 20th Floor
Boston, Massachusetts 02110
(617) 439-4404

National Association of Securities Dealers, Inc.

<i>September 30 (in thousands)</i>	1986	1985
ASSETS		
Current assets		
Cash	\$ 1,313	\$ 1,063
Investments, principally U.S. Government securities, at cost (approximate market value of \$88,190 in 1986 and \$71,156 in 1985)	86,799	70,520
Receivables, net, and other current assets	8,286	6,535
Total current assets	96,398	78,118
Property and equipment		
Land, buildings and improvements	16,372	10,272
Data processing, subscriber equipment and software	45,197	39,448
Furniture, equipment and leasehold improvements	11,122	6,727
	72,691	56,447
Less accumulated depreciation and amortization	33,788	28,412
	38,903	28,035
Other assets	2,944	2,535
	\$138,245	\$108,688
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 12,344	\$ 9,409
Deferred income and deposits	10,010	6,321
Current portion of obligations under capital leases	1,294	1,425
Note payable	200	1,600
Total current liabilities	23,848	18,755
Obligations under capital leases	1,142	2,025
Other liabilities	3,049	1,374
Total liabilities	28,039	22,154
Equity	110,206	86,534
Commitments and contingencies		
	\$138,245	\$108,688

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND EQUITY

33

National Association of Securities Dealers, Inc.

<i>Year Ended September 30 (in thousands)</i>	1986	1985
INCOME		
NASDAQ and MSI service fees	\$ 41,459	\$ 36,077
Member assessments	21,800	19,065
Registration and examination fees	26,610	17,629
Interest and other	16,661	11,509
NASDAQ issuer fees	10,633	8,381
Corporate financing fees	7,338	4,682
	124,501	97,343
EXPENSES		
Salaries and employee benefits	49,499	41,856
Equipment maintenance and data transmission	10,290	9,947
Depreciation and amortization	7,376	8,212
Professional and other services	11,429	6,972
Office expense	8,015	6,885
Publications, supplies and postage	5,250	4,789
Travel, meetings and investigations	4,860	4,173
Other	1,213	1,056
	97,932	83,890
Income before provision for income taxes and extraordinary item	26,569	13,453
Provision for income taxes	2,897	1,451
Income before extraordinary item	23,672	12,002
Extraordinary item—utilization of tax loss carryforward		1,057
Net income	23,672	13,059
Equity at beginning of year	86,534	73,475
Equity at end of year	\$110,206	\$ 86,534

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

National Association of Securities Dealers, Inc.

<i>Year Ended September 30 (in thousands)</i>	1986	1985
FINANCIAL RESOURCES WERE PROVIDED BY:		
Income before extraordinary item	\$ 23,672	\$ 12,002
Add item not affecting working capital		
Depreciation and amortization	7,376	8,212
WORKING CAPITAL PROVIDED BY OPERATIONS	31,048	20,214
Extraordinary item—utilization of tax loss carryforward		1,057
Increase in obligations under capital leases	411	1,473
Increase in other liabilities	1,675	229
	33,134	22,973
FINANCIAL RESOURCES WERE USED FOR:		
Additions to property and equipment, net	18,244	8,126
Decrease in long term obligations under capital leases	1,294	1,425
Increase in other assets	409	756
	19,947	10,307
INCREASE IN WORKING CAPITAL	\$ 13,187	\$ 12,666
ANALYSIS OF CHANGES IN WORKING CAPITAL		
Increase in current assets:		
Cash	\$ 250	\$ 210
Investments	16,279	13,191
Receivables, net, and other current assets	1,751	1,254
	18,280	14,655
Decrease (increase) in current liabilities:		
Accounts payable and accrued expenses	(2,935)	228
Deferred income and deposits	(3,689)	(301)
Current portion of obligations under capital leases	131	(316)
Note payable	1,400	(1,600)
	(5,093)	(1,989)
INCREASE IN WORKING CAPITAL	\$ 13,187	\$ 12,666

See notes to consolidated financial statements.

National Association of Securities Dealers, Inc.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Business Segments:

The consolidated financial statements include the accounts of the National Association of Securities Dealers, Inc. (NASD) and its wholly owned subsidiaries, including NASDAQ, Inc., and NASD Market Services, Inc. (MSI), after elimination of all significant intercompany transactions. The consolidated financial statements have been prepared on the accrual basis of accounting and conform to generally accepted accounting principles.

NASD is a membership association established to regulate the over-the-counter securities market.

NASDAQ, Inc., owns and operates the international, electronic NASDAQ quote information system.

MSI provides 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.

Property and Equipment, Depreciation and Amortization:

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

Software Costs:

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

Pension:

Pension expenses include charges for current service and amortization of prior service costs over an average of 30 years. NASD funds pension costs in

accordance with the funding provisions of the Employee Retirement Income Security Act.

Income Taxes:

NASD and NASDAQ, Inc., are tax-exempt, not-for-profit organizations. MSI is a taxable entity and recognizes certain expenses, principally start-up expenditures and depreciation, in different periods for income tax purposes than for financial reporting purposes. Investment tax credits are accounted for under the flow-through method.

NOTE B—BUSINESS SEGMENTS

<i>(in thousands)</i>	<i>NASD</i>	<i>NASDAQ</i>	<i>MSI</i>	<i>Consolidated</i>
1986				
Income	\$78,151	\$33,667	\$14,846	\$124,501
Expenses, including income taxes	65,581	26,141	11,271	100,829
Net income	\$12,570	\$ 7,526	\$ 3,575	\$23,672
Total assets	\$96,571	\$34,851	\$ 7,564	\$138,245
Equity	76,219	30,035	5,103	110,206
1985				
Income	\$59,293	\$28,919	\$11,067	\$ 97,343
Expenses, including income taxes	52,888	24,942	8,390	84,284
Net income	\$ 6,405	\$ 3,977	\$ 2,677	\$ 13,059
Total assets	\$76,738	\$27,503	\$ 4,746	\$108,688
Equity	63,649	22,509	1,528	86,534

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

NOTE C—NOTE PAYABLE

In 1985, MSI obtained an unsecured \$4,000,000 bank line of credit with interest at the lower of the prime rate or a rate tied to certificate of deposit rates. This agreement terminates on March 31, 1988.

NOTE D—LEASES

Data processing, subscriber equipment and software include the following amounts relating to leases which have been capitalized:

<i>September 30 (in thousands)</i>	1986	1985
Data processing equipment	\$8,372	\$7,870
Less accumulated depreciation	5,951	4,526
	\$2,421	\$3,344

The initial terms of the capitalized leases are 60 to 76 months. NASD leases certain office space and equipment in connection with its operations. The majority of these leases contain escalation clauses based on increases in property taxes and building operating costs. Certain of these leases also contain renewal options. No lease extends beyond 1996. Future minimum lease payments, by year and in the aggregate, under the capital leases and noncancelable operating leases with initial or remaining terms of one year or more consisted of the following at September 30, 1986 (in thousands):

<i>Fiscal Year Ending September 30</i>	<i>Capital Leases</i>	<i>Operating Leases</i>
1987	\$1,562	\$ 2,930
1988	711	2,993
1989	342	2,928
1990	252	2,937
1991	87	2,861
Remaining years		8,669
Total minimum lease payments	2,954	\$23,318
Less: Amount representing interest	518	
Present value of net minimum lease payments	2,436	
Less: Amounts due in one year	1,294	
	\$1,142	

Rent expense for operating leases was \$6,166,000 in 1986 and \$4,557,000 in 1985.

NOTE E—RETIREMENT BENEFITS

NASD maintains two savings plans for employees. Eligibility for both plans is based upon length of service. Participation in the plans is voluntary. Savings plan

expenses for the years 1986 and 1985 were \$699,000 and \$604,000, respectively.

NASD maintains a non-contributory defined benefit pension plan for the benefit of all eligible employees. Pension expenses for the years 1986 and 1985 aggregated \$2,637,000 and \$2,309,000, respectively. A comparison of accumulated pension plan benefits and net pension plan assets as of the most recent valuation dates is presented below:

<i>January 1 (in thousands)</i>	1986	1985
Actuarial present value of accumulated plan benefits:		
Vested	\$ 7,235	\$ 5,309
Nonvested	1,721	2,086
	\$ 8,956	\$ 7,395
Net assets available for plan benefits	\$15,999	\$11,402

The average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7 percent for 1986 and 1985.

NOTE F—INCOME TAXES

The income tax provision for the years ended September 30, 1986 and 1985 consisted of the following:

<i>(in thousands)</i>	1986	1985
Current expense		
Federal	\$2,015	\$ 192
State	540	324
Deferred expense/(benefit)	342	(122)
Charge equivalent to benefit of net operating loss carryforward		1,057
	\$2,897	\$1,451

The tax provision was reduced by investment tax credit utilization for the years 1986 and 1985 in the amounts of \$429,000 and \$185,000, respectively.

NOTE G—COMMITMENTS AND CONTINGENCIES

As of September 30, 1986, NASD had entered into a contract to purchase land and an office building in Rockville, Maryland. On November 12, 1986, the NASD purchased the property at a cost of \$12,169,000.

National Association of Securities Dealers, Inc.

NASD and its subsidiaries have entered into contractual agreements for the purchase of data processing equipment. At September 30, 1986, the amounts outstanding under these agreements were approximately \$6,157,000.

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

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

We have examined the consolidated balance sheet of the National Association of Securities Dealers, Inc. and subsidiaries as of September 30, 1986, and the related consolidated statements of income and equity, and changes in financial position for the year then ended. Our examination was 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. The consolidated financial statements of the National Association of Securities Dealers, Inc. and subsidiaries for the year ended September 30, 1985 were examined by other auditors whose report dated December 20, 1985 expressed an unqualified opinion on those statements.

In our opinion, the 1986 financial statements referred to above present fairly the consolidated financial position of the National Association of Securities Dealers, Inc. and subsidiaries as of September 30, 1986 and the consolidated results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Whinney

Washington, D.C.
December 29, 1986

David W. Hunter
1986 Chairman

Murray L. Finebaum
1986 Vice Chairman

John B. Levert, Jr.
1986 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 F. Guion
*Senior Vice President
NASDAQ Company Services*

Douglas F. Parrillo
*Senior Vice President
Communications*

John E. Pinto
*Senior Vice President
Compliance*

Robert Aber
*Vice President and
Deputy General Counsel
Corporate Subsidiaries*

S. William Broka
*Vice President
NASDAQ Operations-Companies*

Robert L. Campbell
*Vice President
Human Resources*

Thomas R. Cassella
*Vice President
Financial Responsibility*

William S. Clendenin
*Vice President
District Director*

Raymond W. Cocchi
*Vice President
Congressional/State Liaison*

Frank T. Coyle
*Vice President
Systems Operations*

Gerard F. Foley
*Vice President
Membership and Administration*

Frank J. Formica
*Vice President
Corporate Financing*

Dennis C. Hensley
*Vice President
Deputy General Counsel*

John M. Hickey
*Vice President
Systems Development*

Enno R. Hobbing
*Vice President
News Bureau*

Frank J. McAuliffe
*Vice President
Qualifications*

Anthony F. Morea
*Vice President
NASDAQ Operations-Members*

Willis H. Riccio
*Vice President
District Director*

Robert N. Riess
*Vice President
Systems Planning and Review*

J. Jack Samarias
*Vice President
Information Systems*

Randall K. Sampietro
*Vice President
Systems Engineering*

William R. Schief
*Vice President
Regional Attorneys*

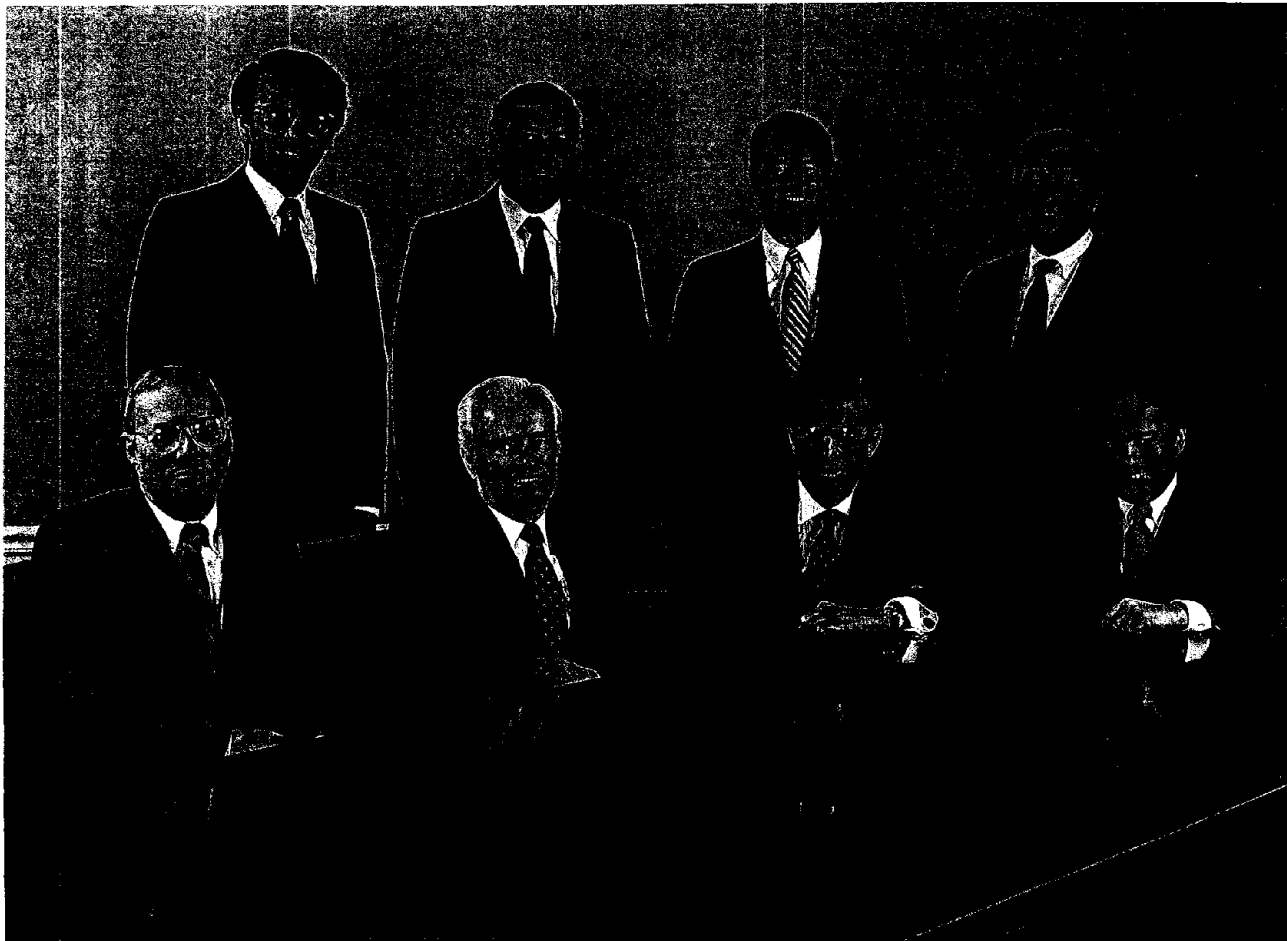
Jack A. Schindel
*Vice President
Treasurer*

A. John Taylor
*Vice President
Investment Companies/Variable
Contracts*

Catherine Tighe
*Vice President
Administrative Services*

Bennett Whipple
*Vice President
District Director*

Lynn Nellius
Secretary



(seated left to right)

C. Richard Justice
*Executive Vice President
Automation*

Frank J. Wilson
*Executive Vice President
Legal and Compliance*

Gordon S. Macklin
NASD President

John T. Wall
*Executive Vice President
Member and Market Services*

(standing left to right)

John E. Pinto
*Senior Vice President
Compliance*

Lynn Nellius
NASD Secretary

John F. Guion
*Senior Vice President
NASDAQ Company Services*

Douglas F. Parrillo
*Senior Vice President
Communications*

*NASDAQ, INC.,
1986 BOARD OF DIRECTORS*

- JAMES C. STONE, III, *Chairman*
J.J.B. Hilliard, W.L. Lyons, Inc.
Louisville, Kentucky
- *VICTOR ELTING, III
The Chicago Corporation
Chicago, Illinois
- *MURRAY L. FINEBAUM
Instinet Corporation
New York, New York
- *JOSEPH R. HARDIMAN
Alex. Brown & Sons, Inc.
Baltimore, Maryland
- ALLAN J. KALB
A.G. Edwards & Sons, Inc.
St. Louis, Missouri
- *JOSEPH V. MISSETT, III
Oppenheimer & Co., Inc.
New York, New York
- RICHARD F. MORRISON
Shearson Lehman Brothers, Inc.
New York, New York
- JEREMIAH A. MULLINS
Dean Witter Reynolds Inc.
New York, New York
- JOHN N. TOGNINO
Merrill Lynch, Pierce, Fenner &
Smith Incorporated
New York, New York
- *GORDON S. MACKLIN
President, NASD
- *DAVID W. HUNTER (Ex Officio)
Parker/Hunter Incorporated
Pittsburgh, Pennsylvania

*NASD MARKET SERVICES, INC.
1986 BOARD OF DIRECTORS*

- PETER D. BYRNE, *Chairman*
New York, New York
- *DAVID L. BAKER
Baker & Co., Incorporated
Cleveland, Ohio
- *JAMES M. DAVIN
The First Boston Corporation
New York, New York
- ROBERT C. DISSETT
A.G. Edwards & Sons, Inc.
St. Louis, Missouri
- *JOHN B. LEVERT, JR.
Howard, Weil, Labouisse,
Friedrichs Incorporated
New Orleans, Louisiana
- *BERNARD L. MADOFF
Bernard Madoff Investment
Securities
New York, New York
- RAYMOND MESELSON
Sherwood Securities Corp.
Jersey City, New Jersey
- *RICHARD C. ROMANO
Romano Brothers and Company
Evanston, Illinois
- PATRICK C. RYAN
Johnston, Lemon & Co., Inc.
Washington, D.C.
- *GORDON S. MACKLIN
President, NASD
- *DAVID W. HUNTER (Ex Officio)
Parker/Hunter Incorporated
Pittsburgh, Pennsylvania

**Member, NASD Board of Governors*

NASD

National Association of
Securities Dealers, Inc.
1735 K Street, N.W.
Washington, D.C. 20006-1506
(202) 728-8000