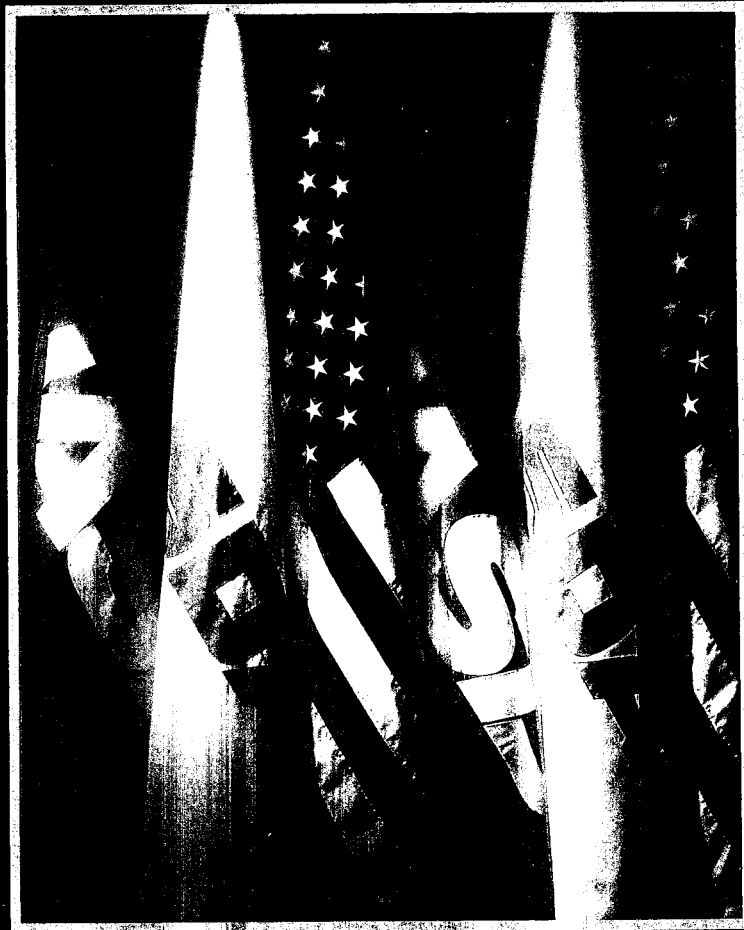
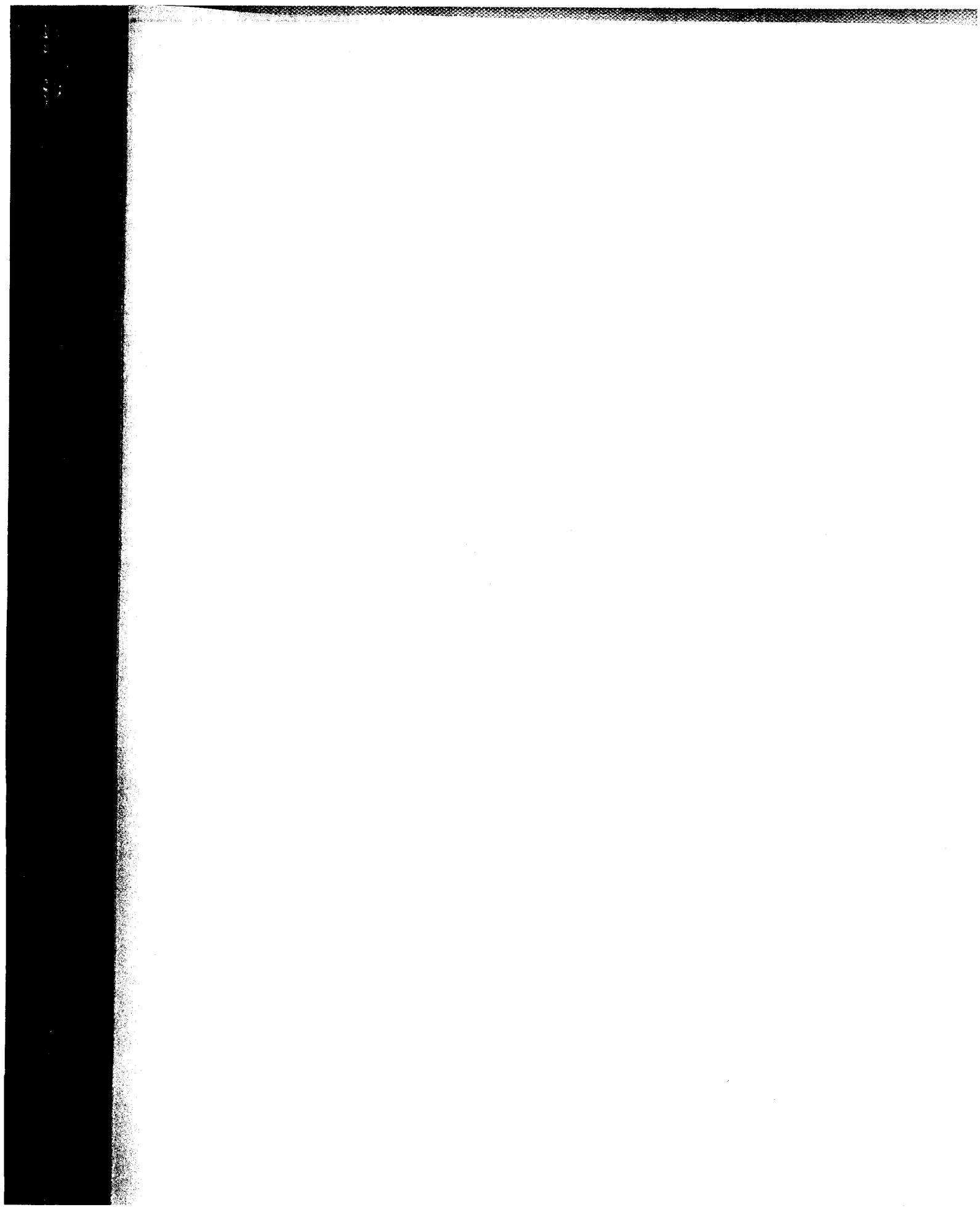


# National Association of Securities Dealers, Inc.



## 1994 Annual Report



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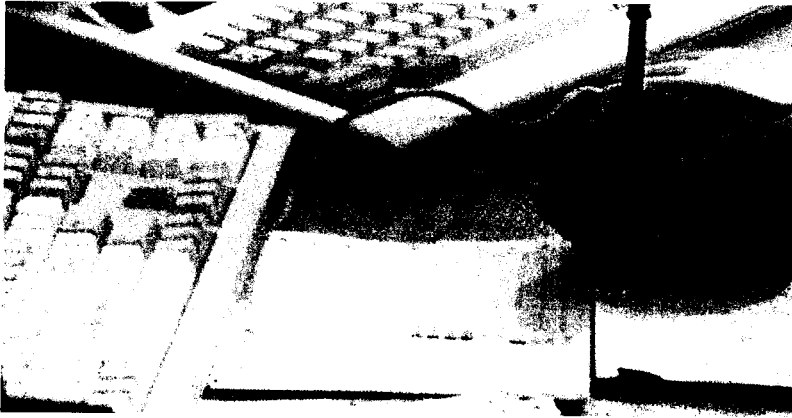
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## **NASD Mission**

*Our mission is to facilitate capital formation in the public and private sectors by developing, operating, and regulating the most liquid, efficient, and fair securities markets for the ultimate benefit and protection of the investor.*



# National Association of Securities Dealers, Inc.



Established under authority granted by the 1938 Maloney Act Amendments to the Securities Exchange Act of 1934, the NASD® is the self-regulatory organization of the securities industry responsible for the regulation of The Nasdaq Stock Market<sup>SM</sup> as well as the vast over-the-counter securities market and the many products that are traded in it. The NASD, which operates subject to Securities and Exchange Commission (SEC) oversight, is the largest self-regulatory organization in the United States, with a membership that includes virtually every broker/dealer in the nation that does a securities business with the public. Utilizing a nationwide system of local and standing committees composed of securities professionals, the NASD conducts regulatory reviews of members' business activities, develops rules and regulations, and designs and operates marketplace services and facilities. The NASD carries out its regulatory responsibil-

ities through member education; the registration and testing of securities professionals; on-site examinations of member firms to determine their compliance with federal securities laws, the rules of the Municipal Securities Rulemaking Board, and NASD rules and regulations; continuous automated surveillance of the markets it operates; the review of members' advertising and sales literature; the review of underwriting arrangements proposed by members in connection with new securities offerings; and cooperative programs with governmental agencies and industry organizations to solve problems affecting investors, public companies, and member firms. The NASD also offers a variety of services, including arbitration, to enable investors and members to resolve disputes, and an 800 telephone number inquiry service that provides investors with disciplinary information regarding members and their registered representatives.

## 1994 Statistical Highlights

### Membership

5,426	Member firms
57,105	Branch offices
485,548	Registered representatives

### Compliance

3,029	Main and branch office examinations conducted
3,601	Customer complaints resolved

### Disciplinary Actions

917	Formal actions filed
354	Disciplinary decisions rendered
197	Settlement offers accepted
351	Acceptance, waiver, and consent proceedings resolved
29	Firms expelled from membership
364	Individuals barred from the industry
11	Firms suspended from membership
221	Individuals suspended

### Automated Market Surveillance

7,481	Price and volume alerts
156	Formal investigations conducted
91	Cases referred to the SEC

### Arbitration

5,570	Cases filed
4,561	Cases closed
3,233	Disputes resolved between parties without arbitration
217	Industry cases arbitrated
1,111	Customer cases arbitrated
532	Cases decided in favor of customers

### Qualifications

271,153	Registered representative and principal tests administered
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### Advertising

43,849	Items reviewed from filings, spot checks, and investigations
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### Corporate Financing

2,258	Underwriting arrangements reviewed
\$233.1	Billion of public offerings reviewed

*Information reflects data as of December 31, 1994.*

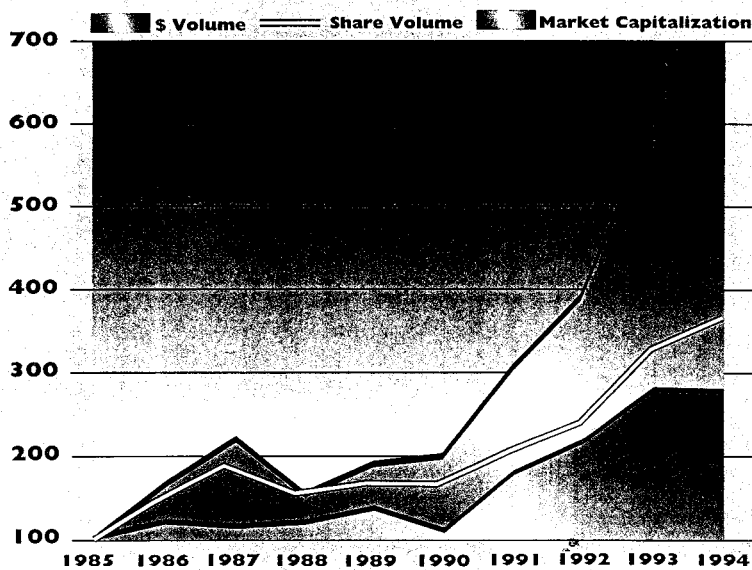
# The Nasdaq Stock Market

The Nasdaq Stock Market<sup>SM</sup>, the premier securities market operated and regulated by the NASD, is the largest electronic, screen-based equity market in the world. Using advanced computer and telecommunication technologies to unite its participants, Nasdaq<sup>®</sup> enables securities firms everywhere to execute transactions for investors and for themselves within an environment of real-time trade reporting and automated market surveillance. In addition to its use of sophisticated technology, Nasdaq is distinguished from exchanges by its use of multiple market makers—-independent dealers who openly compete with one another for investor orders in each Nasdaq security. Known for its innovative,

forward-looking growth companies, Nasdaq has two tiers: the Nasdaq National Market<sup>®</sup>, with more than 3,500 of Nasdaq's larger companies whose securities are typically more actively traded; and The Nasdaq SmallCap Market<sup>SM</sup>, with over 1,300 smaller, emerging growth companies. Founded in 1971, Nasdaq today accounts for nearly one-half of all equity shares traded in our nation each day and is the second largest stock market in dollar value of trading in the world. More companies—domestic and foreign—list their securities on Nasdaq than on all other U.S. stock markets combined. Nasdaq continues to be the fastest growing securities market in the country.

## Nasdaq Market Growth

Index: 1985 = 100 percent

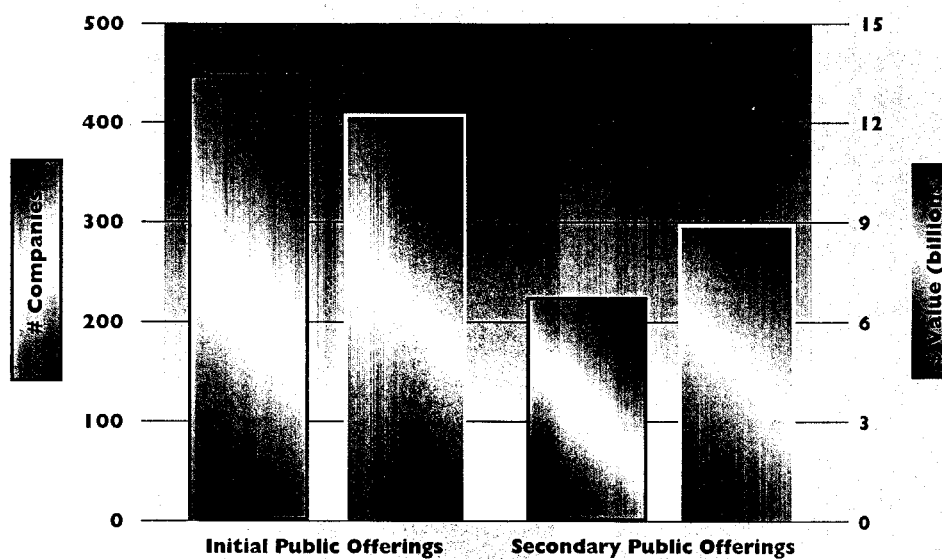


## 1994 Statistical Highlights

Annual share volume	74.4 billion
Annual dollar volume	\$1,449.3 billion
Average daily share volume	295.1 million
Average daily dollar volume	\$5.8 billion
Market capitalization	\$786.5 billion
Companies listed	4,902
Issues listed	5,761
Market makers	501
Foreign securities and American Depositary Receipts	350
International share volume	4.8 billion
International dollar volume	\$78.4 billion
Number of initial public offerings	445
Value of initial public offerings	\$12.2 billion
Number of secondary public offerings	222
Value of secondary public offerings	\$8.9 billion

*Information reflects data as of December 31, 1994.*

### Nasdaq Public Offerings



# From the Chairman and the President

For the NASD and The Nasdaq Stock Market, 1994 was a year of achievement and challenge on an unprecedented scale. It was a year in which the work of the NASD was never more sharply focused on serving the needs of investors, particularly individual investors. It was also a year when investors and public companies continued to express their confidence in The Nasdaq Stock Market in the clearest way possible: through record utilization and listings.

In 1994, Nasdaq became the most active equities market in the United States, surpassing all of the exchanges in annual and average daily share volume. Over the past 10 years, Nasdaq has been the fastest growing U.S. stock market, with share and dollar volume increasing 260 percent and 520 percent, respectively.

Moreover, Nasdaq remained the market most often chosen by companies going public, with the listing of 445 first-time-to-market companies in 1994. The 4,902 companies listed on Nasdaq at year-end 1994 set a record, increasing 6.5 percent from 1993. Over the last decade, the 3,424 companies that have gone public on Nasdaq raised more than \$74 billion. The business media has confirmed Nasdaq as the home of growth companies: during 1994, *Fortune* named 83 Nasdaq companies and *Business Week* named 94 Nasdaq companies to their respective lists of this country's 100 outstanding growth companies.

Clearly, Nasdaq is the stock market of choice for growth companies and for individual and institutional investors who seek the superior returns that such companies can deliver. In this role, Nasdaq provides an environment for capital formation essential to economic growth and job creation.

Nasdaq itself is a growing, evolving market: constantly improving its rules and market mechanisms as it responds to changing market conditions and the many challenges so evident in 1994. During Nasdaq's short 24-year history, the NASD has continuously sought to improve the quality of Nasdaq through a series of market improvements that have made it the highly visible and successful market that it is today.

High on the list of major initiatives accomplished in 1994 are those that enhance investor price protection. While existing policies and practices of most large integrated securities firms gave customer limit orders priority over their own market-making activities, the NASD took steps to eliminate a "safe harbor" whereby firms could trade ahead of limit orders if they disclosed this practice to the customer prior to doing so.

An NASD rule that prohibits Nasdaq market makers from executing orders for their own account at prices that would satisfy limit orders of their own customers without first executing those customer limit orders was approved by the Board of Governors and thereafter by the SEC in June 1994. It applies to firms that accept limit orders directly from their





*1994 NASD Board of Governors Chairman Joseph J. Grano, Jr. and  
NASD President and Chief Executive Officer Joseph R. Hardiman*

customers. The second phase, approved by the NASD Board in November 1994 and currently pending before the SEC, will extend that protection to customer limit orders sent by one firm to another.

In early 1995, the NASD proposed a unique, fully automated system, *Aqcess*<sup>SM</sup>, that will enable public investors—particularly small investors—to reduce their transaction costs through vastly improved price protection and greater price-improvement opportunities. *Aqcess* will effectively operate as a fully automated, national limit-order facility. If the regulatory approval process and enabling technology proceed as planned, *Aqcess* could be serving investors in late 1995.

To expand market access for institutional investors, in January 1994 the NASD Board approved permitting non-members to view broadcasts of orders and executions occurring on *SelectNet*<sup>SM</sup>, Nasdaq's automated negotiation and transaction system for market makers. This system modification, when approved by the SEC, will increase the transparency of The Nasdaq Stock Market by disseminating *SelectNet* price and volume information more widely.

To protect both investors and issuers from inappropriate short selling in the Nasdaq market, a short sale rule for Nasdaq National Market securities proposed by the NASD took effect on September 6, 1994. The new rule prohibits short sales at or below the current bid when the inside bid is lower than the preceding bid. At the same time, to ensure that the market is providing investors with adequate liquidity, market makers will be exempt from the short-selling prohibition in their market-making activities.

We remain dedicated to increasing investor participation and protection in Nasdaq while enhancing the market-liquidity and capital-formation functions of Nasdaq that make it so vital to issuers. Nasdaq plays a central role in this country's capital formation process, not because it is resistant to change, but because it is responsive to the demands and needs of its customers: investors, issuers, and member firms.

As committed as the NASD is to market quality, it is as strongly committed to effective regulation. The NASD's active enforcement effort is complemented by continuous proposals of new and amended rules and regulatory programs that respond to new products, changing investor interests, and evolving sales practices.

Most notable among these proposals in 1994 is the NASD's leadership among self-regulatory organizations in the development of a continuing education program for securities professionals. The program will keep registered representatives up-to-date on developments in general compliance, sales practices, and new products and services. The SEC approved the proposal in February 1995. The NASD will administer the regulatory component of the program through its computerized testing facilities beginning in July 1995.

Recognizing the growing utilization of mutual funds and variable contract securities by investors, the NASD Board approved several measures to clarify rules on the manner in which these and other securities are sold. The first consists of proposed rules governing the sale of securities products and services on bank premises by bank-affiliated broker/dealers and member firms operating on the premises of banks. The second places restrictions on the use of non-cash compensation for the sale of investment company securities and variable contract securities. Both of these measures are designed to maintain investor confidence in these increasingly popular products.

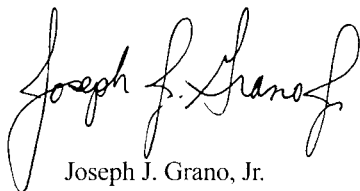
Equally significant, in 1994 the NASD extended the benefits of screen-based trading technology to the \$200-billion high-yield bond market by beginning operation of the Fixed Income Pricing System<sup>SM</sup> (FIPS), a quotation and surveillance system for high-yield bond trading. FIPS provides investors with more information about price movements while strengthening regulators' surveillance capabilities. This greater transparency should enhance liquidity, increase opportunities for price discovery, and broaden public participation in this growing market.

A dramatic, continuing undertaking involves the NASD's commitment to applying advanced technology to the operation of Nasdaq and to NASD regulation. Over the years, the NASD continually upgraded its computer systems and added new trading services and

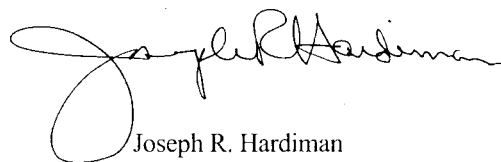
regulatory tools. In the early 1990s, it was evident that the time had come for a complete replacement of these technologies with state-of-the-art systems and networks. In 1994, the daily work of the NASD and its markets began to be performed with these new technologies. This is the subject of a special feature in this Annual Report.

From the beginning of The Nasdaq Stock Market and for almost half the existence of the NASD, the individual responsible for the NASD's leadership role in the application of technology to securities markets and regulation has been C. Richard Justice, who retired at the end of 1994. We wish to express our sincere thanks to Dick for his innovative spirit and lasting accomplishments and to wish him well in his new and more relaxed environment.

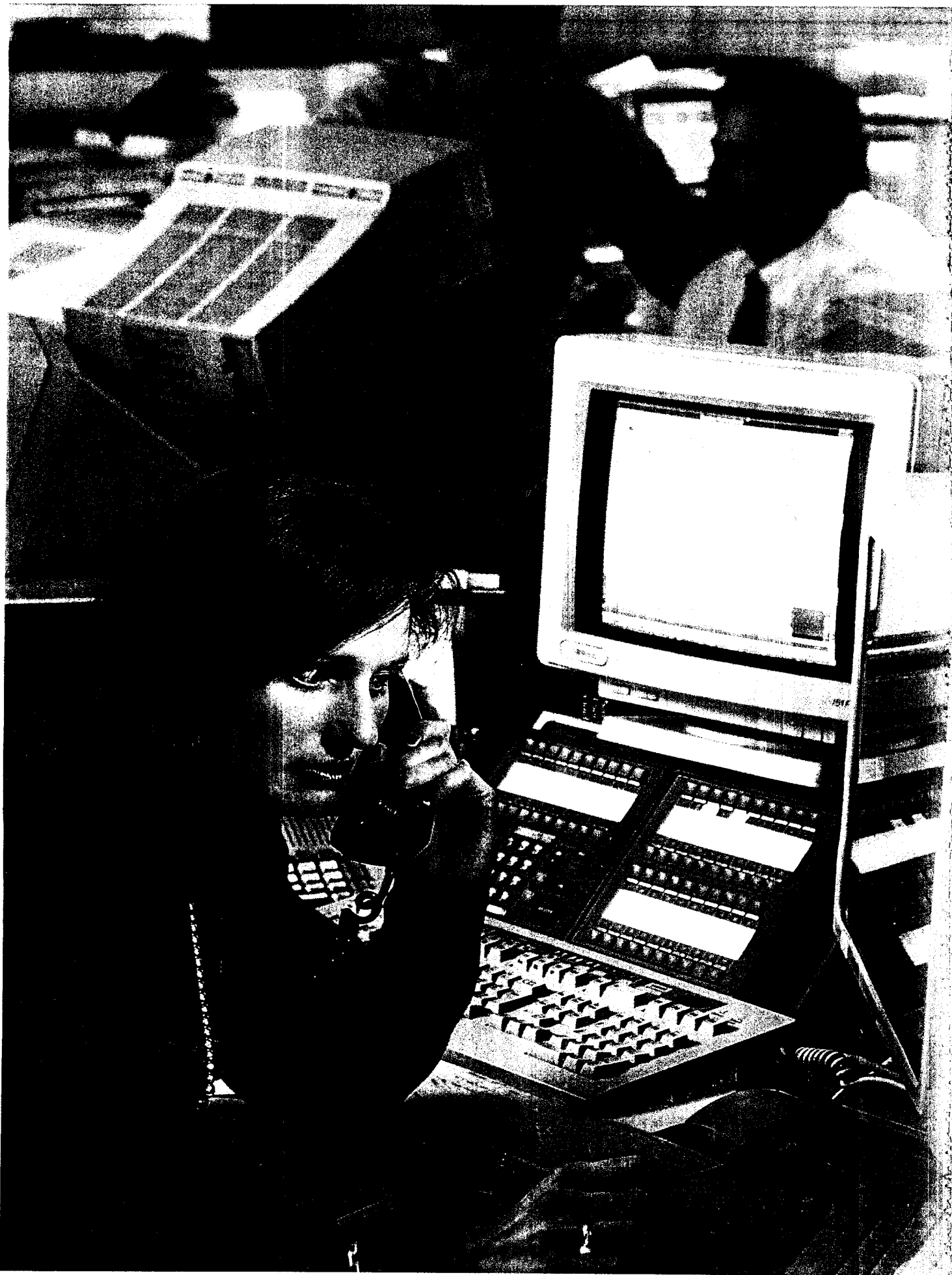
Since its inception, the NASD has been dedicated, and will continue to be dedicated, to the effective regulation of the markets that it operates and oversees. In this regard, the NASD will continue to develop new market mechanisms and refine market-quality rules to maintain a fair market for all participants. This is the essence of self-regulation, the key to investor confidence, and the fulfillment of our responsibility to our issuers and member firms.



Joseph J. Grano, Jr.  
1994 Chairman



Joseph R. Hardiman  
President and CEO



# Technology for a New Century

## Technology and Change

Technology helps us fulfill the human aspirations to know and to excel. In business, that means responding effectively to customers' changing needs. In order for technology to enable business to stay ahead of a changing marketplace, tech-

nology itself must evolve as the world changes. Given the exponential pace of technological change, technology migrations—the evolutionary replacement of one technology with another—are inevitable.

## The NASD, Nasdaq, and Technology

The ability of the computer and communications network to collect, store, analyze, and disseminate information makes them invaluable to the securities industry, which in essence is an information-based business. Without technology, the securities industry—the heart of the capital formation process in this country—would not be as efficient, cost-effective, and well-regulated as it is today.

The NASD has been at the forefront of applying technology to the securities industry. The application of technology to securities trading was originally envisioned to enhance both regulation and market functionality. In 1963, in a

special study of the securities markets submitted to Congress, the SEC recommended that “the Commission and the NASD should jointly consider possibilities for developing and coordinating automation programs in such manner as to fulfill their respective regulatory needs, as well as operational needs of the markets.”

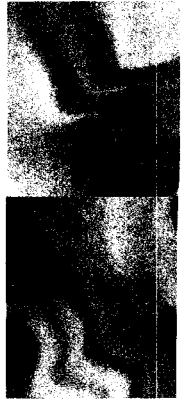
The NASD's answer to that mandate was launching in 1971 what would become the world's largest computerized, screen-based securities market—The Nasdaq Stock Market—and introducing a variety of computer applications into its regulatory functions of monitoring sales practices and surveilling securities trading.

## The NASD's Technology Migration

The original stock trading and regulatory systems served the NASD and market participants well for many years. The Nasdaq Stock Market maintains an uptime of 99.6 percent, an outstanding record for such an elaborate, geographically dispersed system. Equally impressive in the regulatory area, a system such as the Central Registration Depository records the employment

and disciplinary histories of hundreds of thousands of securities industry professionals as well as provides an automated means of applying for qualifications testing, licensing, and renewals.

As the securities business grew both in the number of investors and professionals, and in the complexity of its products and services, the computer and telecommunications industries made



◀ *Nasdaq's newest and most sophisticated trading terminal ever, Nasdaq Workstation II<sup>SM</sup>, was put into service in 1994. Traders at William Blair & Company, Chicago, were among the first to begin using the advanced trading system in July.*

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significant advances in the function and capacity of information technology. The magnitude of growth over the 20 years after Nasdaq's inception experienced by the industry and the market that the NASD regulated was truly staggering. From Nasdaq's first full year of trading, 1972, through 1991, the number of registered representatives had increased 101 percent while Nasdaq share volume had grown 1,777 percent.

In early 1992, the NASD—a pioneer in applying advanced technologies to the securities business—decided that it was time once again to take another step forward in the use of new technologies for the benefit of investors, listed companies, and member firms. The NASD began the planning for its technology migration program, which specified enterprise servers, high-capacity systems, and distributed databases within a well-integrated architecture for both market operation and regulation.

By 1994, the technology migration pro-

gram bore its first fruit. Nasdaq began operating on its new trading workstation and communications network in this country's two major financial centers—New York and Chicago. The roll-out of the new Nasdaq technology will continue during 1995 and be completed in 1996.

Perhaps it is no coincidence that Nasdaq, as this country's technology-based market, is the preferred market of technology companies. As of year-end 1994, 88 percent of all computer and data processing companies listed on a U.S. securities market, 79 percent of all computer manufacturers, and 72 percent of telecommunications companies were listed on Nasdaq. It would also be no coincidence that a significant number of the technology tools incorporated into the new NASD and Nasdaq systems have been brought to market by Nasdaq companies. As Nasdaq gave these companies new life by facilitating their capital formation, so they now give new life to the market on which they went public.

## Technology and Regulation

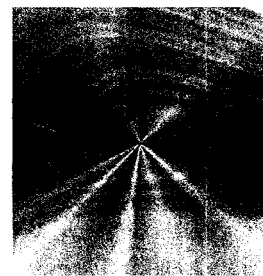
Technology plays a major role in a number of regulatory activities performed by the NASD. The StockWatch Automated Tracking<sup>SM</sup> (SWAT) system is perhaps the most dramatic instance. It monitors trading real-time in each Nasdaq issue against customary price and volume parameters established by sophisticated mathematical models designed by two Nobel laureates.

The new regulatory technology will improve on an already successful array of computerized systems. More advanced technology tools that are fully integrated with each other will replace older, unconnected systems and provide increased efficiency in satisfying a variety of uses and unlimited flexibility in responding to evolving needs. These technologies will enhance

the effectiveness of regulatory programs and staff as well as permit prompt response and reaction to new rules, products, and changes in policies and procedures.

### Central Registration Depository (CRD).

While CRD has been highly successful in serving the public, regulators, and the securities industry as a qualifications and registration system, the NASD has always wanted to enhance its flexibility as a regulatory tool. The new technology will



▲ The 1995 Chairman of the National Business Conduct Committee, Mary Alice Brophy of Dain Bosworth, Incorporated, Minneapolis, envisions greater use of technology by the NASD and member firms to streamline and enhance compliance examinations and reviews.

AEM - Major Securities and Brokerage

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Exam Stages

MODULE: 11.1 Financial & Operational I

SECTION: 4.100 Books and Records

ITEM:

Ref	Question	Exam Report	Annotation
<b>SUMMARY</b>			
4.100	Preparation and maintenance of records	Y	N/A
4.101	Purchase and Sales Blotter	Y	N/A
4.102	Securities Received and Delivered Blotter	Y	N/A
4.103	Cash Receipts and Disbursements Blotter	Y	N/A
4.104	Checks Received and Forwarded Blotter	Y	N/A
4.105	General Ledger	Y	N/A
4.106	Customer Ledger Accounts	Y	N/A
4.107	Firm Proprietary Account	Y	N/A
4.108	Partners' Accounts	Y	N/A
4.109	Securities Transfer Ledger	Y	N/A
4.110	Dividends and Interest Ledger	Y	N/A
4.111	Securities Borrowed and Loaned Ledger	Y	N/A
4.112	Monies Borrowed and Loaned Ledger	Y	N/A
4.113	Fail Ledgers/ Broker-Dealer Ledgers	Y	N/A

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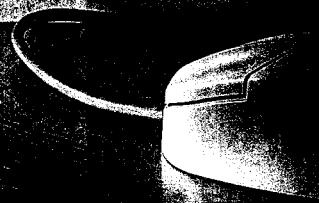
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THE NASD &  
YOUR ROLE





greatly increase the data processing and retrieval capability of CRD, making it a much more useful regulatory resource for the NASD and others. Such regulatory information as licensing, employment, and disciplinary histories will not only be available more quickly, but will also be accessible to specifically defined searches across broad ranges of data. The new technology will also enhance CRD's automated form-filing capability by consolidating all forms under one system and allowing a consistent interface with reporting firms for two-way electronic communication. The new CRD will also be more readily accessible and useful to state securities commissions and the SEC, further facilitating the coordination within this country's securities regulatory system and with international regulatory authorities.

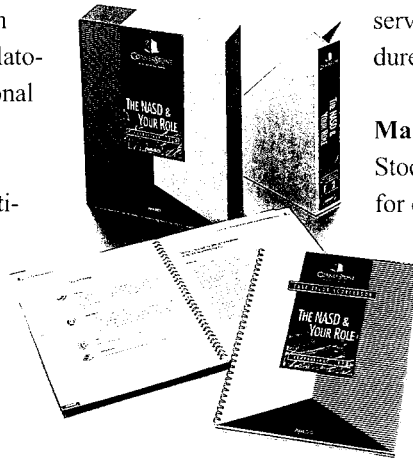
**On-site examinations.** By utilizing an open architecture design, the technology migration will provide the basis for a revolution in techniques for examining member firms to verify compliance with securities laws and regulations. The new technology will facilitate direct computer-to-computer access and automated analysis of member firms' electronic data, improving sampling techniques and the quality and depth of examination reviews. Wherever possible, use of statistical modeling techniques will enhance various examination functions, while others will be automated, making analysis more comprehensive and speedy. Overall, these new technological tools will make examinations more timely and effective, with the

intent of also being less disruptive to firms' ongoing business.

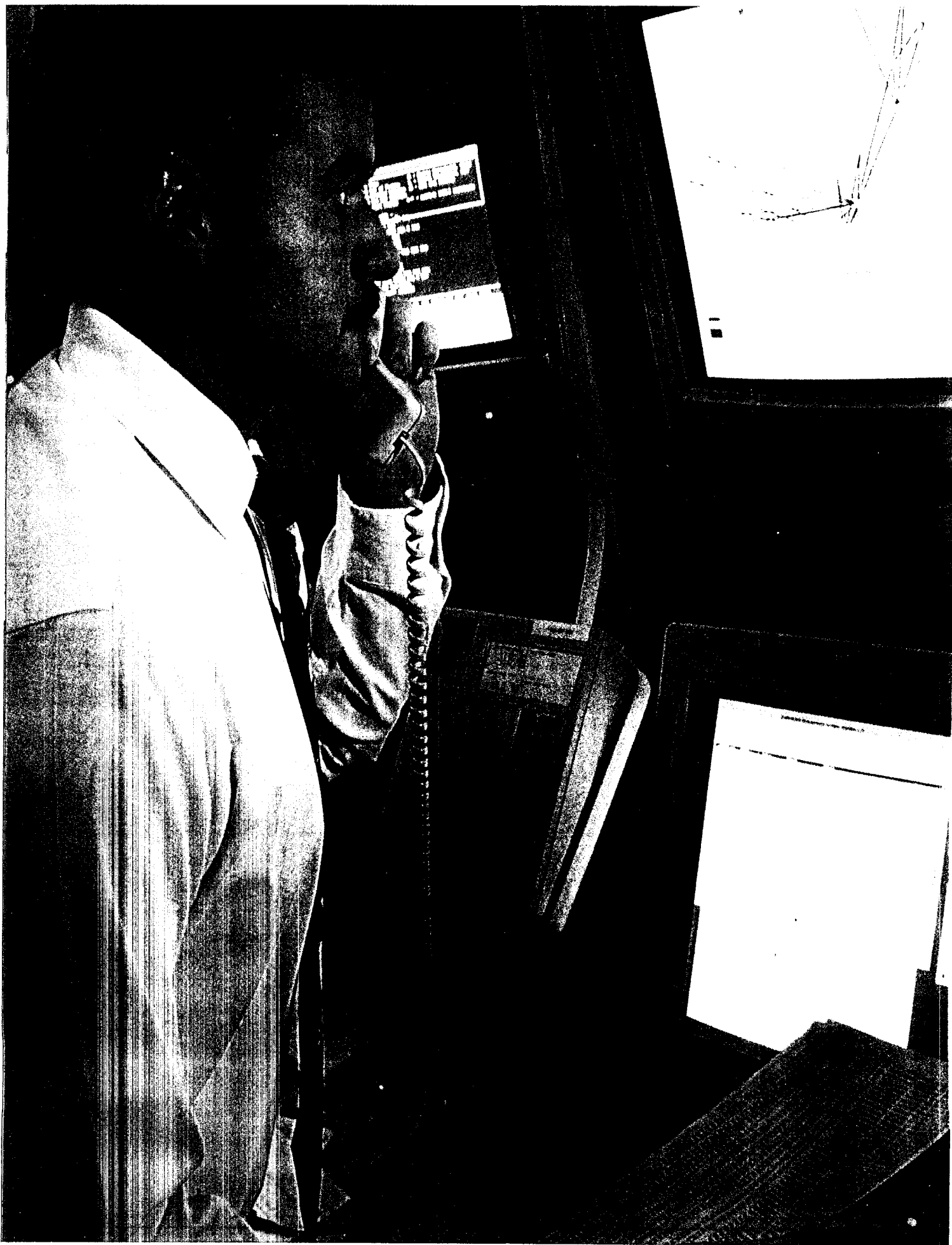
**Examiner training.** The NASD's examiner training programs, now conducted in classrooms, are currently being transformed into a state-of-the-art automated performance support system. This system includes computer-based training software and provides expert knowledge now taught in the classroom on examiner PCs and laptops whenever and wherever needed. This automated training system will not only reduce the time required to educate new examiners, but will also provide "just-in-time" support to veteran examiners about new products, services, and examination procedures.

**Market surveillance.** Although StockWatch has served as a model for other stock markets' automated surveillance systems around the world, its analytical tools will be enhanced by the new technology to substantially improve productivity in routine surveillance and

investigative procedures. A market-surveillance "superstation" will combine a powerful workstation interacting with a local database utilizing local applications, which is one of the major benefits of the open architecture design of the new technology. The superstation will provide more immediate access to market and other related information with ad hoc reporting capabilities. This, in turn, will increase speed and flexibility in analyzing large quantities of data and customizing reports. Such improvements will result in even more effective ways to pro-



◀ NASD's examiner training programs are being transformed into a state-of-the-art automated performance support system. In addition to computer-based training software, expert knowledge now taught in the classroom will be available to examiners on PCs and laptops anywhere at anytime.



vide investors with the confidence that their trades are being monitored to ensure market integrity—which is what investors expect from their securities markets—and that improper insider trading and other market abuses are detected quickly, scrutinized aggressively, and disciplinary action taken.

**Information management.** Through the new technology, individual data sources and data inquiry tools of the various NASD regulatory departments and District Offices around the country can be consolidated, integrated, and standardized. This will make the reporting and sharing of important regulatory data more efficient and effective, greatly improving data retrieval, trend analysis, and coordination of efforts nationally.

**Preventive compliance.** Although the NASD vigorously monitors sales practices and market activity, it is a strong believer in preventive compliance, that is, providing assistance and guidance to member firms so that they can take steps to avoid violations. Thus, the NASD seeks to provide member firms ways to strengthen their efforts to comply with securities laws and rules before they are broken, for the benefit of investors and registered representatives alike. The new technology will help here as well, applying EDP auditing-like techniques to test the integrity of firm data and systems to ensure that they perform in a manner consistent with member firm oversight requirements and relevant rules and regulations. The NASD is also exploring various ways of expanding its current programs and initiatives to deliver preventive compliance support to its member firms.

## Technology and Securities Trading

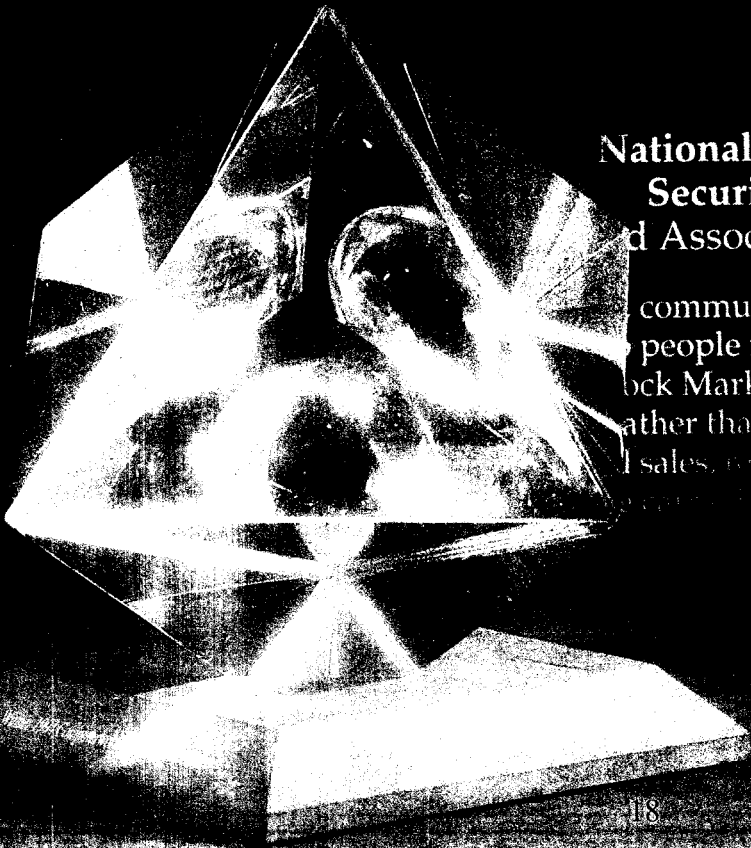
Given that the NASD is the only securities industry association registered with the SEC as a self-regulatory organization and represents all facets of the industry and all regions of the country, perhaps it was inevitable that the securities market it would found—The Nasdaq Stock Market—would be a screen-based market. Such a market functions as a geographically dispersed computer system and telecommunications network joining market makers and investors who can participate in or directly observe the market and communicate with each other virtually anywhere they happen to be located.

Today, the Nasdaq network encompasses nearly 5,000 interactive market-maker workstations located in over 500 member firms. Beyond



◀ *The Nasdaq Stock Market introduced a new high-speed communications network in 1994 as part of its technology migration program. The new network is designed to handle more than double existing capacity and to permit rapid upgrade to well over a billion share per day capability without additional redesigning.*

FINANCE, INSURANCE  
AND REAL ESTATE



**National Association of  
Securities Dealers  
and Association Member Support**

communication and speed  
people investing in the  
Stock Market is the  
rather than brokers  
sales, and  
management

that, Nasdaq market information flows through a variety of quote vendors to reach more than 250,000 terminals in 53 countries, providing Nasdaq-listed companies exposure to investors worldwide.

As a true interactive trading system, Nasdaq employs the most sophisticated technology of any securities market. Many complex transactions can occur simultaneously in the Nasdaq system, including processing of quote updates and inquiries, entering of orders, executing those orders, generating trade reports, sending trade information to the clearing corporation, and changing the indexes. The new system has been designed to sustain over 500 transactions per second. Moreover, Nasdaq is the only U.S. market to have a screen-based negotiation feature, and automated execution and confirmation systems.

The time has come for Nasdaq's technology migration for several reasons.

First, *growth*. Nasdaq has been the fastest growing stock market in the United States for many years, as measured by both share and dollar volume. Its multiple market-maker system has proven to be very proficient at generating investor interest in growth companies. Nasdaq's average daily share volume has grown to almost 300 million and, in 1994, Nasdaq generated more share volume than any other U.S. securities market.

The new Nasdaq technology combines a highly reliable central data complex with a client-server architecture using an advanced high-speed communications network and an

open architecture. This design permits the use of a variety of different technologies at the workstation level. The system is designed to handle more than double existing capacity while maintaining the response times required by the marketplace. Moreover, the system's design permits rapid upgrade to well over a billion share per day capability without additional redesigning. This expanded capacity will assure investors that their orders will be handled and issuers that their shares will continue trading even during periods of peak market activity.

Second, *new technologies*. Since Nasdaq's inception, new technologies have been devel-

oped that are particularly beneficial to securities trading and market operations. Many of these are embodied in the centerpiece of Nasdaq's new technology, Nasdaq Workstation II<sup>SM</sup>.

To ensure that its design and functions would paral-

lel traders' routines and enhance their performance, the NASD developed Nasdaq Workstation II after conducting focus group meetings with traders and closely observing them working at their terminals. The NASD also held numerous meetings in major cities across the country to enable traders to use and comment on development prototypes and visited member firms in other locations to preview the new software.

Nasdaq Workstation II utilizes a UNIX-based server interfacing the central system that permits member firms to use a variety of workstation hardware and software combinations and to customize trader screen displays. Nasdaq



◀ In 1994, the NASD and The Nasdaq Stock Market received the prestigious Computerworld Smithsonian Award for the application of computer technology to securities trading. Nasdaq received the award in the Finance, Insurance, and Real Estate category for the pioneering application of information technology to securities trading in developing the world's first and largest screen-based stock market.





Workstation II also provides numerous Nasdaq quote and execution functions—many of them new. Member firms can merge Nasdaq data feeds with in-house systems and

outside vendors, and display all or any portion of that merged data on the same screen at the same time. This new software will enable traders to provide investors with instantaneous executions, derive practical information from complex data, and offer continuous reliable service—and do it all faster than before.

Third, *new services*. The open architecture, advanced software development tools, and

scalable computing power of the new Nasdaq technology will enable Nasdaq to respond promptly to demands of market participants for new trading and market-information services and make them more readily available than is possible today through the existing system. The standards-based, client-server system will allow Nasdaq's enterprise-server computers and market makers' desktop terminals to work in concert. Because the new telecommunications network is digital, it will not only be faster and more reliable, but will also allow member firms to receive the Nasdaq Workstation II service more easily on a digital interface, perform automated in-house functions on the data, and integrate it back into the Nasdaq system.

## Benefits of the NASD's Technology Migration

The NASD is undertaking its technology migration initiative to enable the NASD to continue to provide the optimum regulatory and operational benefits that securities markets participants have come to expect. This change to more powerful technology is particularly important as we approach a new century that promises even greater interest in our country's securities markets, broader demand for more complex products, faster speed of execution, and larger market volume.

*Investors* can continue to expect fair markets where competition encourages service quality and market forces determine prices. They also can expect prompt execution and the liquidity that a dealer-driven market provides most effectively.

*Nasdaq companies* can continue to be listed on a market in which share price reflects an accurate valuation of their company. They can

also expect cost-effective access to capital from the visibility and demand that a multiple market-maker system generates.

*Member firms* can continue to expect comprehensive price discovery, prompt delivery of market information, and high-performance trading services. They can also expect the NASD, through its regu-

latory efforts, to preserve the integrity of its securities markets and the reputation of the profession. This will benefit the vast majority of securities professionals who do business within the laws and regulations and serve their customers well.



◀ A 1994 recipient of a grant by the Nasdaq Stock Market Educational Foundation, Inc., the New York City High School for Economics and Finance plans to use its award to fund a learning incentive program for students at the magnet school. At left, students preparing for careers in financial services take part in one of their weekly sessions taught by a securities industry professional, in this instance Alice Kim of Dean Witter Reynolds Inc.

Growth:

A Public Policy Roundtable

United States Capitol  
Washington, D.C.

NASDAQ

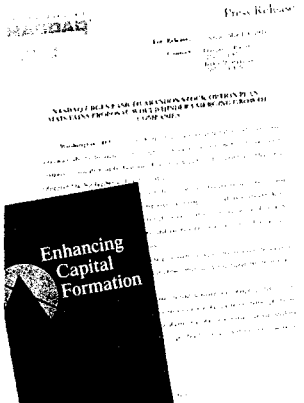
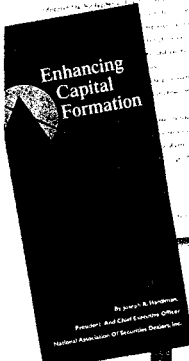
KPMG Peat Marwick LLP

# Public Policy

Through public testimony, roundtable discussions, and speaking forums, the NASD and The Nasdaq Stock Market contribute to the national dialogue on public policy issues that affect investors, issuers, and member firms. In 1994, the NASD testified before the SEC supporting litigation reform and before the Financial Accounting Standards Board (FASB) in opposition to its proposed stock options rule. On June 23, The Nasdaq Stock Market and the Center for the Study of the Presidency with the U.S. Chamber of Commerce sponsored the Fourth Annual Business Leaders' Symposium—*Global Market Place: the Presidency and Trade*—in which 10 business and government leaders participated. On April 18, in association with KPMG Peat Marwick, Nasdaq hosted a CEO roundtable—*Growth: Opportunities and Constraints*—in the Mansfield Room of the United States Capitol. Eleven Nasdaq-company CEOs and other senior executives joined six U.S. Senators in discussing access to the public markets, taxation and the deficit, public sector investment and private sector productivity, interest rates, FASB's proposed stock options rule, litigation reform, global competition and global trade, and the relationship between government and business. In September, Nasdaq, again in partnership with KPMG Peat Marwick, sponsored a second CEO roundtable. The subject was Asian-Pacific trade. Four U.S. Senators, senior Administration officials, Ambassadors and Ministers from 10 Asian-Pacific countries, and 12 corporate executives participated in a discussion of U.S. and international trade policy and Administration goals, market development and expansion, and promotion of goods and services.



Domino Entertainment



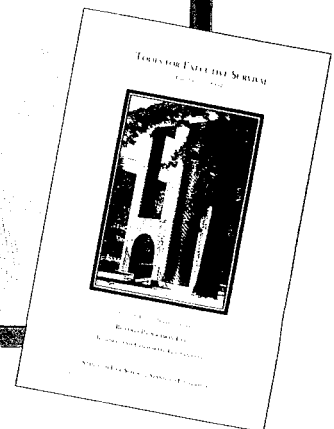
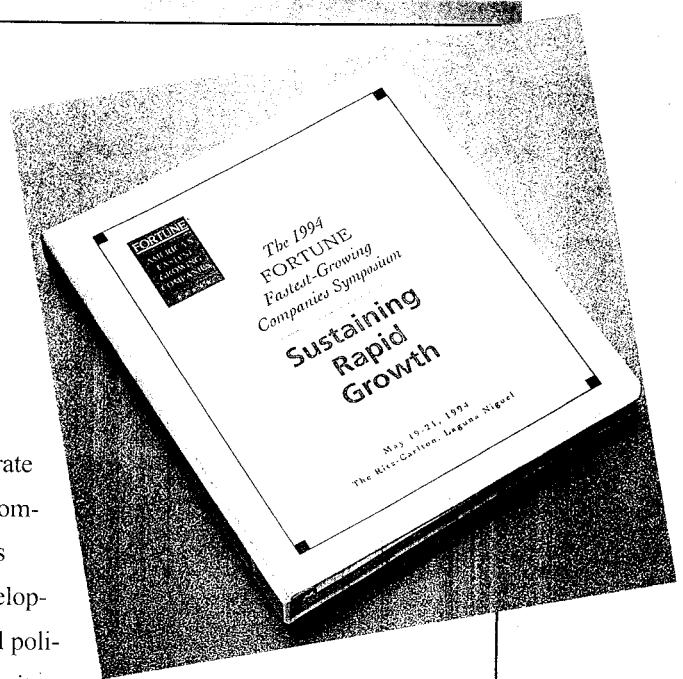


## Issuer Programs

Each year, The Nasdaq Stock Market organizes and sponsors a number of seminars and conferences for top executives of its listed companies. These interactive programs feature the participation of noted academics and industry experts and address issues of significance to today's leading-edge companies. The Harvard University Corporate Directors Roundtable focuses on America's economic agenda. Nasdaq-company CEOs and Directors joined Harvard faculty to discuss new policy developments and make proposals for improving national policy affecting business interests. A Stanford University "Tools for Executive Survival" program brings together Nasdaq-company CEOs in small sessions led by Stanford faculty to discuss current issues and trends affecting capital formation and corporate governance. Nasdaq Executive Conferences for CEOs and financial officers assemble panels of leading experts on capital formation, equity management, and shareholder relations who present overviews of current topics and then direct intensive workshops

and roundtables (left middle). Nasdaq also sponsors "The *Fortune* Fastest-Growing Companies Symposium," whose theme for 1994 was "Sustaining Rapid

Growth." This symposium gave top executives the opportunity to explore the managerial challenges of high growth companies through group presentations and small seminars, all conducted by noted experts.



# Investor Protection

The NASD fulfills its regulatory responsibility through a variety of educational and informational programs and through on-site examination of member firms and centralized, automated surveillance of the markets it operates. The principal objective of these efforts is investor protection. In 1994, the NASD joined the

SEC and 11 self-regulatory organizations (SROs) to launch a public awareness campaign to

help investors better understand the basics of investing. The NASD played a leading role in developing the cornerstone piece of that campaign, a brochure entitled *Invest Wisely: Advice From Your Securities Industry Regulators*.

Joseph R. Hardiman, NASD President and CEO, and Arthur Levitt, Jr., SEC Chairman, explained the principal elements of this campaign at a press briefing held in March (left middle).

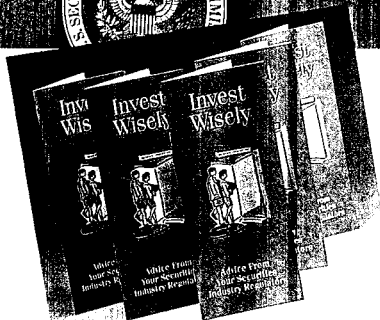
Background data, including disciplinary information, on securities firms and

industry professionals is available to investors through the NASD Public Disclosure Program's toll-free hotline telephone number (800-289-9999). In 1994, NASD agents answered over 86,000 telephone requests for information (right middle).

Investor protection is a joint industry-government effort. In

September, John E. Pinto, NASD Executive

Vice President, Regulation, appeared before the U.S. House Telecommunications and Finance Subcommittee of the Energy and Commerce Committee to discuss recent regulatory initiatives undertaken by the NASD for the benefit of investors.



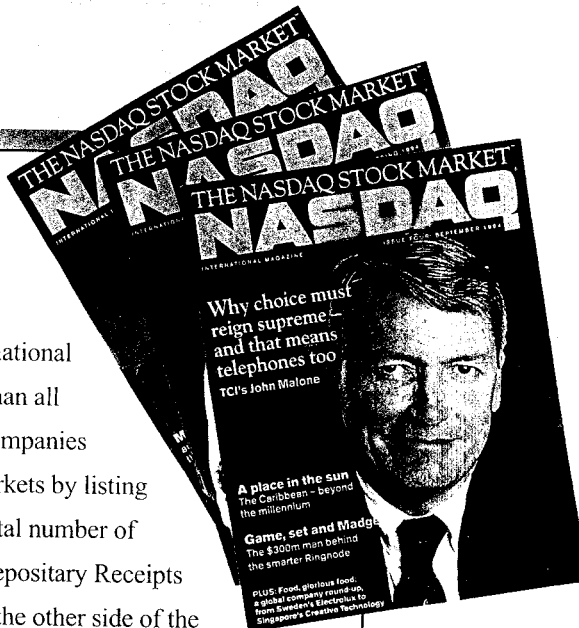
# International Activities

The Nasdaq Stock Market is a major international as well as national securities market. More overseas companies list on Nasdaq than all other U.S. equity markets combined. In 1994, 56 non-U.S. companies

gained access to the U.S. capital markets by listing on Nasdaq, increasing to 350 the total number of foreign securities and American Depositary Receipts listed on Nasdaq at year end. On the other side of the

Atlantic, many of Nasdaq's larger U.S. companies, seeking to broaden their international shareholder base, participated in Nasdaq-sponsored roadshows throughout Europe. Interest in Nasdaq's technology continues to grow worldwide. In 1994, Russia became the most recent country to adopt a Nasdaq-type, screen-based trading system as the foundation for a geographically dispersed securities market. Also, the NASD

participated in discussions to develop a Nasdaq-type, pan-European, small-growth-company securities market. *Nasdaq International Magazine*, published in London and distributed around the world, keeps company executives and investors informed of developments within Nasdaq's international family of companies. Continuing to facilitate cooperation among international regulatory entities, in 1994 the NASD participated in the annual meetings of the International Organization of Securities Commissions (IOSCO), the International Councils of Securities Associations (ICSA), and the Federation of International Bourses Valeurs (FIBV).



## The Moscow Times

### NEWS BRIEFS

#### Russia's First Nasdaq-Style Link Seen Soon

MOSCOW (Reuters) — A Russian equity trading network, modelled on the US Nasdaq system, is set to have its first inter-regional market link between St. Petersburg and Moscow by mid-January, senior banking sources said on Thursday.

Under the project, equity settlement centres have been set up in Moscow and St. Petersburg. Others are planned for Novosibirsk, Yekaterinburg and Vladivostok, they said.

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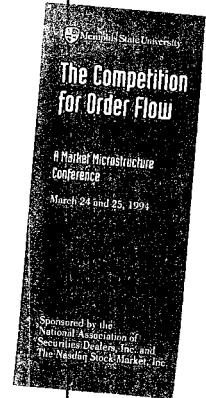
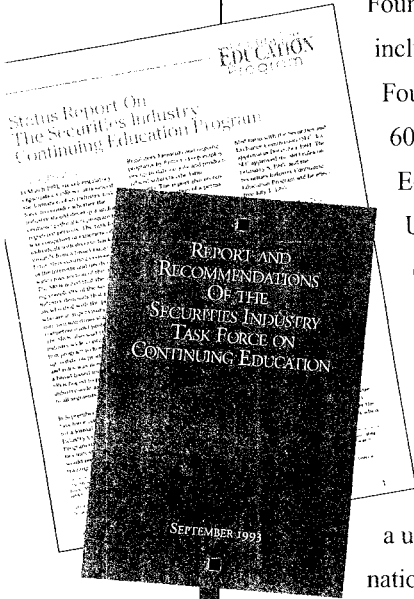
**COMET**  
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**indigo**

# Education



Dedicated to promoting increased understanding of our nation's securities markets and the capital formation process, the newly created Nasdaq Stock Market Educational Foundation, Inc., made inaugural grants in 1994 totalling \$162,000. Recipients included a number of university financial research centers; the Securities Industry Foundation for Economic Education's Stock Market Game, in which over 600,000 students from 49 states participate; the New York City High School for Economics and Finance for a learning incentive program; and Georgetown University for development of an MBA-level course on the process of taking a company public. In March, The Nasdaq Stock Market, Inc., sponsored a Market Microstructure Conference at Memphis State University, featuring investment managers, regulators, and academics. In partnership with other SROs, the NASD took a lead role in developing an industry-wide continuing education program for securities professionals. Those efforts culminated in 1994 with the industry's adoption and the SEC's approval of a uniform set of rules on continuing education. The NASD also sponsors two national Securities Conferences for member firms each year. They are designed to update members on issues affecting the industry and inform them of new regulatory developments. Workshops, a major component of these conferences, cover a broad range of issues and provide a great deal of practical information. Featured speakers at 1994 conferences included then U.S. Treasury Secretary Lloyd Bentsen, SEC Chairman Arthur Levitt, former SEC Commissioner J. Carter Beese, former SEC Chairman Richard C. Breeden, and Paul Steiger, Managing Editor, *The Wall Street Journal*.

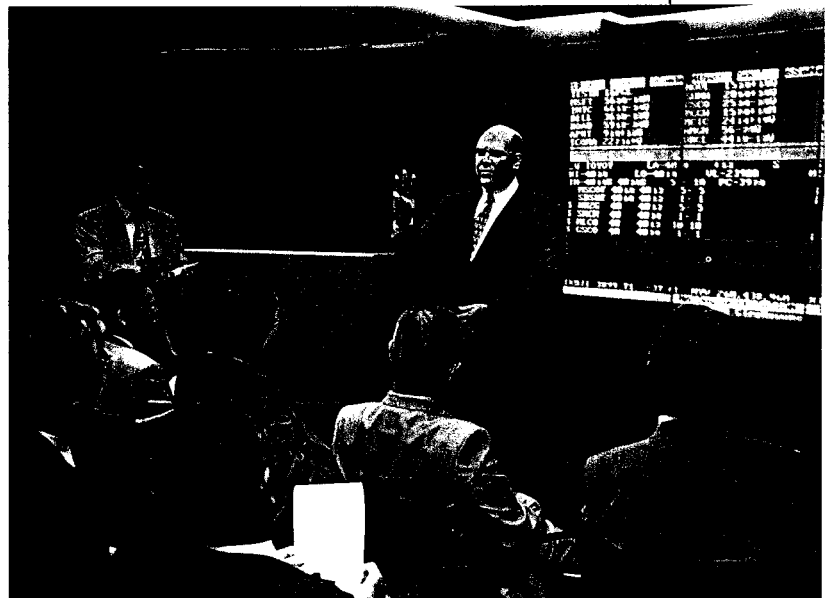
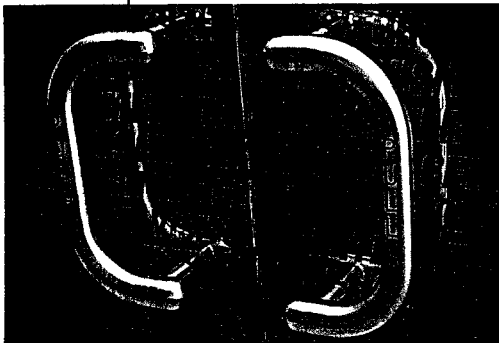


## Visitors Center Program

Each year, the NASD and The Nasdaq Stock Market welcome visitors from throughout the nation and around the world. They include government officials, market regulators and operators, business leaders, investors, faculty and students, company executives, and registered representatives. In 1994, over 1,100 guests from 63 countries, including Russia, Japan,

Thailand, and Poland, visited the NASD headquarters in Washington, D.C. The Visitors Center offers group presentations and features a multi-media video wall that creates dramatic visual displays and effects. This large-screen display unit is also used to show visitors real-time simulations of trading in The Nasdaq Stock Market. In addition to general overviews of the NASD and The Nasdaq Stock Market, Visitors Center presentations cover such topics as the history and organization of the NASD and Nasdaq, the NASD's role as a securities industry self-

regulatory organization, NASD compliance programs and enforcement actions, cooperative enforcement programs involving industry and government, the operation of competitive dealer markets and their role in facilitating capital formation, and the use of advanced technology in the operation and regulation of securities markets. Publications and specialty gifts are also available in the Visitors Center.



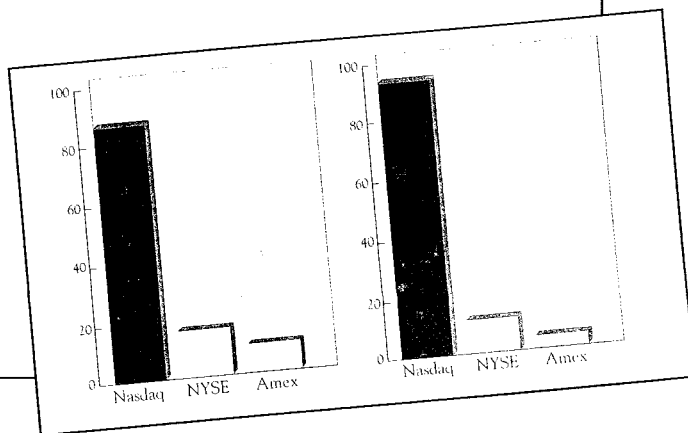
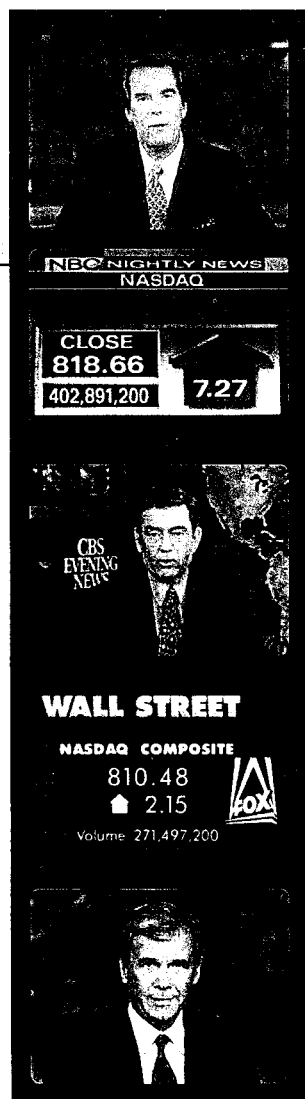
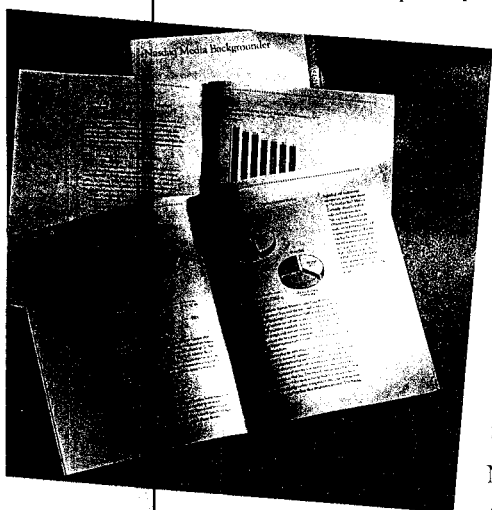
NASD NASD NASD NA

# Media Relations

1994 was a banner year for The Nasdaq Stock Market, as each of the three senior television networks (ABC, CBS, and NBC) joined Fox network major-market stations in carrying a Nasdaq report as part of their evening newscast. On each of the trading days of the year, Peter Jennings, Dan Rather, and Tom Brokaw give millions of viewers the closing value of the Nasdaq Composite Index™ and share volume.

Press interest in NASD and Nasdaq developments and activities is evidenced in other ways as well. In 1994 the NASD handled over 7,000 telephone inquiries from journalists and arranged over 1,000 interviews with NASD and Nasdaq professionals. To promote better understanding of the financial services industry, the NASD, in concert with the Investment Company Institute and the National Press Foundation, co-sponsored the annual

Washington Financial Seminar for new business journalists. As an aid to the growing number of journalists now covering financial markets, the NASD has published the *Nasdaq Media Backgrounder* containing a wealth of information about the history, function, and operation of The Nasdaq Stock Market. Recognition of the type and caliber of companies on Nasdaq also reached new heights in 1994 as *Fortune* included 83 Nasdaq companies in its annual listing of the 100 "Fastest Growing Companies," while *Business Week's* 100 list of "Hot Growth Companies" included 94 that are Nasdaq-listed.



## Community Service

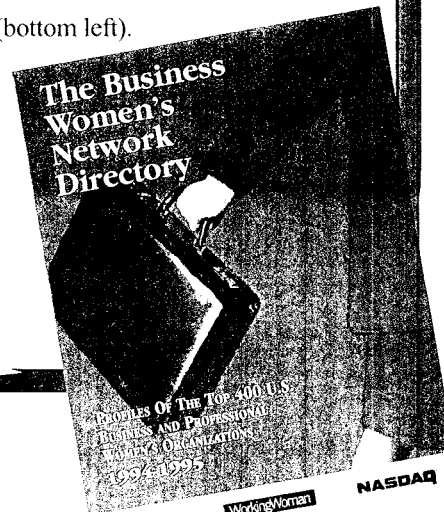
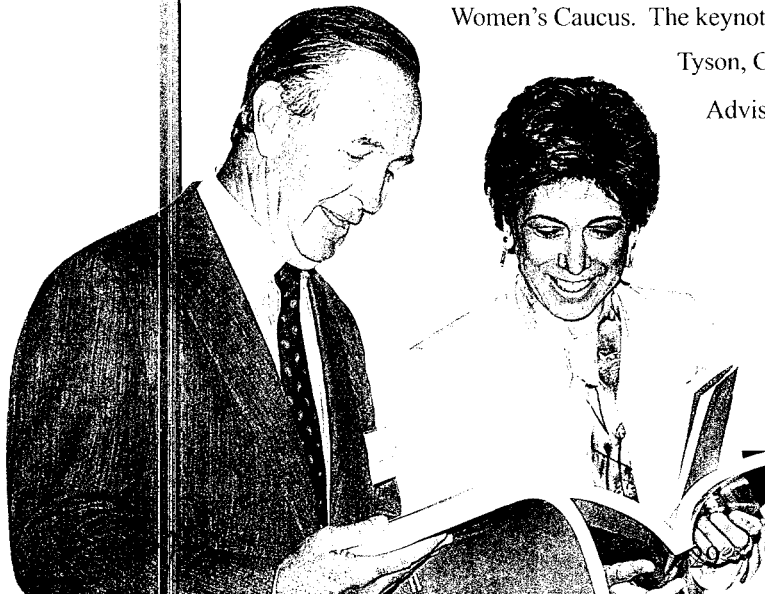
The NASD strives to be a good corporate citizen, and its long-standing record of community service is due largely to the commitment of its employees. In 1994, for its contribution to the United Way during the 1993 campaign, the NASD received the Platinum

Award, the highest award given by the United Way for employee campaigns with a per capita donation of \$100 or more. This generosity of NASD employees to the United Way campaign triggered a companion incentive program sponsored by NASD

senior management that enabled 19 children to attend summer camp in 1994 (top right). In June, The Nasdaq Stock Market jointly sponsored with MCI Communications Corporation and *Working Woman* magazine a first-of-its-kind publication, the *Business Women's Network Directory*, featuring profiles of the top 400 U.S. business and professional women's organizations. At the publication's kick-off luncheon at the U.S. Chamber of Commerce, Joseph R. Hardiman, NASD President and CEO, addressed the gathering of representatives of more than 300 women's business and professional organizations, and members of the Congressional

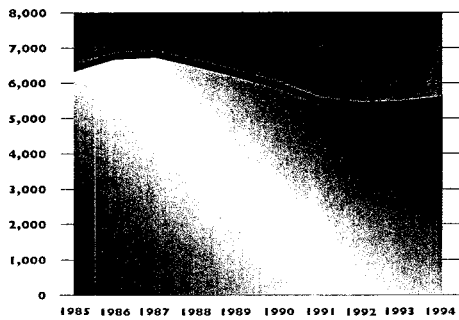
Women's Caucus. The keynote speaker was Laura D'Andrea

Tyson, Chair of the Council of Economic Advisors (bottom left).



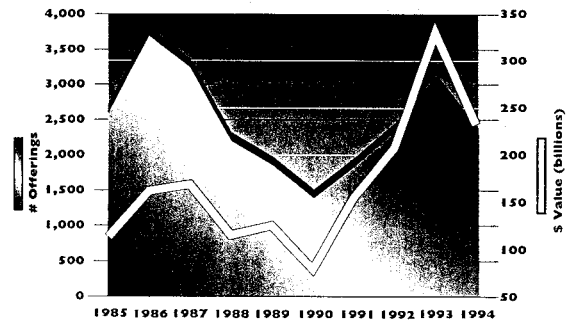
# NASD: Ten-Year Review

## Member Firms

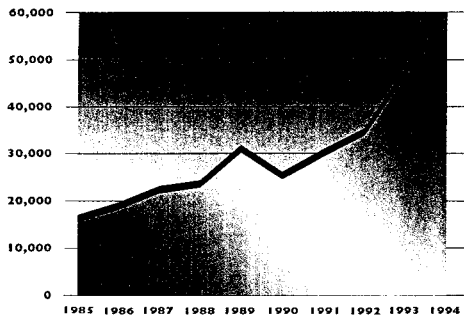


## Corporate Financing

Underwriting Arrangements Reviewed

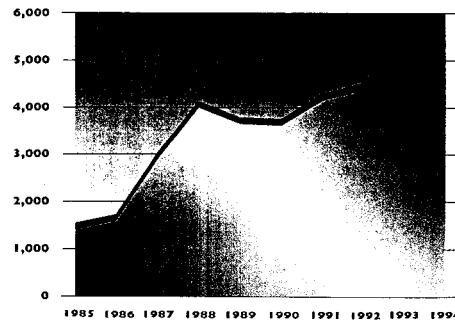


## Branch Offices

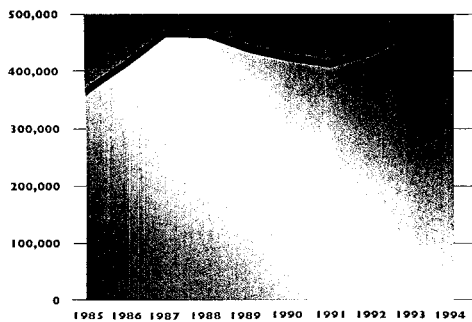


## Arbitration

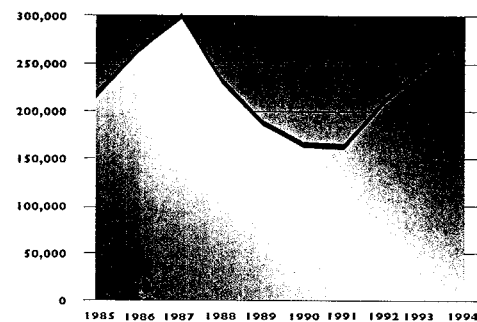
Cases Filed



## Registered Representatives



## Qualification Examinations

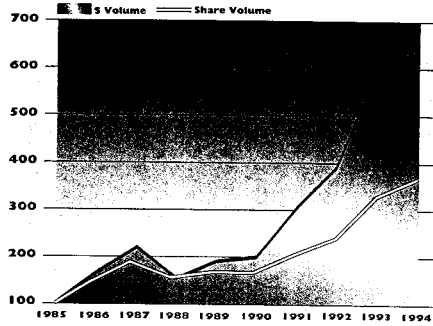




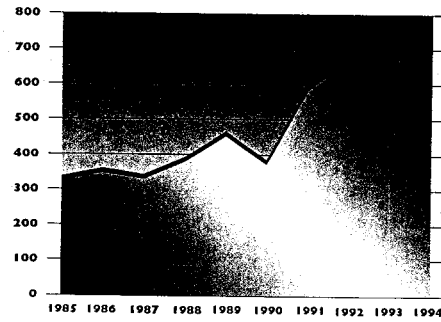
# Nasdaq: Ten-Year Review

## Market Growth

Index: 1985 = 100 percent

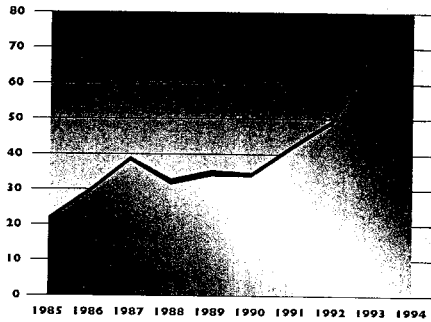


## Nasdaq Composite Index



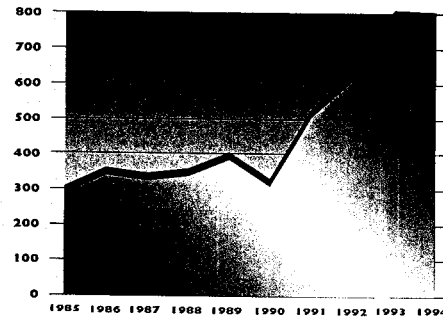
## Share Volume

Billions



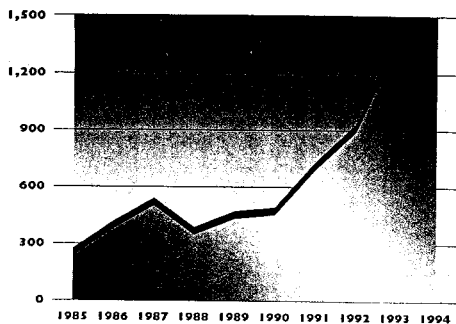
## Market Capitalization

\$ Billion

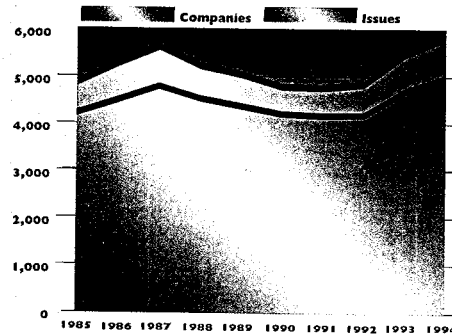


## Dollar Volume

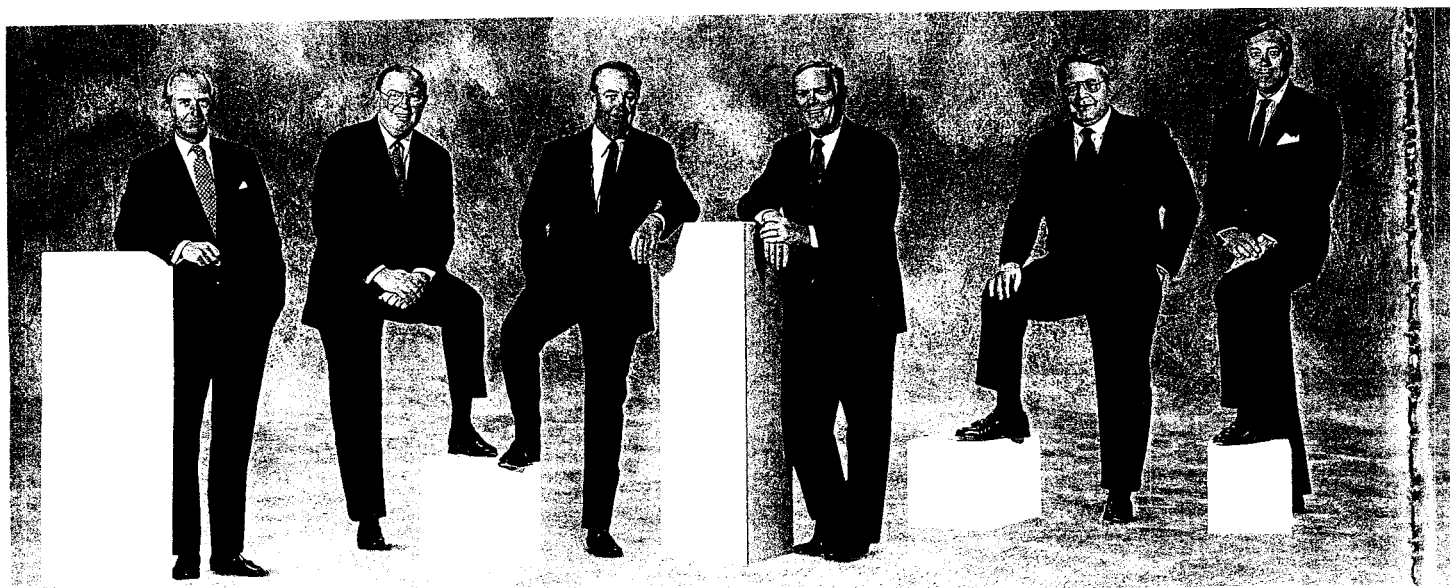
\$ Billion



## Issues



# 1994 NASD Board of Governors



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*Chairman, 1994*

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1994

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John E. Anderson School of Management  
University of California at Los Angeles  
Los Angeles, California

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Transamerica Fund Management Company  
Houston, Texas

**A.A. Sommer, Jr.**  
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Washington, D.C.  
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**Richard G. McDermott, Jr.**  
Chapdelaine & Company  
New York, New York  
*NASD Vice Chairman, 1995*

**Madelon DeVoe Talley**  
Author and Investment Consultant  
New York, New York

**Carl E. Lindros**  
Santa Barbara Securities, Inc.  
Santa Barbara, California

*Not present for photo:*

**Leonard Abramson**  
U.S. Healthcare, Inc.  
Blue Bell, Pennsylvania

**Robert M. Balentine**  
Balentine & Company  
Atlanta, Georgia

**Parks H. Dalton**  
Interstate/Johnson Lane  
Charlotte, North Carolina

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Stephen J. Friedman  
Stephen L. Hammerman  
J. Boyd Page

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Richard Speidel  
John A. Wing

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A.A. Sommer, Jr.\*

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Richard G. McDermott, Jr.\*  
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John E. Schmidt\*

Alfred E. Osborne, Jr.\*  
A.A. Sommer, Jr.\*  
Madelon DeVoe Talley\*  
Norman Frager,  
*Ex officio*

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Richardson\*  
John W. Rogers, Jr.\*  
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C. Richard Kramlich\*  
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Robert H. Mundheim  
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Dr. Jorg K. Fischer  
David FitzWilliam-Lay  
Masaaki Kurokawa  
Gordon Macklin  
John Manser  
Michael Marks  
Toshio Mori

Elio Saouaf  
Christian Strenger  
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R. Brian Williamson  
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Frank J. Wilson

\* Member, NASD Board of Governors

## Standing Committees

### Board Surveillance

Donald A. Buchholz  
Daniel J. Cristofano  
Sheldon M. Fechter  
Norman Frager  
Miles Z. Gordon  
Glenn R. Oxner  
William G. Papesh  
Norman H. Pessin  
Jerry R. Roberts  
Richard C. Romano  
Patrick C. Ryan  
Carl P. Sherr  
James C. Stone, III  
L. Gene Tanner  
John B. Weingart  
Kenneth J. Wessels

### Corporate Financing

Fredric M. Roberts,  
*Chairman*  
Rosemary T. Berkery  
Ronald T. Carman  
Edward S. Croft, III  
Alexandar T. Daignault,  
Jr.  
John A. Ehinger  
James S. Holbrook, Jr.\*  
Stephen A. Koffler  
Sorrell Mathes  
James M. McMullan  
H. Nicolaas Millward  
Donald C. Opatrny  
Ralph L. Pellecchio  
William S. Schreier  
Leopold Swergold  
Bruce Tullo

### Direct Participation Programs

Richard J. DeAgazio,\*  
*Chairman*  
Lawrence A. Cohen  
Philip S. Cottone  
Peter M. Fass  
Bruce S. Fenton  
William F. Greenwood,  
Jr.  
Stephen H. Hamrick  
E. Davisson Hardman, Jr.  
Kye Hellmers  
J. Davenport Mosby  
Linda M. McKenzie  
John S. Simmers  
Robert A. Stanger

### Fixed Income Securities

Mitch Merin, *Chairman*  
David F. DeLucia  
Bo Flanders  
Peter Karches

Robert E. Maina  
David Master  
Richard G. McDermott,  
Jr.\*  
Timothy M. McKenna  
Anthony Petrelli  
John E. Schmidt\*  
Howard Schneider  
J. Richard Sipes  
Zack Snow

### Institutional Investors

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James H. Coxon  
Joan M. DiCapua  
Peter W. Jenkins  
Jack LaPorte  
William J. Lippman  
Michael L. Murphy  
Stephen W. O'Neil  
James B. Otness  
James F. Rothenberg  
Jonathan Simon  
Madelon DeVoe Talley\*

### Insurance Affiliated Member

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*Chairman*  
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John L. Dixon  
Edward E. Hill  
Alice T. Kane\*  
Barbara A. Kelley  
Michael Kerley  
Catherine S. Kopley  
David J. Powell  
Richard M. Reilly  
Christine S. Rizzo  
Robert H. Watts

### International

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*Chairman*  
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Michael Dritz  
Robert N. Gordon  
Leopoldo E. Guzman  
Dennis C. Hensley\*  
Robert Metzler  
H. Nicolaas Millward  
Ira Robins  
Bryant Seaman  
Fenton C. Tom

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*Chairman*  
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Deborah R. Gatzek

Jay L. Lewis  
William G. Papesh  
John W. Rogers, Jr.\*  
William N. Schiebler  
Jack Turner  
Rochelle Lamm Wallach  
Mark H. Williamson

### Issuer Affairs

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*Chairman*  
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Michael Brown  
P. Michael Brumm  
Kenneth Collins  
Mary Ann Cusenza  
Don DeLuca  
Bruce C. Edwards  
Edwin Gillis, Sr.  
Alan Henricks  
Barry Porter  
Bernard W. Schotters  
Barry J. Sharp  
Gerald F. Taylor  
James Tolonen  
John C. Wilcox  
Douglas A. Wilson

### Market Operations Review

Alfred W. Anderson, Jr.  
James Bellini  
Daniel J. Cristofano  
Arthur J. Kearney  
Rob King  
Tony Manzo  
James Miller  
Hedi Reynolds  
Murray H. Sandler  
Richard Sorrentino  
Herman Striefler

### Marketing

Andrew L. Berger,  
*Chairman*  
Dennis Hess  
James W. Jarrett  
John W. (Jack) Lavery  
Richard F. Lynch  
Jeffrey Lyons  
Jerome S. Markowitz  
Austin "Wing" Mayer  
Roger McNamee  
Russell J. Page  
Lynn P. Reitnouer  
Fredric M. Roberts  
John E. Schmidt\*  
William B. Summers  
Mark Sutton

### Membership

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*Chairman*

Mary Alice Brophy\*  
Lewis W. Brothers, Jr.  
Parks H. Dalton\*  
K. Philip Dresdner  
Norman Frager  
Dennis C. Hensley\*  
Erick R. Holt  
Carl E. Lindros\*  
William G. Papesh  
William H. Richardson\*  
Todd A. Robinson  
Thomas J. Tagliamonte  
Richard A. Topp  
John B. Weingart  
Madeline A. Weinstein

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*Chairman*  
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Sheldon M. Fechter  
Peter K. Loeb  
Norman H. Pessin  
John E. Schmidt\*  
Brian Stanley  
William R. Thomas  
Jerry L. Williams

### Nasdaq Listing Qualifications

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*Chairman*  
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Ian B. Davidson\*  
David M. DiPietro  
Glenn R. Oxner  
Thomas K. Reed, Jr.  
Victor R. Wright

### National Arbitration

Francis O. Spalding,  
*Chairman*  
Robina F. Asti  
W. Reece Bader  
Philip S. Cottone  
Alice T. Kane\*  
William S. Lapp  
Joan L. Lavell  
J. Boyd Page  
David J. Powell  
Thomas W. Smith  
Stephen Sneeringer  
Gary L. Tidwell  
James Treadway  
Theodore W. Urban  
Walter C. Wallace

### National Business Conduct

Richard G. McDermott,  
Jr.,\* *Chairman*  
Mary Alice Brophy\*

Bruce C. Hackett\*  
Dennis C. Hensley\*  
James S. Holbrook, Jr.\*  
Alice T. Kane\*  
Carl E. Lindros\*  
William A. Rogers\*  
Raymond E.  
Wooldridge\*

### Operations

Norman Frager,  
*Chairman*  
Jeffrey Bernstein  
John Cirrito  
Peter D'Angelo  
Dennis Donnelly  
Anthony Geraci  
Edward H. Jones  
George J. Minning  
George E. Montes  
Rochelle Pullman  
Vincent M. Purpura  
Michael T. Reddy  
William A. Rogers\*  
Art Thomas  
Kenneth Wagner  
William Winter

### State Liaison

Orestes J. Mihaly,  
*Chairman*  
David J. Barrett  
F. Daniel Bell, III  
Richard J. DeAgazio\*  
F. Lee Liebolt, Jr.  
Jack D. Mackey  
A. Edward Moulin  
William G. Papesh  
Wesley L. Ringo  
Michael Unger  
Martin S. Weber  
Jerry L. Williams  
John R. Wurth

### Trading

James Bellini, *Chairman*  
Andrew Brooks  
Richard Bruno  
Antonio Cecin  
Joseph Della Rosa  
Leonard Hefter  
Paul L. Hennessey  
Mat M. Johnson  
Jerry Logan  
Richard Lynch  
Dennis Marino  
Robert T. Mikkelsen, Jr.  
Robert Moore  
William R. Rothe\*  
Murray H. Sandler  
Thomas Terry

\* Member, NASD Board of Governors



## District Committees

### District 1

Northern California (the counties of Monterey, San Benito, Fresno, and Inyo, and the remainder of the state north or west of such counties), northern Nevada (the counties of Esmeralda and Nye, and the remainder of the state north or west of such counties), and Hawaii; 276 members, 3,950 branches

Neil J. Hennessy,  
Chairman  
Leonard H. Rossen,  
Vice Chairman  
Robert S. Basso  
Kenneth F. Bochat  
Nicholas C. Cochran  
Rupert H. Johnson, Jr.  
John F. Luikart  
George A. Montes  
Thomas J. O'Connell

### District 2

Southern California (that part of the state south or east of the counties of Monterey, San Benito, Fresno, and Inyo, southern Nevada (that part of the state south or east of the counties of Esmeralda and Nye), and the former U.S. Trust Territories; 452 members, 4,705 branches

Barbara A. Kelley,  
Chairman  
Alfred E. Monahan,  
Vice Chairman  
Stephen Y. Ascher  
Donald G. Gloisten  
Jerry M. Gluck  
Richard B. Gunter  
Benjamin F. Hammon  
Clifford P. Huffman  
J. Terry Maxwell  
Joan B. Seidel  
Thomas R. Weinberger  
Kaye M. Woltman

### District 3

Alaska, Arizona, Colorado, Idaho, Montana, New Mexico, Oregon, Utah, Washington, and Wyoming; 337 members, 6,341 branches

Vincent J. Asaro,  
Chairman

James C. Cohig, *Vice Chairman*

James T. Bunch  
Marilyn M. Canale  
Michael Forbes  
Stevens D. Frink  
Oliver W. Hickel  
James P. Kerr  
Robert V. McCullough  
Paul D. Murray  
Richard A. Roysse  
Daren J. Shaw

### District 4

Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota; 277 members, 4,640 branches

Robert H. Gales,  
Chairman  
Thomas J. Davidson,  
Vice Chairman  
John K. Boyd, III  
Robert E. Brady  
Samuel M. Davidson  
Neil T. Douthat  
Eric M. Hender  
Edward J. Hentges  
Kerwin P. Ness  
Barry Pollara  
Edward L. Poth  
Donald E. Walter

### District 5

Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Oklahoma, and Tennessee; 245 members, 3,506 branches

Lester Adron Crews,  
Chairman  
Allen B. Morgan,  
Vice Chairman  
Gerald B. Brenzel  
Robert L. Lanford  
Gary L. Lazarini  
V. Hugo Marx, III  
Colin A.P. McNease  
Michaela Dale Myers  
Tom R. Steele  
Miguel Uria

### District 6

Texas; 340 members, 2,865 branches

Joan L. Lavell,  
Chairman  
William D. Felder, IV,  
Vice Chairman  
Myron H. Bond

Henry H. Clines  
Lewis B. Fisher, Jr.  
Ed Ford  
Ira H. Green  
Paul L. Larkin  
David Standridge

### District 7

Florida, Georgia, North Carolina, South Carolina, Puerto Rico, the Canal Zone, and the Virgin Islands; 436 members, 6,505 branches

W. Dennis Ferguson,  
Chairman  
E. James Wisner,  
Vice Chairman  
James W.C. Daniel  
John W. Davis, III  
Howard Guggenheim  
James C. Hill, Jr.  
Frank D. Inman  
William G. Jahnes  
Robert Harris Kremer  
Roy H. Seay, Jr.  
Herbert Sunshine  
Jose R. (Andy)  
Fernandez

### District 8

Illinois, Indiana, Michigan, Ohio, Wisconsin, and part of upstate New York (the counties of Monroe, Livingston, and Steuben; and the remainder of the state west of such counties); 741 members, 10,510 branches

Myles M. Gordon,  
Chairman  
Timothy P. Henahan,  
Vice Chairman  
Leonard L. Anderson  
Ronald D. Brooks  
Timothy A. Carr  
Levis H. Echlin, III  
Ruth C. Hannenberg  
Wayne F. Holly  
Anthony J. Hyatt  
Geoffrey G. Maclay, Jr.  
Paul E. Murin  
Earl Clifford Oberlin, III  
Ronald R. Rzonca  
David H. Slavik  
George B. Steel, Jr.

### District 9

Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia, and southern New Jersey (the counties of Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean, and Salem); 404 members, 5,585 branches

John P. Hughes,  
Chairman  
H. Rodney Scott,  
Vice Chairman  
Frederick J. Arnold  
Michael D. Botte  
Norman L. Hancock  
John A. Keeley  
Allen B. Lang  
Robert B. Leahy  
Jay W. Lewis  
Louis K. Palmer, Jr.  
Linda D. Simon  
Anthony E. Smith

### District 10

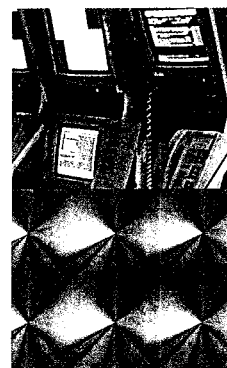
The five boroughs of New York City and the adjacent counties in New York (the counties of Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester) and northern New Jersey (the state of New Jersey, except for the counties of Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean, and Salem); 1,414 members, 4,152 branches

Richard F. Brueckner,  
Chairman  
Richard A. Topp,  
Vice Chairman  
John Angelo  
Howard M. Brenner  
Alan L. Davidson  
Florence A. Davis  
James F. Doolin  
Richard D. Griffiths  
Joyce L. Kramer  
Dennis Marino  
H. Nicolaas Millward  
Edwin F. Payne  
Edward J. Rappa  
Hans L. Reich  
Stephen F. Schwartz  
Herbert Schweitzer  
Robert B. Sculthorpe  
Guy G. Woelk

### District 11

Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, and New York (except for the counties of Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester; the counties of Monroe, Livingston, and Steuben; the remainder of the state west of such counties; and the five boroughs of New York City); 504 members, 4,346 branches

Kristin L. Hunnibell,  
Chairman  
Dana C. Djerf,  
Vice Chairman  
Harold J. Dixon  
James M. Dolan  
Richard C. Fannon  
John A. Goc  
Edward S. Gozonsky  
Arthur F. Grant  
Grant Kurtz  
Thomas M. Lewry  
James F. Twaddell  
Robert H. Watts



# Corporate Officers

## National Association of Securities Dealers, Inc.

**Joseph R. Hardiman**  
President and Chief  
Executive Officer

**Richard G. Ketchum**  
Chief Operating Officer  
and  
Executive Vice  
President  
Corporate Services

**James P. O'Donnell**  
Executive Vice  
President  
Member Services

**John E. Pinto**  
Executive Vice  
President  
Regulation

**James M. Cangiano**  
Senior Vice President  
Market Surveillance

**Gerard F. Foley**  
Senior Vice President  
Member Services

**Douglas Henderson**  
Senior Vice President  
Director, District 10

**Wendell Jones**  
Senior Vice President  
Technology Services

**Douglas F. Parrillo**  
Senior Vice President  
Corporate  
Communications

**James F. Peck**  
Senior Vice President  
Human Resources and  
Service Quality

**Alden S. Adkins**  
Vice President  
Strategic Planning and  
Research

**James R. Allen**  
Vice President and  
Treasurer  
Finance

**Frank Birgfield**  
Vice President  
Director, District 3

**William D. Bone**  
Vice President  
Technology Services

**Warren Butler**  
Vice President  
Director, District 5

**T. Grant Callery**  
Vice President and  
Chief Legal Officer

**Thomas R. Cassella**  
Vice President  
Compliance

**Seth Chamberlain**  
Vice President  
Software Engineering

**Frank J. Formica**  
Vice President  
Congressional and  
State Liaison

**R. Clark Hooper**  
Vice President  
Advertising/Investment  
Companies

**Samuel E. Laughery**  
Vice President  
Production Services

**Deborah Masucci**  
Vice President  
Arbitration

**Frank J. McAuliffe**  
Vice President  
Membership

**David T. Miller**  
Vice President  
Technology Services

**John P. Nocella**  
Vice President  
Director, District 9

**Willis H. Riccio**  
Vice President  
Director, District 11

**Jack Rosenfield**  
Vice President  
Director, District 4

**J. Jack Samarias**  
Vice President  
Information Systems

**William R. Schief**  
Vice President  
Enforcement/Regional  
Attorneys

**Catherine Tighe**  
Vice President  
Administrative Services

**Beth E. Weimer**  
Vice President  
Internal Review/EEO

**Joan C. Conley**  
Corporate Secretary

## The Nasdaq Stock Market, Inc.

**Joseph R. Hardiman**  
President and Chief  
Executive Officer

**Richard G. Ketchum**  
Executive Vice  
President  
Corporate Services

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

**Charles Balfour**  
Managing Director  
International Services

**Andrew M. Blum**  
Managing Director  
Member Firms and  
Institutional  
Relations

**S. William Broka**  
Senior Vice President  
Trading and Market  
Services

**Alberto C. Casanova**  
Senior Vice President  
Planning and Analysis

**John M. Hickey**  
Senior Vice President  
Technology Services

**L. Brian Holland**  
Senior Vice President  
Issuer Services

**Douglas F. Parrillo**  
Senior Vice President  
Corporate  
Communications

**Robert N. Riess**  
Managing Director  
Nasdaq International  
Market Initiatives

**Glen R. Shipway**  
Senior Vice President  
Trading Services

**Robert E. Aber**  
Vice President,  
General Counsel  
and Secretary

**James R. Allen**  
Vice President and  
Treasurer  
Finance

**Thomas L. Apple**  
Vice President  
Issuer Services

**Richard H. Bayha**  
Vice President  
Market Access  
Software  
Development

**Donald H. Bosis**  
Vice President  
Issuer Services

**Glenn C. Faulkner**  
Vice President  
Issuer Services

**Virginia T. Glenn**  
Vice President  
Issuer Services

**Stephen D. Hickman**  
Vice President  
Trading and Market  
Services

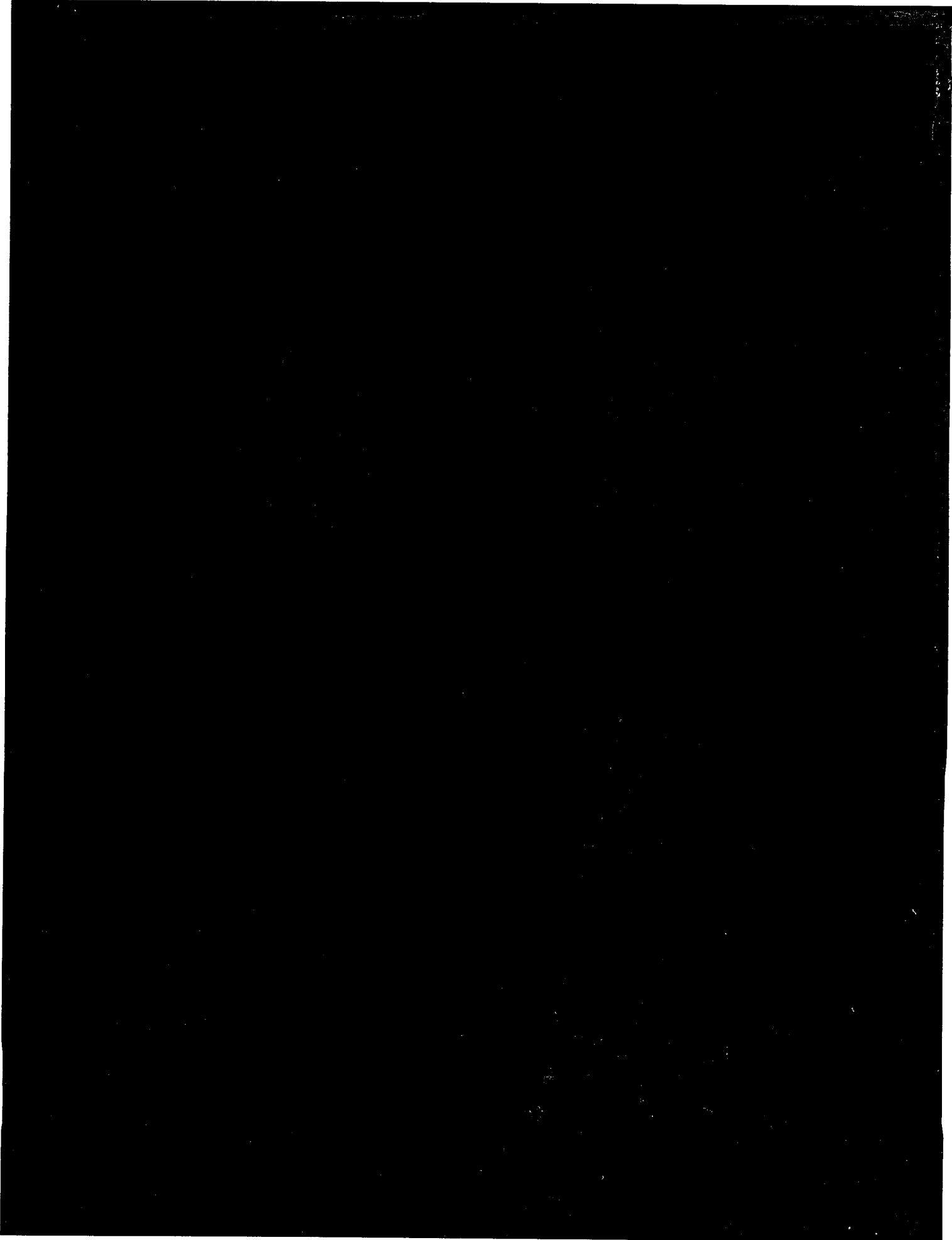
**Hilary Reilly**  
Vice President  
Data Administration

**S. Brian Wilson**  
Vice President  
Issuer Services

**William Wlcek**  
Vice President  
Computer Operations

*Corporate officers as of  
March 17, 1995*







# 1994 Consolidated Financial Statements

## Management Report on Financial Operations

Record revenues of \$372 million in 1994 increased 12 percent from 1993's \$332 million. The \$40 million revenue gain was attributed to a number of revenue sources benefiting from the record activity in terms of share and dollar volume of The Nasdaq Stock Market (Nasdaq) in 1994. These included market data fees, listing fees, and charges for use of execution and comparison system facilities. Overall growth in assessable securities industry revenue in 1993 (basis for 1994 NASD revenue) of 29 percent, acceleration in registration and qualification activities, and results of the first full year of the fidelity bonding reinsurance program, also contributed to the higher revenues. The favorable results led to a decision by the Board of Governors to increase the gross income assessment discount at year-end from the previously billed rate of 62 percent to 69 percent, thereby saving members \$7 million.

Over one-half or \$21.4 million of the total revenue growth arose from market information and transaction service fees. This growth was fueled by a 12 percent increase to a record 265,500 in professional retail, dealer, and institutional Nasdaq market information users and additional revenues from delivery of enhanced market data. Nasdaq's record trading volume of 74.4 billion shares, a 12 percent increase over 1993, also spurred equity comparison system activity. Revenues from Nasdaq issuers rose \$8.6 million as a record number of companies and issues traded on Nasdaq in 1994. Also, fees from additional share offerings climbed as a result of a strong year for secondary public offerings and a full year's impact of these fees initiated in 1993. On the regulatory side, member assessments grew \$6.7 million, despite a higher discount rate, as a result of the strong revenue performance of the industry in 1993 (basis for 1994 assessments). These higher revenues served to offset a decline of \$7.3 million or 32 percent in fees from reviews of underwriting arrangements. In part due to the rising interest rate environment, the dollar volume of public equity and debt offerings fell nearly 30 percent from the record year in 1993 to \$233 billion. Member services activities were buffeted by a continued upward trend in registration and examination fees, which jumped \$5.4 million. Registration, transfer and related registration query activities enlarged as securities industry registered representatives reached a record level of 486,000, and qualification examinations rose five percent to over 271,000. Finally, 1994 revenues reflect \$4.6 million from the new captive insurance subsidiary, Securities Dealers Insurance Company, Ltd. (SDIC), formed to reinsure the members' fidelity bond program.

Expenses in 1994 increased by 24 percent or \$66 million over 1993, driven by cost growth in expanded media advertising, increased effort related to the systems technology migration, staff growth, and other new initiatives. A major network television ad campaign was undertaken in 1994, featuring prominent Nasdaq companies, in an effort to further broaden Nasdaq's market recognition and trust as viewed by investors. 1994 was the most pivotal year to date for the technology migration program, designed to establish a technical architecture and system development environment to

improve the responsiveness and flexibility of our market and corporate systems. Spending on this program built up to \$29 million from \$20 million in 1993. During 1994 the development of the new Nasdaq Workstation II and construction of the enterprise-wide network infrastructure were completed, and installation of the new network and workstation, which involves significantly expanded capacity, was begun. Secondly, the current quotation system was successfully converted to the Unisys 2200 host platform, sharply increasing central computing capacity and providing the foundation for implementing the new quotation system. Third, considerable progress was established in the business system and technical design and development of the Integrated Quotation Management System, scheduled for production in 1996. Finally, business area analyses were completed for the Integrated Registration and Testing Service (to replace the current Central Registration Depository), and the Issuer Support Services and Centralized FOCUS projects. Non-migration staff compensation and benefits advanced \$9.7 million, or 8 percent as non-technology employee levels edged up over 5 percent, and pay and related benefit increases contributed to the cost increase. The substantial portion of the staff additions were concentrated in the Regulation and Market Services business lines. Other added expenses from new initiatives included contributions of \$5.75 million to the recently established Nasdaq Stock Market Educational Foundation, Inc., and \$3.75 million in loss reserves and fronting fees and commissions related to the first full year of operation of SDIC.

Consolidated income for NASD and its wholly-owned subsidiaries of \$31.1 million in 1994, before provision for income taxes, was \$26.1 million or 46 percent lower than 1993, a record year. Net income of \$21.1 million was likewise down by \$27.5 million.

Working capital and the non-current portion of investments (at cost), of \$194.4 million fell \$16 million from the end of 1993, driven by heavy capital spending of nearly \$63 million, of which one-half was in support of the technology migration. The level of these reserve funds should ensure that adequate capital is available to fulfill NASD's mission.

## Management Report on Financial Reporting Responsibility

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

The NASD maintains an effective system of internal accounting controls that is periodically modified and improved to correspond with changes in NASD's operations. This system of internal controls is designed to provide assurance that the assets of the NASD are safeguarded against loss from unauthorized use or disposition and that the books and records, from which the consolidated financial statements were prepared, properly reflect the financial transactions of NASD. Important elements of the internal control system include capital and operating budgets, which are subjected to continuous review throughout the year; an organizational structure providing segregation of responsibilities; established policies and procedures; careful selection and training of qualified personnel; and a program of periodic internal audits developed and carried out by NASD's independent auditors. It is management's opinion that the system of internal control as of December 31, 1994, is effective in providing reasonable assurance that the consolidated financial statements are free of material misstatement.

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

NASD's independent auditors, Ernst & Young LLP, have conducted an audit in accordance with generally accepted auditing standards of the consolidated financial statements of NASD for the years ended December 31, 1994 and 1993. Representatives of Ernst & Young LLP have met with NASD management and with members of the Audit Committee of the Board of Governors with and without management present, to discuss the results of their audits and other accounting, auditing, and financial matters.

# Report of Independent Auditors

Board of Governors  
National Association of Securities Dealers, Inc.

We have audited the accompanying consolidated balance sheets of the National Association of Securities Dealers, Inc. and subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income and members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the National Association of Securities Dealers, Inc. and subsidiaries at December 31, 1994 and 1993, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, effective January 1, 1993, the National Association of Securities Dealers, Inc. and subsidiaries changed their method of accounting for income taxes.

*Ernst & Young LLP*

February 22, 1995

# Audited Consolidated Financial Statements

## National Association of Securities Dealers, Inc. Consolidated Balance Sheets

	December 31	
	1994	1993
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 14,177	\$ 20,191
Investments—current	43,158	47,018
Receivables and other current assets	44,829	25,732
Total current assets	<u>102,164</u>	<u>92,941</u>
Investments—non-current	202,914	203,386
Property and equipment:		
Land, buildings and improvements	46,695	36,327
Data processing, subscriber equipment and software	124,947	97,940
Furniture, equipment and leasehold improvements	63,068	47,723
	<u>234,710</u>	<u>181,990</u>
Less accumulated depreciation and amortization	(121,064)	(105,572)
	<u>113,646</u>	<u>76,418</u>
Other assets	4,051	6,118
	<u>\$422,775</u>	<u>\$378,863</u>
<b>Liabilities and Members' Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 59,263	\$ 44,337
Deposits, refunds due, and deferred revenue	51,407	41,615
Total current liabilities	<u>110,670</u>	<u>85,952</u>
Accrued pension costs	14,768	12,255
Other liabilities	7,595	12,045
Total liabilities	<u>133,033</u>	<u>110,252</u>
Members' equity	289,742	268,611
	<u>\$422,775</u>	<u>\$378,863</u>

See accompanying notes.

National Association of Securities Dealers, Inc.

## Consolidated Statements of Income and Members' Equity

	Year ended December 31	
	1994	1993
	<i>(In Thousands)</i>	
<b>Revenue</b>		
Market information and transaction service fees	\$ 135,082	\$ 113,694
Nasdaq issuer fees	79,219	70,591
Registration and examination fees	45,761	40,400
Member assessments	44,152	37,453
Interest and other	25,988	19,714
Regulatory service fees and fines	18,406	19,697
Corporate finance fees	15,787	23,121
Arbitration fees	7,592	7,456
Total Revenue	<u>371,987</u>	<u>332,126</u>
<b>Expenses</b>		
Compensation	132,444	122,695
Professional and outside services	67,142	40,237
Computer operations and data communications	31,355	30,177
Depreciation and amortization	20,380	18,614
Occupancy	19,840	16,834
Travel, meetings and training	16,121	12,539
Other	13,598	4,416
Publications, supplies and postage	10,996	9,576
	<u>311,876</u>	<u>255,088</u>
Systems Technology Migration expenses	29,053	19,926
Total Expenses	<u>340,929</u>	<u>275,014</u>
Income before provision for income taxes	31,058	57,112
Provision for income taxes	9,927	8,517
<b>Net income</b>	21,131	48,595
Members' equity at beginning of year	<u>268,611</u>	<u>220,016</u>
<b>Members' equity at end of year</b>	<u>\$ 289,742</u>	<u>\$ 268,611</u>

See accompanying notes.

National Association of Securities Dealers, Inc.

## Consolidated Statements of Cash Flows

	Year ended December 31	
	1994	1993
	<i>(In Thousands)</i>	
<b>Net income</b>	<b>\$ 21,131</b>	<b>\$ 48,595</b>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,681	19,461
Increase in receivables	(19,097)	(4,902)
Decrease (increase) in other assets	2,067	(3,753)
Increase in accounts payable and accrued expenses	14,926	16,006
Increase in deposits and deferred revenue	9,792	15,711
(Decrease) increase in accrued pension and other liabilities	(1,937)	2,636
<b>Net cash provided by operating activities</b>	<b>49,563</b>	<b>93,754</b>
<b>Investing activities</b>		
Proceeds from redemptions of investments	68,571	33,769
Purchases of investments	(64,239)	(90,008)
Purchases of property and equipment, net	(59,909)	(28,760)
<b>Net cash used in investing activities</b>	<b>(55,577)</b>	<b>(84,999)</b>
(Decrease) increase in cash and cash equivalents	(6,014)	8,755
Cash and cash equivalents at beginning of year	20,191	11,436
<b>Cash and cash equivalents at end of year</b>	<b>\$ 14,177</b>	<b>\$ 20,191</b>

See accompanying notes.

National Association of Securities Dealers, Inc.

# Notes to Consolidated Financial Statements

December 31, 1994 and 1993

## 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, including The Nasdaq Stock Market, Inc. (Nasdaq), Nasdaq International, Ltd. (Nasdaq International), and Securities Dealers Insurance Company Ltd. (SDIC) after elimination of all significant intercompany transactions.

NASD is a membership association established to regulate the Nasdaq and the over-the-counter securities markets. Nasdaq owns and operates the domestic and international electronic Nasdaq quote information system and provides national market facilities to assist NASD in carrying out its regulatory responsibilities and for the benefit of NASD members and investors in their pursuit of efficient execution of securities transactions. Nasdaq International promotes the Nasdaq market worldwide and coordinates regulatory matters within the European community. SDIC is a captive insurance company established to reinsure risks associated with the member fidelity bond program.

As an association established to regulate the Nasdaq and the over-the-counter securities markets, NASD's receivables are concentrated with firms in the broker/dealer industry.

### Merger of Subsidiaries

Effective July 1, 1993, Nasdaq, Inc., formerly a tax-exempt organization, was merged with and into NASD Market Services, Inc., and renamed The Nasdaq Stock Market, Inc.

### Cash and Cash Equivalents

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

### Investments Held-to-Maturity

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity in accordance with the investment policy of the NASD to hold securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premium and accretion of discounts to maturity.

### 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

Significant purchased application software, and operational software that is an integral part of computer hardware, are capitalized and amortized on the straight-line method over their estimated useful lives. All other software development costs are charged to expense as incurred.

### Income Taxes

NASD is a tax-exempt organization under the Internal Revenue Code Section 501(c)(6). The subsidiaries of NASD are taxable entities. The provision for income taxes includes amounts currently payable and amounts deferred to or from other years as a result of differences in the timing of income or expenses for financial reporting and tax purposes.

### Reclassifications

Certain 1993 amounts have been reclassified to conform with the 1994 presentation.

## 2. Investments

In May 1993 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The NASD adopted the provisions of the new standard for investments held as of or acquired after January 1, 1994.

Investments are made in U.S. Treasury securities and obligations of U.S. Government-sponsored enterprises and are classified as held-to-maturity in accordance with the investment policy of the NASD.

The amortized cost and estimated fair value of debt securities at December 31, by contractual maturity, are shown below (in thousands):

	1994		1993	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Due in one year or less	\$ 43,158	\$ 43,121	\$ 47,018	\$ 47,810
Due after one year through five years	202,914	194,263	203,386	210,433
	<u>\$246,072</u>	<u>\$237,384</u>	<u>\$250,404</u>	<u>\$258,243</u>



The gross unrealized gains and (losses) of the investments at December 31, 1994, were \$113,000 and (\$8,801,000), respectively. The gross unrealized gain and (losses) at December 31, 1993, were \$7,895,000 and (\$56,000), respectively.

### 3. Leases

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. Rent expense for operating leases was \$10,646,000 in 1994 and \$8,952,000 in 1993. Future minimum lease payments under non-cancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 1994:

	<b>Operating Leases</b>
	<i>(In Thousands)</i>
Year ending December 31:	
1995	\$ 10,012
1996	8,994
1997	7,906
1998	7,221
1999	6,769
Remaining years	<u>21,132</u>
	<u>\$ 62,034</u>

### 4. Income Taxes

Effective January 1, 1993, NASD adopted Statement of Financial Accounting Standards No. 109 (SFAS 109) "Accounting for Income Taxes." The impact of adopting SFAS 109 was immaterial to the consolidated results of operations.

The income tax provision includes the following amounts for the year ended December 31:

	1994	1993
	<i>(In Thousands)</i>	
Current liability:		
Federal income taxes	\$ 8,505	\$ 8,920
State income taxes	<u>2,981</u>	<u>3,202</u>
Total current liability	<u>11,486</u>	12,122
Deferred benefit:		
Federal income taxes	(1,420)	(2,704)
State income taxes	<u>(139)</u>	<u>(901)</u>
Total deferred benefit	<u>(1,559)</u>	(3,605)
Total provision	<u>\$ 9,927</u>	<u>\$ 8,517</u>
Income taxes paid during the year	<u>\$ 15,901</u>	<u>\$ 12,802</u>

The effective tax rates for the taxable entities were 36 percent and 42 percent for 1994 and 1993, respectively.

Components of the net deferred asset consisted of the following as of December 31:

	1994	1993
	<i>(In Thousands)</i>	
Deferred tax assets:		
Network installation	\$ 3,669	\$ 2,960
Deferred entry fees	820	411
Compensation and benefits	1,652	787
Other	<u>745</u>	<u>110</u>
Total deferred tax assets	<u>6,886</u>	4,268
Deferred tax liability:		
Depreciation	<u>1,699</u>	640
Net deferred tax asset	<u>\$ 5,187</u>	<u>\$ 3,628</u>

Management does not believe a valuation allowance is required at December 31, 1994 or 1993.

### 5. Retirement Benefits

NASD maintains a noncontributory, defined-benefit pension plan, along with other arrangements, for the benefit of eligible employees. The benefits are primarily based on years of service and the employee's average salary during the highest 60 consecutive months of employment.

NASD's funding policy is to contribute annually the minimum requirement under ERISA, subject to the full funding limitation imposed by the Internal Revenue Service. Contributions of \$4,333,000 and \$4,911,000 were required for 1994 and 1993, respectively.

The following table sets forth the plan's net pension cost for the years ended December 31:

	1994	1993
	<i>(In Thousands)</i>	
Service cost	\$ 5,297	\$ 4,528
Interest cost	4,341	3,816
Actual return on plan assets	1,223	(2,285)
Net asset loss during the year deferred for later recognition	(3,939)	(379)
Net pension cost	<u>\$ 6,922</u>	<u>\$ 5,680</u>

The following table sets forth the plan's funded status and amounts recognized in the financial statements as of December 31:

	1994	1993
	<i>(In Thousands)</i>	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$26,833 in 1994 and \$24,040 in 1993	<u>\$31,829</u>	<u>\$30,143</u>
Projected benefit obligation	\$57,558	\$56,464
Less plan assets at fair value, principally common stocks, U.S. Government and agency bonds	<u>37,130</u> <u>20,428</u>	<u>31,696</u> <u>24,768</u>
Unrecognized net asset	2,606	2,739
Unrecognized net (loss)	(3,717)	(5,889)
Prior service cost	(3,841)	(4,871)
Accrued pension cost	15,476	16,747
Less current portion	<u>708</u>	<u>4,492</u>
Long-term accrued pension cost	<u>\$14,768</u>	<u>\$12,255</u>

The weighted-average discount rate and rate of increase in future salary levels used in determining the actuarial present value of the projected benefit obligation were 8.75 percent and 6 percent, respectively, at December 31, 1994, and 7.75 percent and 6 percent, respectively, at December 31, 1993. The expected long-term rate of return on plan assets was 9 percent for 1994 and 10 percent for 1993. The unrecognized net asset is being recognized over 20 years, the average remaining service period of employees expected to receive benefits under the plan.

NASD also maintains a savings plan for employees. Eligibility for the savings plan is based upon length of service. Participation in the savings plan is voluntary. NASD makes a matching contribution of one-half of the first 6 percent of salaries contributed by covered employees. Savings plan expense for the years 1994 and 1993 was \$3,522,000 and \$3,772,000, respectively. The expense included a discretionary match authorized by the Board of Governors totaling \$1,387,000 for 1994 and \$1,860,000 for 1993. The 1994 discretionary match was paid in full on January 31, 1995.

## 6. Systems Technology Migration

NASD has initiated a multi-year technology migration program to establish a technical architecture and system development environment aimed at materially improving the responsiveness, flexibility, and integration of its market and corporate systems for the ultimate benefit of users. In 1994, the NASD installed the new hardware platforms for the market systems at both the primary and backup sites and began the roll-out of the new enterprise wide network in conjunction with the first release of the new Nasdaq workstation service, NWII<sup>SM</sup>. The NASD also installed a new hardware platform and database management system for its corporate systems and implemented certain corporate system applications. In 1994, NASD incurred and expensed \$29,053,000 for this program compared to \$19,926,000 in 1993. The primary expenses incurred under the program relate to compensation, professional and outside services, and depreciation and amortization. Capital purchases for this program totaled \$31,400,000 for 1994 and \$9,200,000 for 1993.

## 7. Commitments and Contingencies

There are certain legal proceedings pending against NASD and its subsidiaries. Management believes, based upon the opinion of counsel, that any liabilities arising from these proceedings will not have a material effect on the operations of NASD and its subsidiaries.

In 1993, NASD entered into an agreement with a major telecommunications company to provide the Nasdaq network communication links to the broker/dealer industry. This contract has a minimum guarantee of \$30,000,000 to be incurred by July 1997. As of December 31, 1994, \$1,741,000 has been incurred against this commitment.

The Company had purchase commitments at December 31, 1994 of approximately \$5,200,000 for computer equipment purchases and software licensing charges.

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