

Shaping the new world of investing

NASD 100

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NASD[®]

Parent of The Nasdaq Stock Market

Origin

The National Association of Securities Dealers, Inc. (NASD[®]) was organized under the 1938 Maloney Act amendments to the Securities Exchange Act of 1934 by the securities industry in cooperation with the U.S. Congress and the U.S. Securities and Exchange Commission (SEC). Securities industry representatives—recognizing the need for, and actively seeking the responsibilities of, self-regulation—worked with the SEC to obtain this legislative authority.

Putting into practice the principle of cooperative regulation, the Maloney Act authorized the SEC to register voluntary national associations of broker/dealers for the purpose of regulating themselves under SEC oversight. The NASD is the only securities industry association to have been established under the Maloney Act amendments. Presently, all securities firms in the United States that transact business with the public are required by law to be a member of the NASD.

The NASD's founding mandate was to standardize the securities industry's principles and practices, to promote high standards of commercial honor, to advance just and equitable principles of trade for the protection of investors, to adopt and enforce rules of fair practice, and to foster observance by its members of federal and state securities laws.

The NASD, taking direction from the SEC in 1963, has also adopted, as another tenet of its self-regulatory mandate, the promotion of capital formation by developing, operating, and regulating fair and efficient screen-based securities markets. The Nasdaq Stock MarketSM (Nasdaq[®]) was founded in 1971 to fulfill this mandate.

Profile

The NASD is the largest securities-industry self-regulatory organization in the United States. It operates The Nasdaq Stock Market—the world's largest screen-based stock market and the second largest securities market in dollar value of trading—and other screen-based markets. The NASD also oversees the activities of the U.S. broker/dealer profession and regulates Nasdaq and the over-the-counter securities markets through the largest self-regulatory program in the country.

The NASD consists of a parent corporation that sets the overall strategic direction and policy agendas of the entire organization and ensures that the organization's statutory and self-regulatory obligations are fulfilled. Through a subsidiary, The Nasdaq Stock Market, Inc., the NASD develops and operates a variety of marketplace systems and services and formulates market policies and listing criteria. Through another subsidiary, NASD Regulation, Inc. (NASD RegulationSM), the NASD carries out its regulatory functions, including on-site examinations of member firms, continuous automated surveillance of markets operated by the Nasdaq subsidiary, and disciplinary actions against broker/dealers and their professionals.

Cover: Nasdaq's new Trumbull, Connecticut, Data Center commands an advanced securities trading computer network sending market information to terminals in 52 countries worldwide.

Opposite: Data mining and advanced graphic visualization provide powerful new technology tools for NASD market regulators.

→
**1997 Nasdaq-listed
 companies. Black
 denotes new listings.**

3D SPREAD VISUALIZATION

Our Mission is to facilitate capital formation by creating the market of choice — operated and regulated to achieve the most liquid, cost-efficient, technologically advanced, and fair securities market in the world for the benefit and protection of investors.

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National Association of Securities Dealers, Inc.

Member firms	5,597
Member branch offices	62,966
Registered representatives	556,024

The Nasdaq Stock Market, Inc.

Annual share volume	163.9 billion
Annual dollar volume	\$4.5 trillion
Average daily share volume	647.8 million
Average daily dollar volume	\$17.7 billion
Market capitalization	\$1.83 trillion
Companies listed	5,487
Issues listed	6,208
Market Makers	530
Foreign securities and American Depository Receipts (ADRs)	500 (Issues)
International share volume (foreigns and ADRs)	9.4 billion
International dollar volume (foreigns and ADRs)	\$191.9 billion
Number of initial public offerings	497
Value of initial public offerings	\$19.6 billion
Number of secondary public offerings	357
Value of secondary public offerings	\$19.9 billion

Nasdaq Index	Year-end Close	Percent Change
Composite	1570.35	21.6%
Industrials	1221.03	10.0%
Computers	618.66	19.3%
Bank	2083.22	63.6%
Insurance	1797.95	22.7%
Finance	2503.68	57.0%
Transportation	1064.77	17.3%
Telecommunications	306.60	42.0%
Biotech	303.10	-0.1%
Nasdaq-100	990.80	20.6%
Financial-100	2039.86	56.7%
NNM* Composite	710.36	22.4%
NNM* Industrials	505.38	11.7%

*Nasdaq National Market

NASD Regulation, Inc.

Compliance

Routine and cause examinations conducted	13,745
Terminations for cause received	4,483
Terminations for cause completed	4,454
Other cause examinations completed	1,315
Customer complaints received	5,448
Customer complaints completed	5,662

Disciplinary Actions

New disciplinary actions filed	1,032
Formal actions resolved	1,235
Firms expelled from membership	9
Individual registrations revoked	111
Individuals barred from the industry	428
Firms suspended from membership	4
Individuals suspended	236

Automated Market Surveillance

Formal investigations conducted	375
Cases referred to the SEC (insider trading)	138

Advertising

Items reviewed from filings, spot checks, and investigations	61,810
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Corporate Financing

Underwriting arrangements reviewed	2,251
Public offerings reviewed (\$ billions)	\$354.8

Arbitration

Cases filed	5,997
Cases closed	5,880
Disputes resolved between parties without arbitration	4,024
Industry cases arbitrated	359
Customer cases arbitrated	1,497
Cases decided in favor of customers	875

Mediation

Cases brought	868
Cases closed	865
Cases settled	683

Qualifications

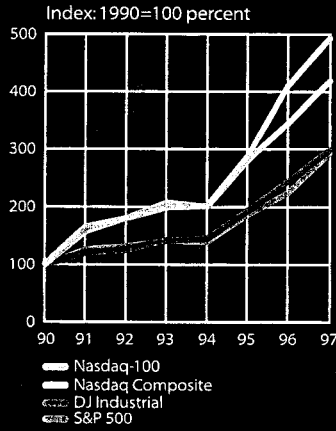
Registered representative and principal tests administered	282,353
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Continuing Education

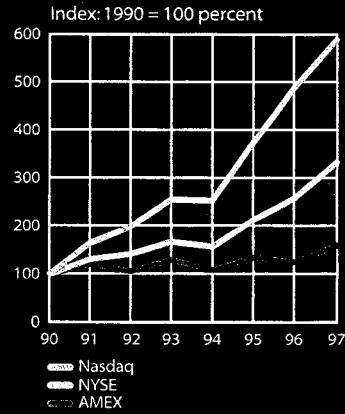
Training sessions delivered	114,000
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Industry Comparisons

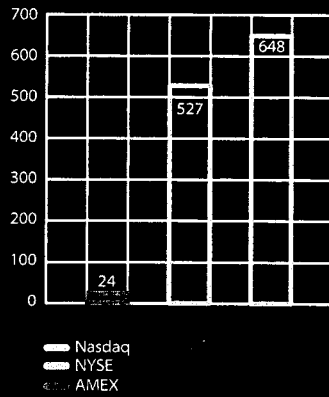
Price Performance



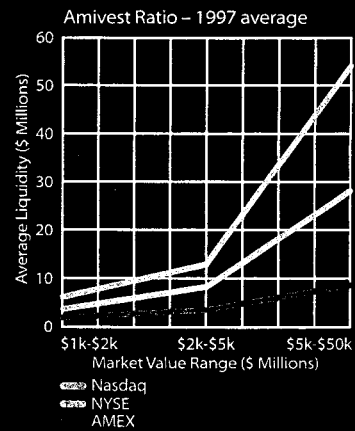
Growth in Market Values



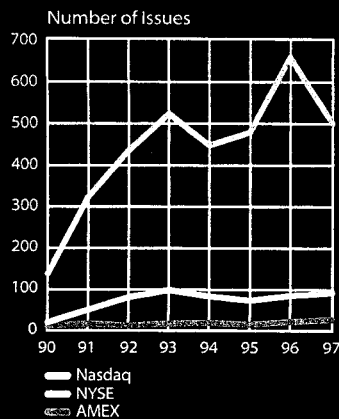
Average Daily Share Volume (in Millions)



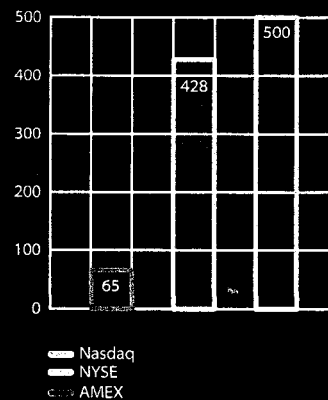
Liquidity



Initial Public Offerings



Foreign Issues



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Letter From the Chairman

For the NASD, 1997 was a very strong year. We successfully implemented the new order handling rules; upgraded our network and trading technologies; processed a record 1.4 billion shares on Nasdaq last October 28th, equating to 1,200 messages and nearly 60,000 shares a second; enhanced our regulatory and enforcement capability; streamlined our corporate governance structure to expedite decision-making; launched two Web-based services—*Nasdaq Online* and *nasdaqtrader.com*; created MarketSite in New York—a physical and visual presentation of our market; and proposed enhancements to our trading system—a streamlined order routing and execution system and voluntary, consolidated limit order file.



Frank G. Zarb, Chairman and Chief Executive Officer

Year-End Financial Summary

1997 results show record revenues in excess of \$630 million; over \$100 million or 21% ahead of the previous year. Net income was \$36 million.

Robust finances were largely fueled by sharp growth in Nasdaq trading volume (up 19% to an average of 648 million shares per day). Results were also driven by rapidly escalating use of Nasdaq's order routing, execution and comparison systems. Revenues from these systems and fees from sales of market information amounted to \$268 million; over \$76 million or 40% higher than the prior year. The population of professional retail, institutional, trader, and non-professional Nasdaq subscribers

rose over 24% to a record 415,000 devices.

On the regulatory side, assessments based on members' business volumes grew by \$16 million to \$81 million or 25%, providing needed funding for regulatory initiatives aimed at responding to SEC requirements and other emerging regulatory issues.

Additionally, the Board passed a series of pricing changes applicable to our dispute resolution service, the largest alternative dispute resolution service in the United States, to provide needed resources for the growing demand for its use.

Management also directed its attention to the organization's cost structure. "Reinvesting For Our Future" was launched, which, to date, has identified cost savings of \$38 million or 6.5% of budget. Savings will fund higher priority initiatives and operations in 1998 and future years.

The NASD began 1998 with nearly \$180 million in working capital and approximately \$400 million in members' equity. The level of working capital remains solid despite 1997 peak year capital expenditures of more than \$120 million largely for major expansion of the Nasdaq Data Center and market system capacity upgrades.

Market Strengths

Our overriding market goal is putting investors first, providing them with the most complete information, best services and most efficient execution—at the lowest possible cost.

In 1997, we improved the way we provide information to market participants and investors by enhancing the Nasdaq Web site, and introducing two new ones. *Nasdaq Online* offers issuers timely market information, and *nasdaqtrader.com* links market participants with trading data, services and news about The Nasdaq Stock Market.

Our market was put to the supreme test on October 27th and 28th last year, and passed with flying colors. Due to the commitment of our Market Makers and our efforts to increase the capacity of our systems, Nasdaq opened trading in all its 5,500 listed companies on time at

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9:30 a.m. It broadcast continuous, real-time price quotes, without interruption or delay, for all its listed companies from opening to close. *Nasdaq.com* received more than 20 million hits on October 28th, and provided the public with continuous and accurate market news.

Nasdaq Market Makers did their job superbly, stepping up to provide investors with continuous liquidity. On October 27th, they provided \$495 million to purchase stock for which it was not clear there would be any buyers the next morning.

Last November, we signed an agreement with MCI to upgrade Nasdaq's communications network to handle a four-billion share day by the year 2000—more than doubling its capacity over the next two years. The network will be scalable to 8 billion shares a day.

Nasdaq, in "shaping the new world of investing," plans a streamlined, integrated order routing and execution system—which will replace the Small Order Execution SystemSM (SOESSM) that automatically executes the trades of the individual investor and SelectNetSM, the automated trade negotiating system for Market Makers—as well as a voluntary, consolidated limit order file. This initiative is designed to increase market quality, allowing individual investors to compete equally with other market participants for price improvement while reducing cost. This proposal awaits SEC approval.

Regulatory and Enforcement Developments

In 1997, major efforts were made to enhance NASD's leadership as the premier self-regulatory organization in the world, particularly in the area of regulatory technology. Our regulatory programs made considerable headway. NASD Regulation conducted 13,745 examinations, both routine and for cause, and filed 1,032 new disciplinary actions.

District Office staffs successfully assumed an extremely ambitious examination schedule. Regulatory staff worked tirelessly on a number of initiatives to continue to ensure the integrity of our securities markets, including regulations designed to prevent abusive cold calling; requirements to reduce potential investor confusion in the sale of securities on bank premises; a proposed pilot program for the presentation of bond fund volatility ratings in supplemental sales literature; rules concerning the presentation of certain related performance information in mutual fund sales material; and requirements governing the payment of noncash and cash compensation.

Self-regulation also means helping member firms and their professionals understand and comply with securities laws and regulations. So, NASD Regulation enhanced its Web site, *nasdr.com*, among other resources, to make sure we communicate with our members, registered representatives and investors quickly and easily. In addition, the NASD expanded the Continuing Education program and began preventive compliance seminars.

During 1997, NASD Regulation continued enhancing technologically its Public Disclosure Program. Investors were not only able to request broker background information on-line through *nasdr.com*, they were also able to obtain the requested information through e-mail. Eventually in 1998, investors will be able to view this data on-line.

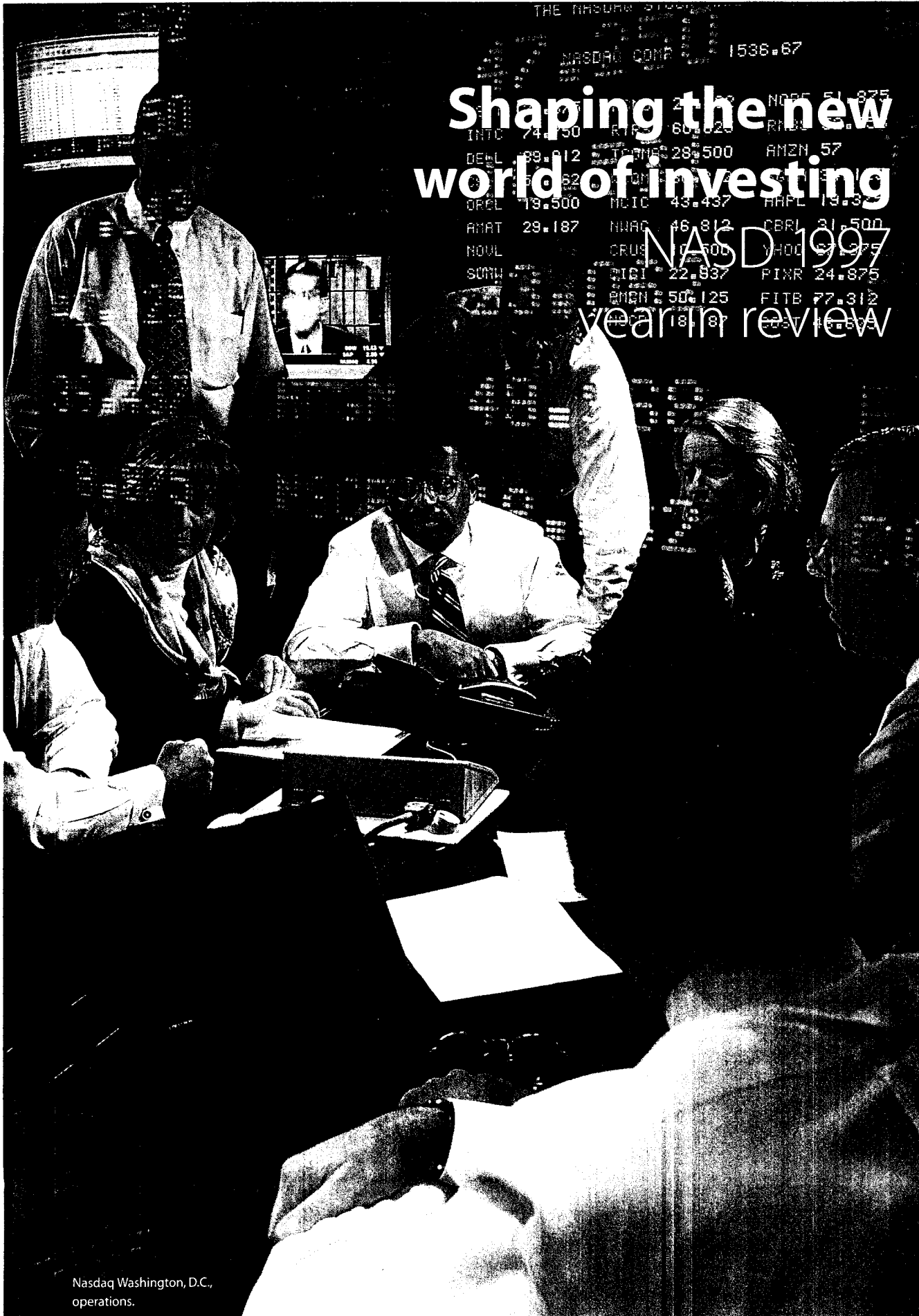
1998 Objectives

For 1998 the NASD and subsidiaries have set an ambitious agenda.

First, we recognize that significant market forces are demanding that we reshape our business and respond to changes in the world around us. Every segment of our industry is demanding improvements from the present market structure and the process of "stock exchanging." They expect us to continue fulfilling our capital formation function and constructing the next generation of markets, with the capacity to provide instant price discovery, immediate execution and liquidity in an orderly and fair environment. This must be accomplished in a well-regulated and low-cost environment.

To respond to these changing forces we are evaluating the different approaches to services being demanded by the marketplace.

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Shaping the new world of investing

NASDAQ 1997 year in review

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Nasdaq Washington, D.C., operations.

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Securities industry expert and NASD President Richard G. Ketchum oversees development of Nasdaq-related legal, regulatory and market policies as well as globalization of the securities markets.

Chinese Ambassador Zhou Wenzhong was among over 1,100 representatives from 87 countries who visited the NASD in 1997.



Microsoft	136 1/2	100 - 1 1/2	4,835,100
Intel	96 1/2	5,000 + 1/2	8,452,000
Dell	78 1/2	500 + 1/2	6,791,100
Apple	22 1/2	200 - 1/2	7,344,200

Nasdaq traded nearly 1.4 billion shares on October 28, more than any other market ever, surpassing the previous record held by Nasdaq of 971 million shares on October 9. In 1997, volume surpassed the 1996 record of 877 million shares on six occasions.

The Nasdaq Composite is up almost 320% since 1990, compared with 200% for the Dow Jones Industrial Average and 194% for the S&P 500.

Nasdaq's share volume surpassed that of the NYSE 250 out of 253 trading days—99 percent of all trading days.



Nasdaq's dollar volume has grown 891% and market capitalization 490% since 1990, faster than any other major U.S. market.

and ing stock market



Charles Balfour, Managing Director, Nasdaq International, Michael W. Brown, Chairman of The Nasdaq Stock Market, Inc., John T. Wall, President, Nasdaq International Ltd., and Patrick Sutch, Director, Asia/Pacific Business Development, Nasdaq International, in Hong Kong to discuss capital-raising features of Nasdaq.

Federal Reserve Chairman Alan Greenspan was among key government officials who met with Nasdaq-listed company executives at the Nasdaq CEO Roundtable on June 24 in Washington, D.C.

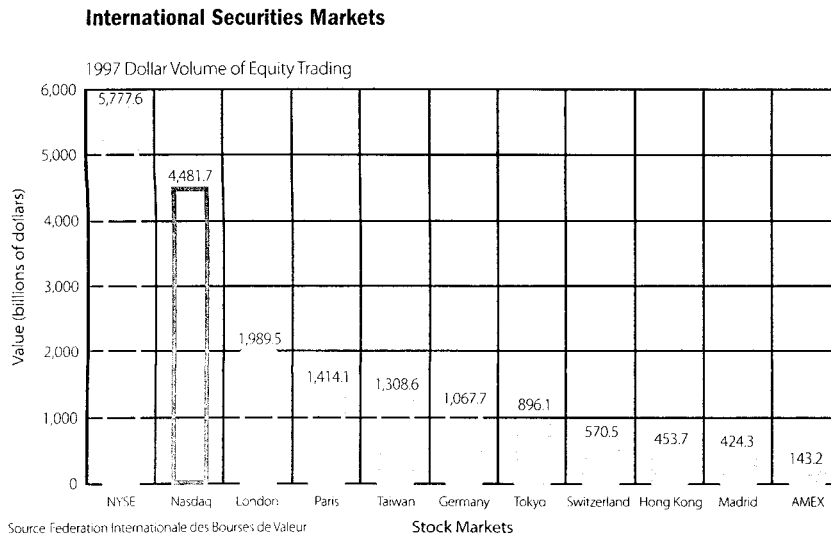
Nasdaq dollar volume was \$4.48 trillion in 1997, equal to the combined dollar volume of the London, Paris, and Tokyo stock exchanges.



Nasdaq was present in Moscow for talks on the advantages of a Nasdaq listing and the greater liquidity provided by screen-based, multiple market maker trading.



For the third year in a row, Nasdaq was the most active stock market in the United States, trading 164 billion shares in 1997. Nasdaq averaged 648 million shares per day.



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Over the past three fiscal years, Starbucks Corporation's market capitalization has risen over 300% to over \$3 billion.

In the Business Week list of "Hot Growth Companies" (May 26, 1997), 92 out of 100 were listed on Nasdaq.

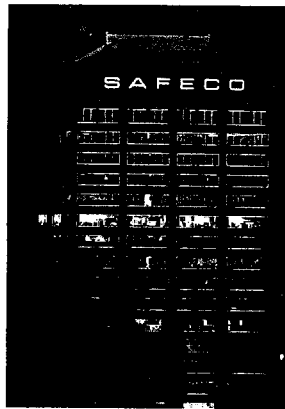


WorldCom, Inc. signed a definitive merger agreement with MCI Communications Corp. in 1997 in the largest merger in U.S. history. Following the merger, expected to close in mid 1998, WorldCom will be one of the world's leading providers of telecommunications services. Its market capitalization has grown by over 1,046% over the past three years to \$27 billion.

L. M. Ericsson Telephone Company, a leading provider of advanced systems, products, and services for handling voice, data, image, and text in public and private wired and mobile communications networks, saw its market capitalization grow 173% over the past three years to \$10.5 billion.



More international companies list their shares or ADRs on Nasdaq than on all other U.S. stock markets combined.

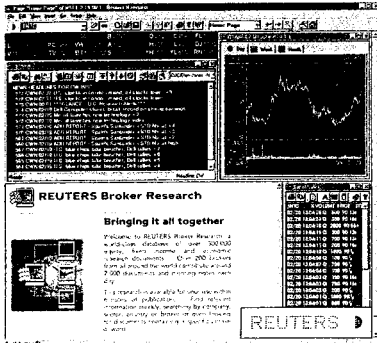


SAFECO Corporation, whose market capitalization has grown by 110% in the last three years to \$6.9 billion, completed the acquisition of American States Insurance in 1997.

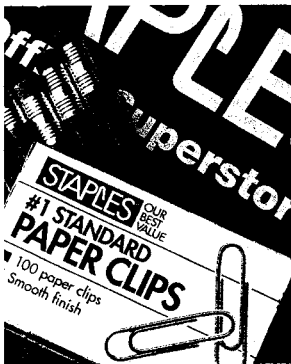
More companies have chosen Nasdaq as their market than all other U.S. markets combined.

The ma growth compan

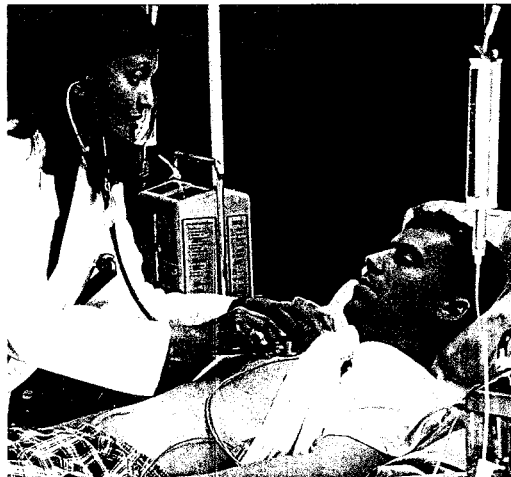
Reuters Holdings PLC, the world's leading news and financial information company — feeding over 400,000 computer terminals in 163 countries — experienced a 219% growth in market capitalization over the last 10 years to \$4.14 billion.



Nasdaq is currently enjoying a loyalty rate of over 98% among its companies.



Staples, Inc., a leading office supply discounter, has seen its market capitalization grow by 193% in the last three years to \$4.5 billion.



Costco Companies, Inc., which operates over 280 warehouse clubs worldwide, has seen its market capitalization grow by 239% in the last three years to \$9.5 billion.

Quintiles Transnational Corp. provides full-service contract research, sales, marketing and healthcare policy consulting and health information management services to the worldwide pharmaceutical, biotechnology, medical device and healthcare industries.

The Nasdaq-100 Index[®], tracking Nasdaq's leading companies, has risen 394% from 1990 through 1997, making it the fastest growing index in the U.S. equity markets.

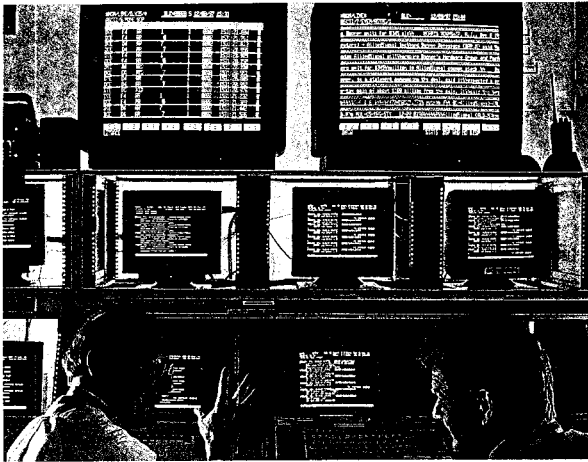


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Superior market driving largest screen-

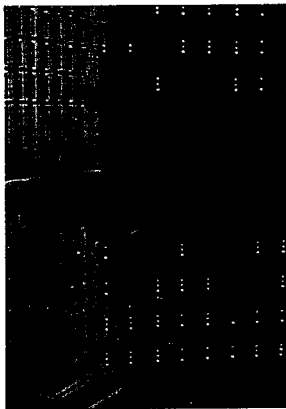


Nasdaq's systems have provided a 99.9% rate of availability to the trading community.

Bert C. Roberts, Jr., Chairman, **MCI Communications Corporation** and Frank G. Zarb, NASD Chairman and Chief Executive Officer, on November 20 announced development of a new Nasdaq network. It will create the world's fastest trading system and one of the world's largest, most sophisticated custom intranets.



Nasdaq's screen-based trading technology is emulated around the world. According to the Federation Internationale des Bourses de Valeurs, Paris, of the 45 developed stock markets in the world today, only three still rely exclusively on a trading floor. The rest either are entirely screen-based (28) or employ screen-based trading to supplement transactions done on a trading floor (14).

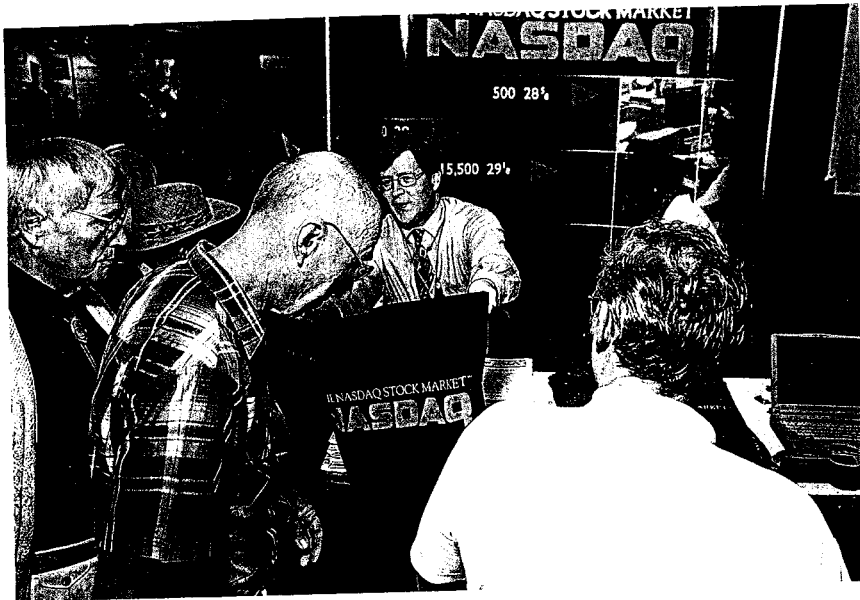


Nasdaq will increase its current trading capacity from 1.5 billion shares per day to more than 4 billion shares by the year 2000, scalable to 8 billion.

At 2:05 p.m. on October 28, Nasdaq became *the first* U.S. stock market ever to trade one billion shares in one day. At its peak that day, it handled 1,200 messages and traded 58,540 shares per second.

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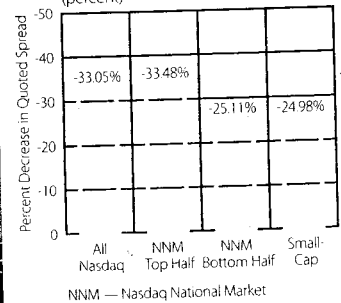


At investor fairs sponsored throughout the United States, Nasdaq officials brief investors on various beneficial market reforms. NASD's investor Web site — www.investor.nasdaq.com — provides additional investment training and services.

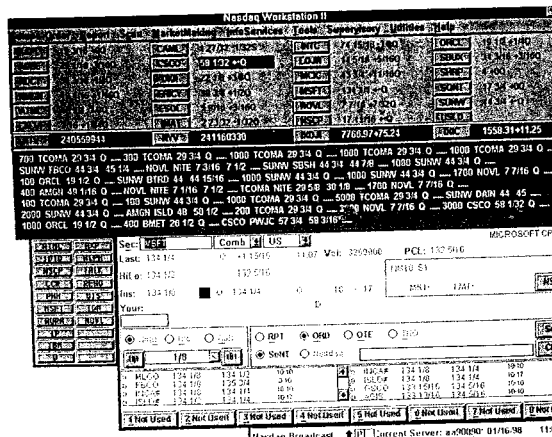
Nasdaq's implementation of the new order handling rules has saved investors an estimated \$500 million during 1997.

In 1997, all 6,200+ Nasdaq listed securities began trading under the new order handling rules and were quoted in sixteenths, narrowing quoted spreads by 30%—bringing enhanced price efficiency to Nasdaq.

Percentage Decrease in Nasdaq Quoted Spreads January 1997 – November 1997 By Market Type and Market Value Ranking (percent)

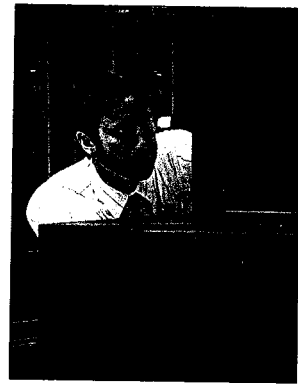


Nasdaq Workstation II, one of the world's most sophisticated screen-based securities trading platforms, displays the quotes of the multiple Market Makers for Nasdaq stocks. On average, each Nasdaq-100® stock has over 32 Market Makers that compete through price for investor orders.



the fairest price where

Under market volume pressures of October 28, Nasdaq maintained continuous, accurate price quotes and market news from opening to close.



Nasdaq has never opened late due to an order imbalance.

For investors, market quality means the best possible price at the greatest possible liquidity. Nasdaq's recently proposed improvement toward this end is an integrated order delivery and execution system and a voluntary limit order file, enabling all investors to compete for price improvement.

On October 28, comparing the 20 most actively traded common stocks of companies listed on each of the major U.S. markets, the 15 narrowest spreads were in Nasdaq securities.

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The NASD regulates over 11 times as many securities firms as any U.S. stock exchange.



In 1997, the NASD filed 1,032 new disciplinary actions.

Mary Alice Brophy, NASD Regulation Executive Vice President, Member Regulation, and Daniel Sibears, Vice President, District Oversight, provide guidance on compliance to almost 800 securities-firm representatives at NASD Regulation's Fall Securities Conference.

NASD Regulation market surveillance conducted 375 formal investigations and referred 138 insider trading cases to the SEC, using advanced technology tools to detect irregular patterns in trading activity.



Presently, every broker/dealer operating in the United States that conducts a securities business with the public is required by law to be a member of the NASD. The NASD has regulatory responsibility for all of them.

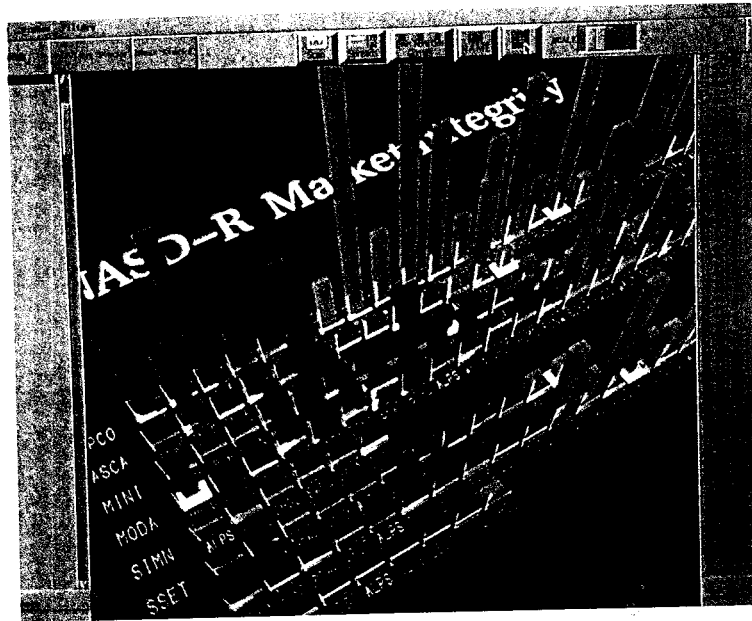


regulation securities industry

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The most technolo advanced reg



NetWatch, NASD Regulation's new automated Internet surveillance system, will search Web sites for evidence of securities fraud, analyzing text 2,000 times faster and more accurately than a person.

NASD Regulation's Advanced Detection System (ADS)—using a combination of statistical, artificial intelligence, and visualization techniques to detect and evaluate patterns in trading data—processes about 800,000 quote updates and a similar number of trades every day.



The Central Registration Depository (CRD), operated by NASD Regulation, contains the registration records and disciplinary histories of over 550,000 registered securities professionals. This information will be available to investors via the Internet in 1998.

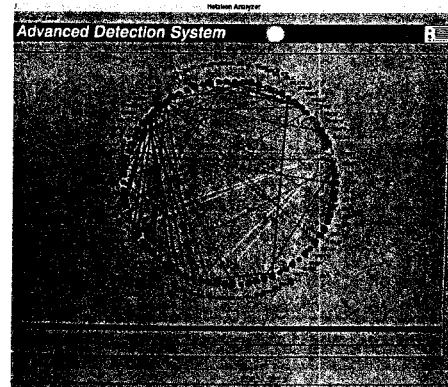
NASD Regulation is developing a system that monitors the processing of customer securities orders from the moment the broker is contacted to the moment the transaction is executed and reported—the Order Audit Trail System (OATS), which will begin operating in 1998.

gically ulatory systems

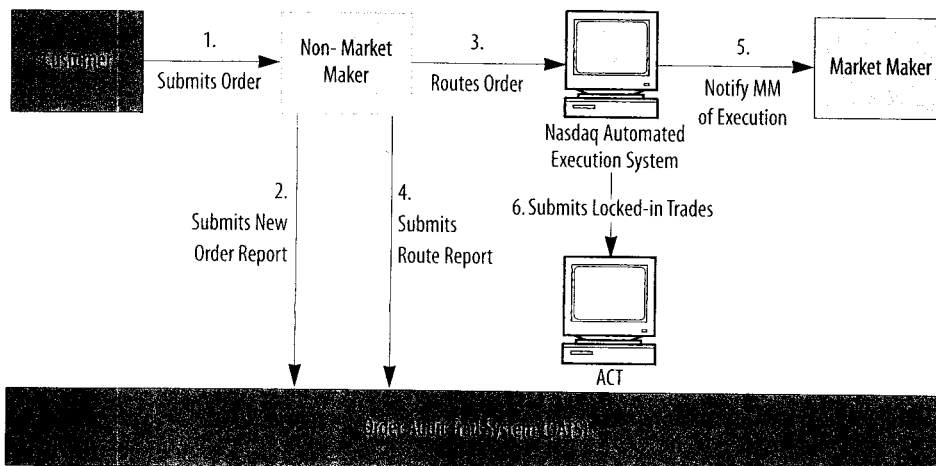
NASD Regulation employs the most sophisticated data mining techniques to surveil stock trading—the Advanced Detection System (ADS) uses the cutting-edge Knowledge Discovery in Databases (KDD) technology.

In a half year of operation, NASD Regulation's Advanced Detection System (ADS) instituted over 200 regulatory reviews.

NASD Regulation's Research and Data Analysis Repository™ (RADAR™) system received an award from the Computerworld Smithsonian Awards Program, and the system's descriptive materials were made part of the Smithsonian Institution's Permanent Research Collection. RADAR provides market analysts immediate access to market data and other related information, dramatically increasing the speed and flexibility with which large quantities of data are processed and analyzed.



OATS Order Tracking Process

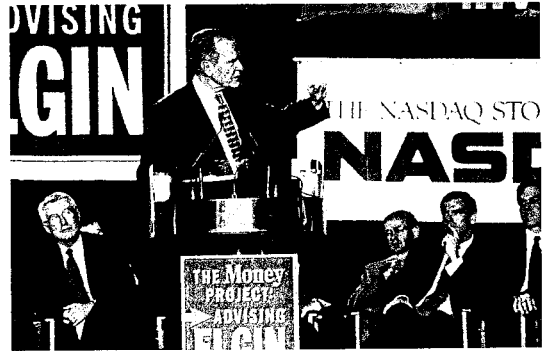


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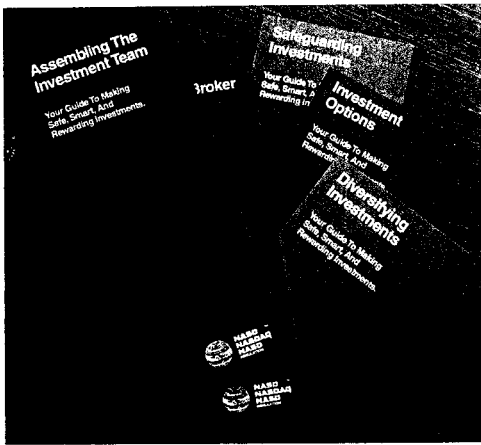
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Best outreach to investors everywhere

In 1997, the NASD exhibited and held workshops at more than 70 investor fairs and conferences attended by well over 500,000 individual investors.



Former U.S. President George Bush launched an experimental investor education project in Elgin, Illinois—a year-long effort cosponsored by *Money* magazine, The Nasdaq Stock Market, Microsoft Corporation, and Fidelity Investments—aimed at increasing the “financial IQ” of a typical American town.



The NASD Office of Individual Investor Services has developed a broad range of programs, services, and publications for investor education and protection, as well as an Internet site (www.investor.nasdc.com).



Through NASD's many Web sites, investors can access professional quality market data, as well as comprehensive broker background information (www.nasdc.com).

Nasdaq's World Wide Web site currently averages seven million hits per day, more than that of any other stock market. In October 1997, the site received over 14 million and 20 million hits, respectively.

The NASD produces over 200 publications for investors each year to meet their market and regulatory information needs.

Shaping the new world of investing

The NASD, globalization and technology

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Nasdaq global network
facility, Rockville, Maryland.

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Taking a State-of-the-Art Stock Market Global—Nasdaq as Worldwide Marketplace

Nasdaq companies have changed the world—and Nasdaq itself is changing the world's markets. More international companies have chosen to list their shares or ADRs on The Nasdaq Stock Market than on all other U.S. markets combined. What Nasdaq offers the world's companies is the most technologically advanced, liquid, well-regulated trading environment as well as the most comprehensive market information services for both investors and companies at the lowest cost available anywhere.

Being a global stock market involves more than listing international companies. It requires having a vision of the securities market of the future and the capability to implement it.

As the first and largest Internet-like electronic network for securities trading, Nasdaq transcends borders and facilitates market participation.

Nasdaq seeks to be the market of choice for issuers and investors worldwide. For them, Nasdaq is shaping the new world of investing by using advanced communications technology and information processing to deliver optimum trading efficiency, superior market quality, and global access.

As the first and largest screen-based securities market in the world, Nasdaq is poised to assume leadership for creating the next century's stock market.

Nasdaq's next generation will integrate the best features of dealer and order-driven markets within an electronic screen-based system of global reach. This hybrid market will provide the depth, liquidity, and immediacy of execution of a dealer market with the increased opportunities for price improvement of an order-driven one.

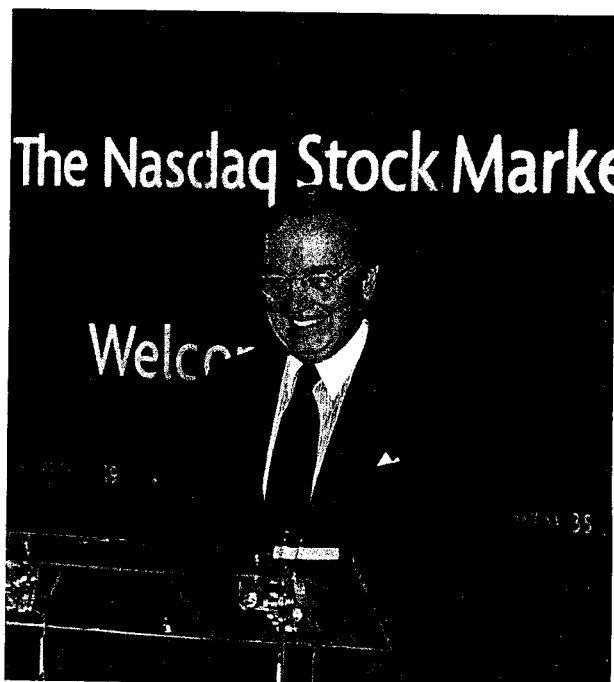
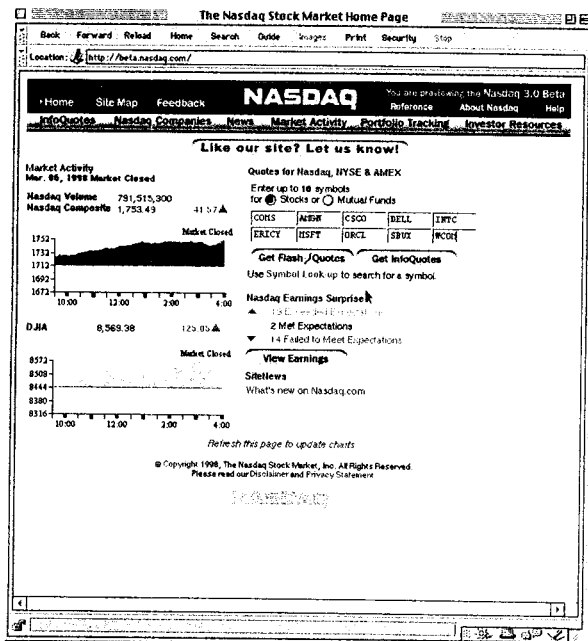
Advanced technology will be deployed for an integrated order routing system with universal online negotiation capability as well as open access to trading for all qualified investors. A centralized limit order file, along with the reflection of electronic commercial network orders in public quotes, will provide comprehensive price discovery.

There has never been anything quite like it.



Nasdaq International, Ltd., regional specialists (clockwise from left) Guang Xun Xu, China (Shanghai); Patrick Sutch, Hong Kong and Asia/Pacific (New Zealand); Achilles Couto, Brazil (Sao Paolo); and Timothy Hoynes, Europe (London) were active worldwide in 1997 presenting to international companies the benefits of access to American capital markets through a Nasdaq listing. Over 450 international companies currently list their shares or American Depositary Receipts (ADRs) on The Nasdaq Stock Market.

Nasdaq's industry leading Web site, www.nasdaq.com, provides the investing public U.S. traded equities and mutual fund quotes, stock reports and analyst information, and portfolio tracking, as well as business news.



John T. Wall, President, Nasdaq International, Ltd., is responsible for the global marketing of Nasdaq products and services, and oversees international company listings.

Facilitating Capital Formation for Global Growth Companies

Raising Capital Today. Measured by the number of international companies listing their shares or American Depositary Receipts (ADRs), Nasdaq has been the leading global stock market for years. Listed securities represent 28 countries and come from every continent of the world. They range from large companies with market capitalizations of over \$100 billion to smaller and growing enterprises.

For the past several years a significant number of international companies have chosen Nasdaq as their primary market. During 1997 alone, 54 international companies issued initial public offerings (IPOs) on Nasdaq. This is in addition to 443 IPOs by U.S.-based companies. In all, 83 percent of all new listings by U.S. securities markets were brought to market on Nasdaq.

To provide an even higher level of convenience and service to international companies that either list or wish to list on the Nasdaq market, in 1998 Nasdaq plans to increase its presence in Russia and China, complementing its London and Sao Paulo operations.

Global Investor Awareness. One important reason companies headquartered in the U.S. and around the world choose Nasdaq for their market is because of its high level of service. By listing on Nasdaq, companies automatically become a part of Nasdaq's global investor awareness program.

For instance, Nasdaq's Internet World Wide Web site, www.nasdaq.com, builds awareness of listed companies internationally by providing comprehensive on-line trading information on their stocks to investors free of charge. In 1998, Nasdaq will launch a Web site customized for the United Kingdom. Specialized Web sites in languages other than English are planned for other parts of the world as well.

Nasdaq's U.S. television advertising program has also achieved for the market and its growth companies significant recognition levels in an ever-expanding universe of investors. A new program is now being undertaken in Europe.

Nasdaq operates an extensive outreach program for institutional investors as well, focusing on portfolio managers, buy-side traders, and corporate plan sponsors. Executives call on institutional account officers in addition to providing in-depth information about market performance and timely announcements about market developments, both operational and regulatory. In addition, an Internet site for traders, including the buy-side, www.nasdaqtrader.com, provides important Nasdaq market information to this community.

Overseas Investor Relations. Helping companies to develop their own investor focus, Nasdaq provides its listed companies a wide range of investor relations support through sponsored investor seminars for investment professionals held in leading financial centers throughout Europe and Asia.

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With the OptiMark technology, investors would enter orders through their broker/dealers at various levels of price and size at which they are willing to trade, thereby increasing the number of potential matches for any given order. In addition, the new technology would enable trades to be entered anonymously, lowering the market impact cost for larger trades. It is expected that the combination of these features will encourage investors to place more and larger orders, increasing liquidity throughout the market.

Universal Fairness—Effective Market Surveillance. Market regulation benefits all participants in The Nasdaq Stock Market. Regulation helps assure a fair market for investment in securities and raising capital. In a well-regulated market, investors are confident that they have access to the best prices. Regulation ensures that investors have the most current trading and company information so that they can make buy and sell decisions based on the true state of the market.

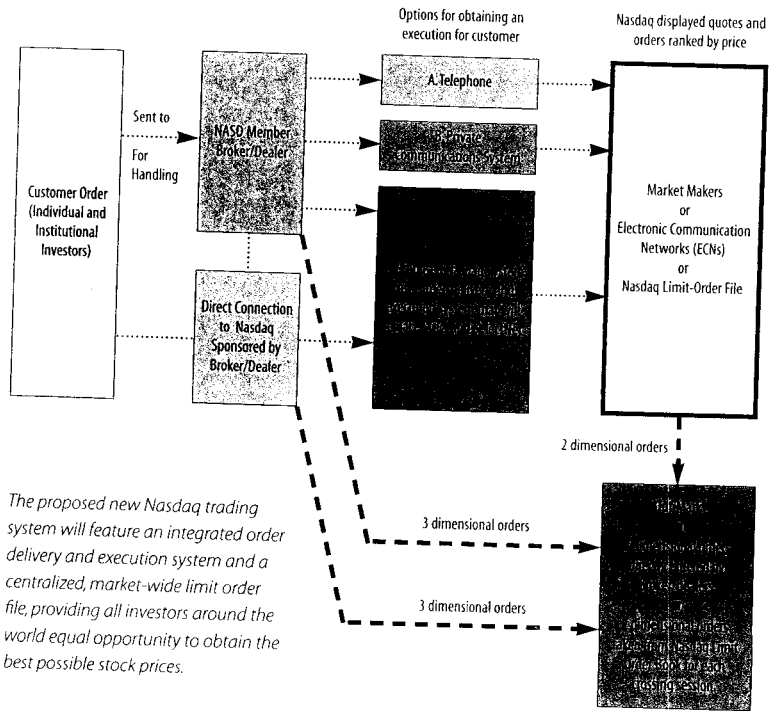
Nasdaq is the only major stock market in the world to be regulated by an entirely separate corporate subsidiary, NASD Regulation, to ensure focus and objectivity. The regulatory process is facilitated within Nasdaq by on-line, real-time market surveillance conducted by the MarketWatch unit.

Within MarketWatch, StockWatch surveils issuer activity to provide an orderly market to protect investors as well as listed companies. Analysts examine press releases issued by Nasdaq companies for potential material news and institute temporary trading halts, if necessary, to provide all investors an opportunity to gain equal access to the information. Trading activity is monitored by the StockWatch Automated TrackingSM system (SWATSM), a state-of-the-art automated trading surveillance system that tracks every trade second-by-second and can identify the specific computer terminal from which a trade was made. When breaks in statistically modeled price and volume parameters are detected, analysts immediately research global databases of public information that could have affected the market and contact issuers and Market Makers for possible causes.

Also within MarketWatch, TradeWatch scrutinizes trading activity to ensure market integrity. Analysts monitor and process alerts generated by automated detection systems such as the QuoteTrade Comparison, resolve locked and crossed markets (when ask and bid prices of different Market Makers for a given stock are the same or the ask price is lower than the bid price), and examine trade reports by Market Makers for accuracy, con-

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Proposed Nasdaq System with OptiMark



The proposed new Nasdaq trading system will feature an integrated order delivery and execution system and a centralized, market-wide limit order file, providing all investors around the world equal opportunity to obtain the best possible stock prices.

Nasdaq Regional Forums provided the latest perspective on investor relations issues, approaches, and techniques for Nasdaq-listed companies.



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formity to current inside spread, and adherence to late trade reporting rules.

StockWatch and TradeWatch refer to the Market Regulation unit of NASD Regulation for investigation any detected anomalies that they are unable to account for.

Market Structure for the Future

Open Access—Multiple Market Interfaces. Market Makers in Nasdaq stocks are currently provided the most advanced electronic securities trading tool available: Nasdaq Workstation II™ (NWII). NWII offers Market Makers a variety of automated trade monitoring, execution, and reporting features that can be customized to their needs as well as the ability to customize the array and display of these services on their screen.

Nasdaq believes, however, that a global securities market should provide market participants of the world multiple ways to access the market and buy and sell securities. Nasdaq will revolutionize stock trading for institutional investors by providing them the ability to trade securities directly in the Nasdaq market.

Price Protection—Opportunity for Anonymity. Institutional investors will qualify for the direct trading service in the Nasdaq market through a sponsored account with a broker/dealer. The great advantages of this arrangement for institutions is that (1) they will have the ability to manage their block trades themselves, and (2) their Nasdaq trading will be anonymous. Such anonymity provides price protection for block trades executed in stages.

Uniform Competition—Market-Wide Limit Order File.

Competition has always been a feature of Nasdaq as a dealer market. Multiple Market Makers compete with each other for investors' orders through the stock prices they quote. This competition works to provide investors with the best buy or sell price and to lower transaction costs.

Nasdaq intends to make competition uniform throughout the market by enabling investors all over the world to participate directly in this price competition through a market-wide limit order file. This central file, containing investors' orders to buy or sell Nasdaq stocks at a price they specify, will increase investors' opportunities to receive their preferred price. Limit orders will be executed automatically either against another matching limit order in the file, or against a better price advertised by a Market Maker or electronic trading system.

In addition, the top of the limit order file, that is, the highest buy and lowest sell orders, will be displayed on all Nasdaq terminals, enhancing Nasdaq's price discovery worldwide. Moreover, the entire limit order file will be accessible on an on-line recall basis.

Nasdaq plans to integrate the OptiMark technology directly with its proposed limit order file to allow all investors access to new opportunities for price improvement. Investor orders left in the Nasdaq file will participate in each OptiMark cross, thus enhancing their opportunities to receive fast executions with new opportunities for price improvement.

Building a Global Markets Network

Borderless Service. Nasdaq's screen-based trading technology has proven to be the preferred choice of countries around the globe for their securities markets.

Nasdaq wants to make its technological and regulatory experience available to all countries throughout the world as stock markets continue to evolve to a screen-based paradigm. In this way, Nasdaq is encouraging the construction of a global network of screen-based securities markets, with vast potential for international cooperation.

Nasdaq International Market Initiatives (NIMI). Nasdaq has contributed to the modernization of many emerging markets through a wholly-owned subsidiary, Nasdaq International Market Initiatives, Inc. (NIMI). NIMI provides consulting, advisory services, and technical developmental assistance in the areas of market operations, market regulation, and automated systems and technology.

The range of NIMI's activities includes developing and improving the infrastructure of securities markets in order to provide for increased cost-effectiveness and operating efficiency. NIMI has undertaken a comprehensive range of international projects, including the development of self-regulatory organizational structures, technology assistance in the implementation of automated trading systems, and the creation of information linkages.

NIMI's projects include work done in the United Kingdom, France, Russia, Ukraine, Romania, India, Pakistan, People's Republic of China, Australia, and the Caribbean.

Providing Investor Protection—NASD Regulation and the Global Regulatory Community

More securities firms headquartered in the United States and around the world operate in the U.S. capital markets than anywhere else. The vast scope of NASD's responsibilities place it at the forefront of regulating the massive securities activity of this global financial center.

Presently, every broker/dealer operating in the United States that conducts a securities business with the public is required by law to be a member of the NASD. In fact, the NASD regulates over 11 times as many securities firms as any U.S. stock exchange.

To regulate the securities activity of a global financial center, a regulatory organization must introduce innovative regulatory programs and apply advanced technology to bring optimum effectiveness and efficiency to regulatory processes. The organization must stay focused on investor protection and be responsive to the needs of the investing public.

NASD Regulation, to which the NASD has delegated its functional regulatory responsibilities, is striving to meet this challenge. According to SEC statistics, in each of the most recent two years for which data is available, NASD Regulation has brought *three* times as many disciplinary actions against securities firms and their professionals as all other U.S. self-regulatory organizations combined.

The Most Active Regulatory Program

Registration and Testing. In the United States, securities professionals must register with the NASD and pass examinations qualifying them to engage in securities business activities. Testing ensures that securities professionals are sufficiently knowledgeable about the industry and its regulation to perform responsibly.

NASD Regulation is also the primary agency for administering examinations of the U.S. securities industry. NASD Regulation administers over 20 types of examinations throughout the country—over 280,000 examinations in all.

Education. The NASD took the lead, in partnership with five other self-regulatory organizations and representatives from 13 securities firms, in developing a mandatory Continuing Education program for securities professionals operating in the United States. Designed to enhance the professionalism of brokers, the Regulatory Element of the program is administered by NASD Regulation, delivering over 100,000 computerized sessions in the program's second year of operation.



NIMI experts advised RASDAQ officials in Bucharest, Romania throughout 1997 on implementation and operation of a national electronic market system.



The NASD has taken a lead role in the development and operation of an industry-wide Continuing Education Program for securities professionals in the United States. NASD Regulation delivered over 100,000 computerized Regulatory Element sessions in 1997.

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NASD Academy. In 1998, the NASD will establish a first-of-its-kind securities regulation college at New York University. The NASD Academy will be a self-funded institution with a highly experienced faculty, at first serving industry regulators, compliance officers and legal counsel of securities firms. Investors will benefit from increased professionalism and more uniform compliance knowledge.

Study will begin with an overview of U.S. securities law and regulations and their practical application as well as the U.S. regulatory system, including the roles played by federal and state government and the self-regulatory organizations. Specific sessions will cover ethics, professional conduct, and compliance and regulatory requirements and systems designed to achieve investor protection.

On-Site Examinations. To ensure compliance with U.S. securities laws and regulations, NASD Regulation sends trained examiners to conduct on-site inspections of each of its over 5,500 member firms. They examine for financial and operational condition as well as sales practices and fair dealing with customers.

NASD Regulation examiners cover the broad range of securities not traded on exchanges, including stocks of The Nasdaq

Stock Market, over-the-counter stocks, corporate debt, municipal securities, government securities, mutual funds, direct participation programs, and variable annuities.

NASD Regulation examiners are assisted by an advanced computerized information system—CornerStone® Examiner Training Program and Performance Support System—which is carried into the field in a laptop computer. This system alerts examiners to the latest rule changes and provides an automated reference to the entire range of U.S. securities laws and regulations.

To increase regulatory effectiveness and efficiency, NASD Regulation is introducing risk-based regulation in 1998, focusing efforts on securities firms presenting the greatest risk to investors.

Review of Advertising and Sales Literature. The NASD, through NASD Regulation, conducts industry-wide reviews of advertising and sales literature produced by securities firms for fairness, accuracy, and completeness to ensure compliance with NASD and federal regulations. These materials include advertisements in newspapers and magazines or the broadcast media as well as brochures, form letters and research reports.

At the forefront of industry developments in information technology, NASD Regulation sets standards for securities firms'

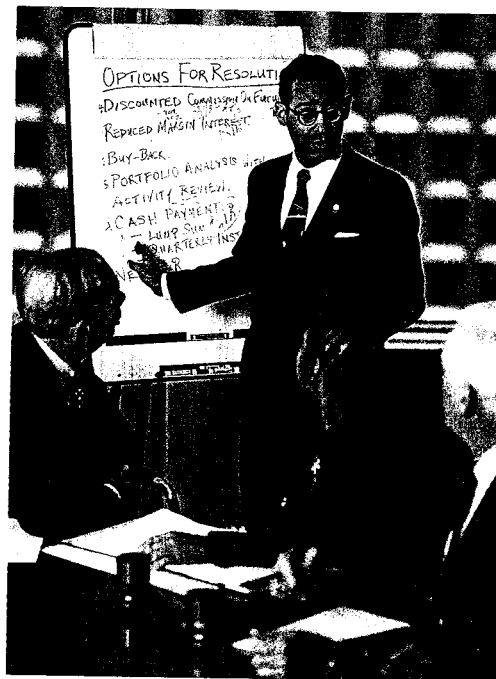
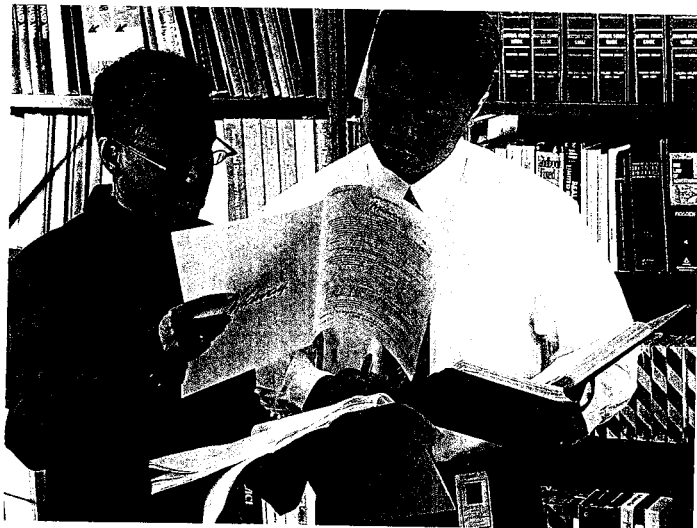


Through on-site examinations at member firms operating in the United States, NASD Regulation reviews industry sales-practice and other regulatory compliance. Over 13,700 routine and cause examinations were conducted in 1997.

NASD Regulation conducts comprehensive reviews of securities industry advertising and sales literature in the United States to ensure fairness, accuracy, and completeness. Over 61,000 items were reviewed in 1997 from filings, spot checks, and investigations.



The review of underwriting arrangements for U.S. securities offerings by NASD Regulation ensures that both the terms and compensation are fair and within NASD guidelines.



NASD Regulation is the industry's leader in arbitration and mediation services for the resolution of disputes, providing a forum for over 87 percent of arbitration claims brought in the U.S. securities industry in 1997.

communications with the public through messages or sites on such electronic media as the Internet, commercial on-line information services, and electronic bulletin boards, all of which are considered a form of advertising. Group electronic mail is regulated as sales literature, and individual e-mail as correspondence. Chat rooms on an electronic medium are considered public forums and regulated as oral communication.

Review of Underwriting Arrangements. Through NASD Regulation, the NASD is the only self-regulatory organization that reviews the underwriting arrangements of securities offerings to ensure that the amount of compensation to be paid to firms underwriting the issue is fair and within NASD guidelines. In addition, NASD Regulation reviews the terms of the underwriting to make sure that they are fair and equitable.

Enforcement. The effectiveness of the NASD's regulatory program can be measured by the commitment of its staff to maintain a securities industry in the United States that is conducted ethically and lawfully. NASD Regulation is determined to pursue violations of securities laws and NASD rules involving business conduct or market activity by securities professionals or their firms.

NASD Regulation staff carefully evaluates evidence arising from all possible sources—such as the NASD's extensive on-site examination program, automated market surveillance, customer complaints, or member firm notification—and determines whether to begin formal disciplinary proceedings. On average,

NASD Regulation brings over 1,000 formal disciplinary actions each year. The dollar amount of fines collected in 1997 by NASD Regulation increased 30 percent over the previous year.

The NASD also makes every attempt to see that, in appropriate cases, investors are compensated for their losses to the full extent that the law provides.

Dispute Resolution Forums. Most securities business in the United States is conducted without controversy. When monetary and business disputes occasionally arise, U.S. self-regulatory organizations provide forums for their resolution. Committed to a stable marketplace that provides ample opportunity to settle differences, NASD Regulation operates the largest dispute resolution forum in the U.S. securities industry, processing more than 87 percent of all arbitration claims received by all U.S. self-regulatory organizations. In addition, NASD Regulation is the only regulatory organization that has adopted formalized mediation rules and procedures.

Arbitration provides a prompt, inexpensive alternative to litigation in the U.S. courts. Arbitration is final and binding, subject to review by a court only on a very limited basis. NASD Regulation developed the mediation alternative to arbitration because mediation is an informal, voluntary, nonbinding process that is even faster and less expensive.

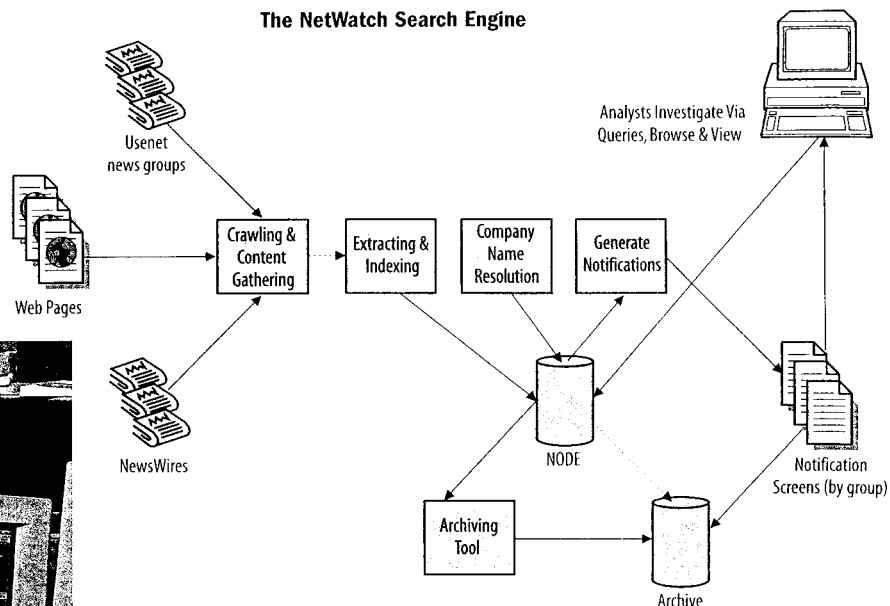
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Market Regulation analysts routinely use RADAR and SWAT in insider trading investigations.



The NetWatch Search Engine



The NetWatch Web search engine, to be introduced in 1998, will offer sophisticated internet surveillance capabilities.

World-Class Market Regulation

Total Surveillance Sweep. Focusing on every aspect of securities trading activity, the Market Regulation unit preserves the competitiveness, fairness, liquidity, and integrity of The Nasdaq Stock Market as well as the other markets regulated by NASD Regulation. Relying on state-of-the-art technology, including sophisticated data mining programs, Market Regulation detects and helps prosecute violations of NASD and SEC rules and regulations that protect investors.

Quality of Markets. Market Regulation preserves market quality to help ensure a level playing field for investors and market participants alike. Five teams are devoted to this important area.

- Trading Practices conducts both real-time and off-line surveillance of member firm compliance with trade reporting and market making rules. State-of-the-art surveillance systems, such as the Firm Quote Compliance System, Secondary Offering System, and Quote/Trade Comparison System, generate alerts, called "breaks," and/or retrieve filtered market information for the staff to analyze efficiently and effectively.

- Trading Analysis utilizes the award-winning Research and Data Analysis Repository (RADAR) and also revolutionary data mining technology through its Advanced Detection System (ADS) to make sure that members are reporting their trades promptly and accurately, and to detect patterns of unusual trad-

ing activity surrounding late trade reporting.

- Order Handling monitors firms' quote updates to ensure compliance with the SEC's new Order Handling Rules, which went into effect January 1997 and require Market Makers to display their most competitive quote publicly, including those on proprietary electronic trading systems, as well as including customer limit orders in their quotes.

- Trading Systems reviews long-term trading patterns and ensures compliance with rules governing Nasdaq's Small Order Execution System (SOES) and Fixed Income Pricing SystemSM (FIPSSM). Activity occurring by or through proprietary trading systems—now that their quotations are integrated into the calculation of the best bid or offer on Nasdaq—is also reviewed for compliance with trading rules.

- Options/Marking-the-Close ensures that members comply with SEC and NASD rules governing options, including position limits and unusual equity activity that may be related to options.

Surveillance and Compliance. Market Regulation also conducts investigations into aberrant market activity that may involve fraud, such as insider trading or market manipulation. Three teams cover this area.

- Insider Trading uses RADAR and SWAT to conduct reviews and investigations of trading activity surrounding material news events to detect potential insider trading. Such activity is continually referred to the SEC for further action.

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■ Fraud also uses RADAR and SWAT to conduct investigations of long-term price swings in Nasdaq and over-the-counter equity securities for fraud or manipulation. Such cases are referred to NASD Regulation's Enforcement unit for prosecution. In addition, a new Internet surveillance system, NetWatch, with an advanced Web search engine, is used to monitor the Internet to detect and prevent sales fraud.

■ OTC Compliance helps ensure that firms applying to quote certain securities on the OTC Bulletin Board® have met the SEC's reporting obligations.

Market Making and Market Integrity. Market Regulation operates extensive examination and investigation programs to preserve market integrity. Three teams surveil this area.

■ Trading and Market Making Surveillance conducts on-site examinations of members' compliance with various trade reporting rules. Firms subject to these annual examinations account for 90 percent of the market activity in the equity markets under NASD Regulation's jurisdiction.

■ Market Integrity, relying upon the ADS data mining system, ensures that members are not engaging in anti-competitive behavior, including potential harassment, market participant col-

laboration (on trades, trade reporting or quoting) and pricing or sizing conventions, among other issues.

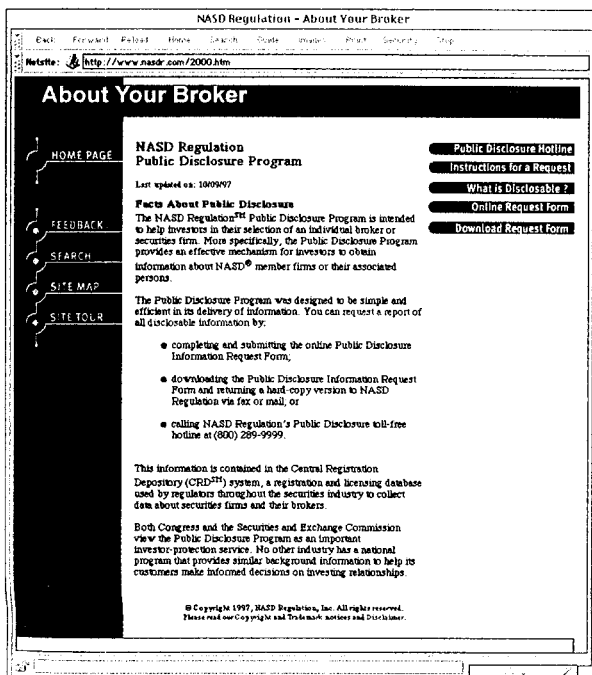
■ Customer Complaints provides prompt response to investor and broker/dealer complaints. Rule violations receive disciplinary action where warranted, and restitution to affected customers is sought when appropriate.

Advanced Regulatory Technology— Increasing Range and Responsiveness

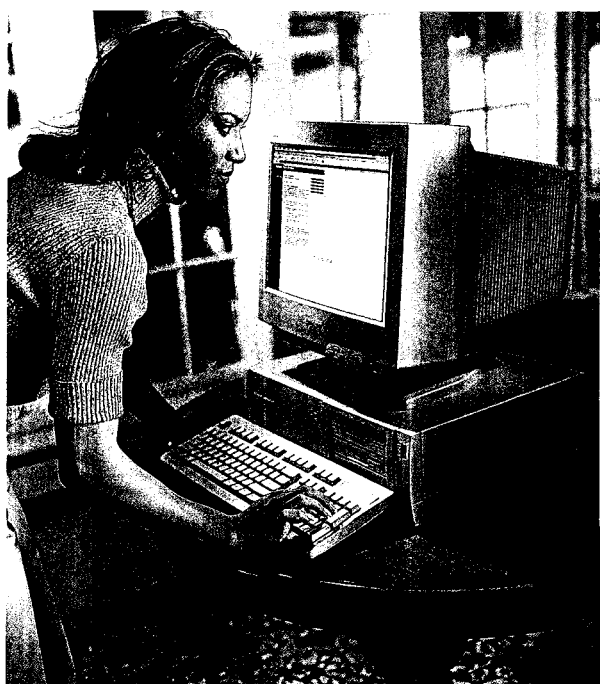
Automated Protection of Customer Orders—Order Audit Trail

System. NASD Regulation's Order Audit Trail System (OATS) will track customers' securities orders through the complete life cycle of the transaction handled by a securities firm. Ensuring that customer orders are executed at the best possible price and terms, OATS will begin operating in 1998.

OATS makes possible the most complete monitoring of securities firms' trading practices in the industry, receiving and validating member firm order information. With speed and precision, OATS captures the timing of every event in the life cycle of a trading order to the second for automated monitoring and



The NASD's family of World Wide Web sites provides fast and easy global access to market and regulatory information.



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can recreate the entire transaction for regulatory analysis.

Stock Trading Surveilled Through Data Mining—Advanced

Detection System. Beginning full-scale operation in July 1997, NASD Regulation's Advanced Detection System (ADS) employs the most sophisticated data mining techniques to surveil stock trading—the cutting-edge Knowledge Discovery in Databases (KDD). KDD uses a combination of statistical, artificial intelligence, and visualization techniques to detect and evaluate patterns in trading data.

NASD Regulation uses ADS to identify potential violations regarding late trade reporting, pricing/size conventions, and market participant coordination. Providing an integrated view of market activity for all securities and trading firms, ADS processes about 800,000 quote updates and a similar number of trades every day the market is open. In a half year of operation, ADS has been responsible for instituting over 200 regulatory reviews.

Detecting Cyberspace Fraud—NetWatch Internet Surveillance

System. NASD Regulation will become the first regulatory organization to systematically monitor the Internet for securities fraud when it implements NetWatch, its new automated Internet Surveillance System, in 1998. Helping to maintain investor confidence in the markets, NetWatch will both detect possible instances of fraud as well as act as a deterrent, and may actually help to limit the potential effects of violative behavior.

Using an intelligent information extraction tool with advanced natural-language-processing capabilities, NetWatch will consistently and thoroughly scan the Internet and relate its findings to actual market activity and newswire stories. NetWatch is capable of processing text 2,000 times faster than the average adult, with a greater degree of accuracy.

Global Access to Broker Information—Public Disclosure Program on the Internet. Committed to providing investors as much information as possible for their ultimate protection, wherever they may be, NASD Regulation began in 1996 to implement the requesting and delivery of the information provided by its Public Disclosure Program over the Internet (PDP/I). By May 1997, investors around the world were able not only to request on-line, but also to obtain through e-mail, such background on brokers as employment, criminal or civil-judgment, disciplinary and arbitration information. In 1998, NASD Regulation will provide investors the capability to view on-line the complete range of public disclosure information through the "About Your Broker" button on its Internet site, www.nasdi.com.

Partnering the Global Regulatory Effort

Cooperation Among Securities Regulators Worldwide. As a major self-regulator in the world's financial system, the NASD recognizes that international cooperation among all securities regulators is a commitment we owe to all market participants. Toward this end,

the NASD for years has been an active member in the Federation Internationale des Bourses de Valeurs (FIBV), which now has 50 self-regulatory and stock market members covering 97 percent of world stock market capitalization.

FIBV's mission is, among other things, to develop and maintain working relationships with self-regulators to advance the benefits of self-regulation around the world and establish harmonized standards for cross-border capital raising, trading, and settlement. The NASD has been particularly active in the International Regulation Subcommittee that develops regulatory best practices and recently formulated rules for international cooperation regarding trading halts. The NASD is concurrently working on the committee that is benchmarking trading mechanisms.

The NASD is also an affiliate member, as a self-regulatory organization, of the International Organization of Securities Commissions (IOSCO), which has a total of 134 member agencies. The mission of IOSCO is to cooperate to promote high standards of regulation, to exchange information to promote the development of domestic markets, to establish standards and effective surveillance of international securities transactions, and to provide mutual assistance for enforcement.

All affiliate members belong to IOSCO's SRO Consultative Committee, which maintains a dialogue with the securities commission members and makes a constructive contribution to the work of the organization. The NASD, representing the Consultative Committee, participates in the Working Party responsible for disclosure and accounting standards.

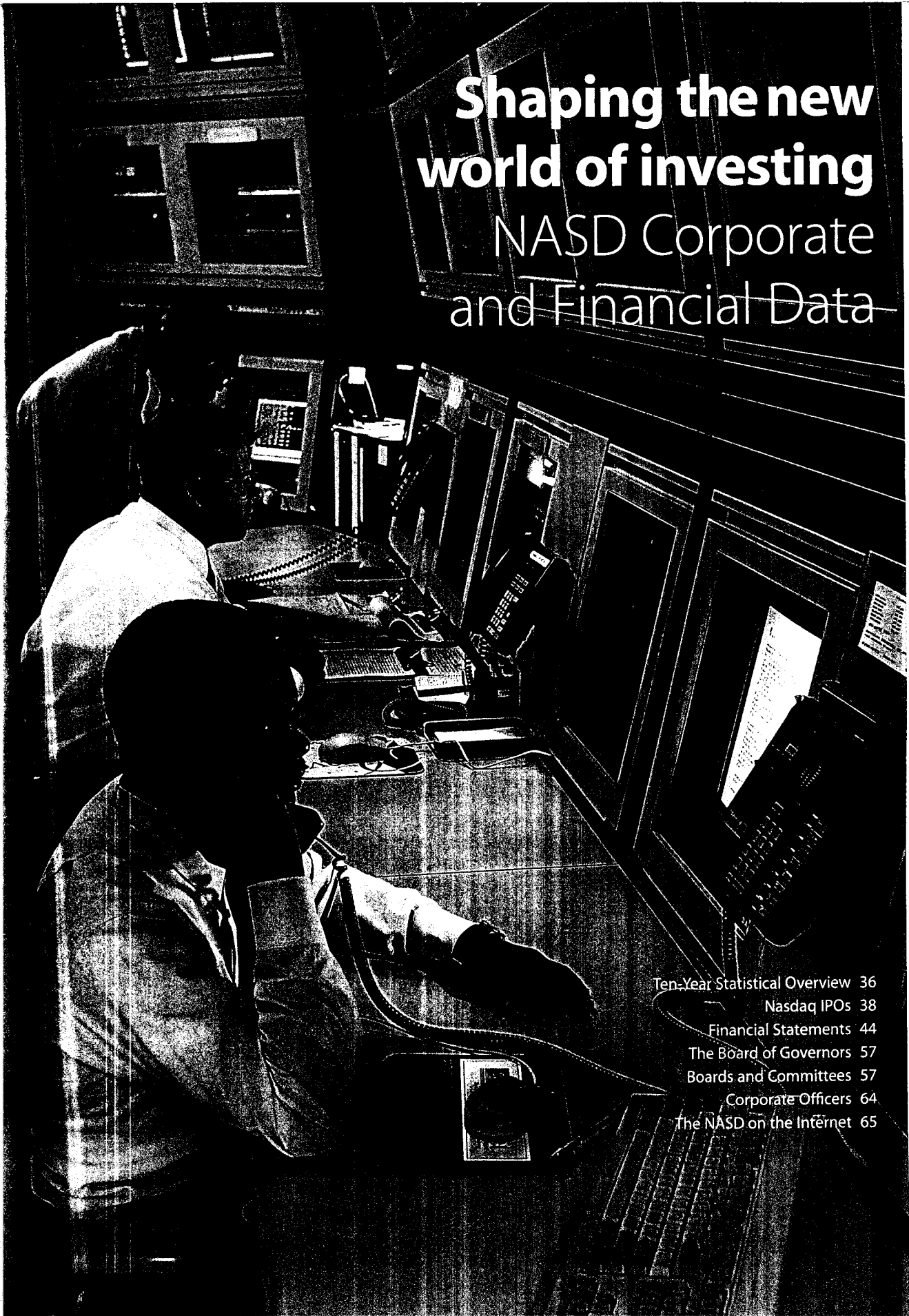
Coordinating Market Surveillance Operations. International coordination of the surveillance of securities markets is critical in today's global financial market, where cross-border trading and inevitably interdependent markets can give rise to cross-market violations. NASD Regulation has helped to forge such coordination as a founding member of the Intermarket Surveillance Group (ISG). Founded in 1983, ISG consists today of 23 regulatory organizations around the world.

Members of ISG routinely share market information on request for regulatory purposes. In addition, the U.S. members routinely share trading information electronically. Moreover, ISG has allocated responsibility for surveillance to appropriate participants for certain types of violations. As an active ISG participant, NASD Regulation over the past few years has coordinated dozens of intermarket investigations with other ISG self-regulatory organizations.

In furthering international cooperation, NASD Regulation has also welcomed some 75 regulators and market representatives from around the world to examine its surveillance systems and share surveillance expertise. In addition, NASD Regulation market surveillance professionals have assisted the Cairo Stock Exchange regarding insider trading practices and the exchanges in Bombay, Calcutta, and New Delhi.

Shaping the new world of investing

NASD Corporate and Financial Data

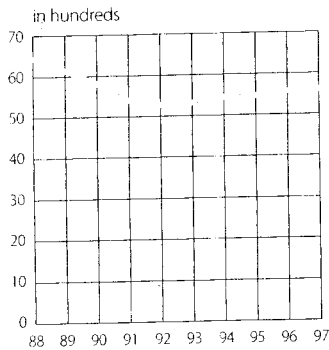


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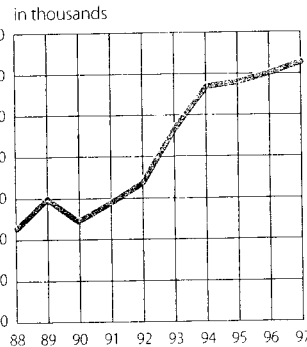
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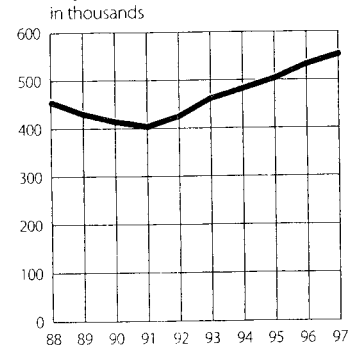
NASD Member Firms



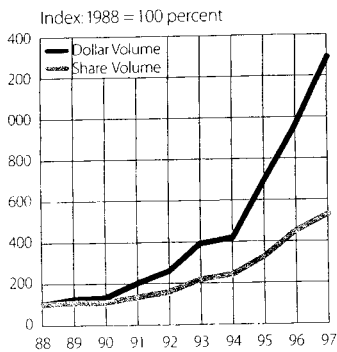
NASD Member Firm Branch Offices



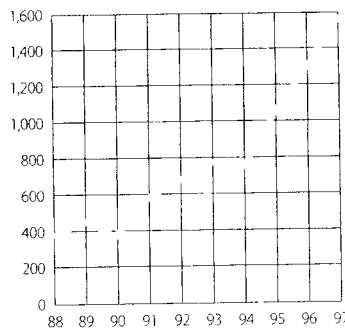
NASD Member Firm Registered Representatives



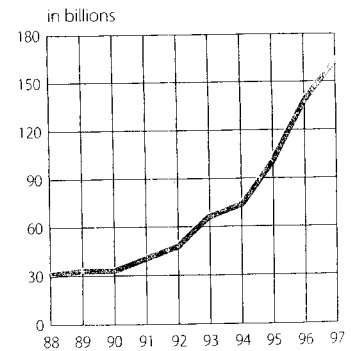
Nasdaq Market Growth



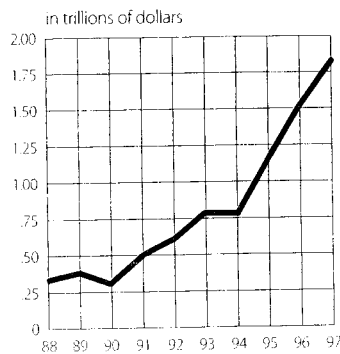
Nasdaq Composite Index



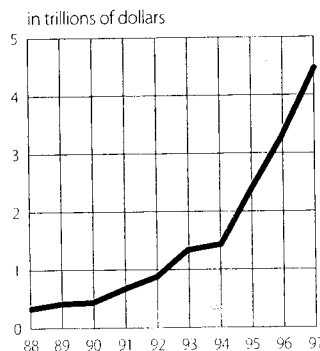
Nasdaq Share Volume



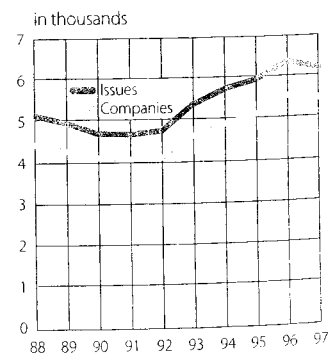
Nasdaq Market Capitalization



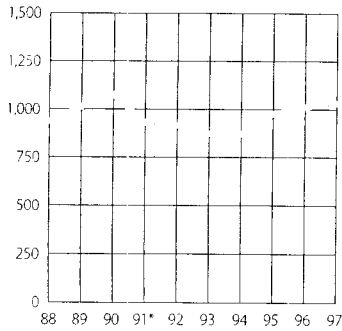
Nasdaq Dollar Volume



Nasdaq Companies and Issues

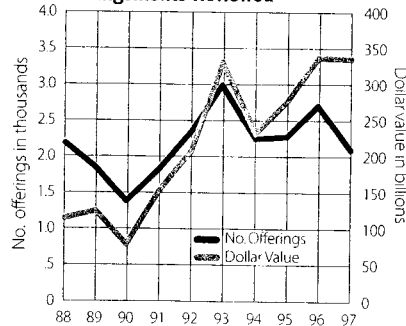


NASD Regulation New Disciplinary Actions Filed

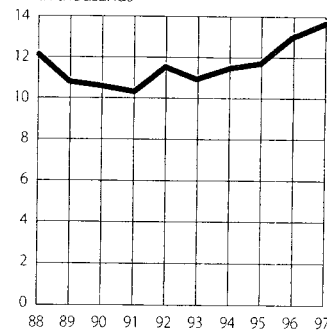


*Starting 1991, basis for calculation changed

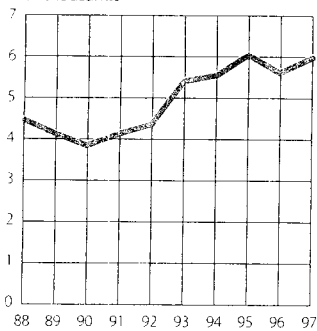
NASD Regulation Corporate Financing Underwriting Arrangements Reviewed



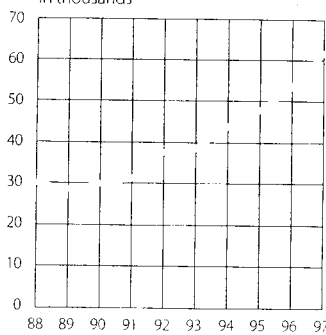
NASD Regulation Routine and Cause Examinations Conducted
in thousands



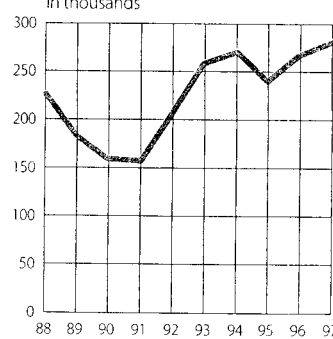
NASD Regulation Arbitration Cases Filed
in thousands



NASD Regulation Advertising Items Reviewed
in thousands



NASD Regulation Qualification Examinations
in thousands



- MEDX
- MEDY
- MEGO
- MEHL
- MELI
- MEMCF
- MEMO
- MENJ
- MENS
- MENT
- MEOHF
- MERCS
- MERI
- MERQ
- MERX
- MESA
- META
- METB
- METF
- METG
- METHA
- METLF
- MEINF
- METZ
- MFAC
- MFBC
- MFCB
- MFCO
- MFCV
- MFFC
- MFIC
- MFLR
- MFNX
- MFRJ
- MFSL
- MFUN
- MGAM
- MGAS
- MGCC
- MGICF
- MGICF
- MGMA
- MGRG
- MCKI
- MHCO
- MHMY
- MIAM
- MICA
- MICCF
- MICG
- MICN
- MICRP
- MICTF
- MIDD
- MIFC
- MIFGY
- MIGI
- MIKE
- MIKL
- MKN
- MIXR
- MLB
- MILK
- MILT
- MIMS
- MIND
- MINI
- MINT
- MIOA
- MIST
- MIST
- MITK
- MITSY
- MITY
- MIVI
- MIZR
- MKAU
- MKFCF
- MKIE
- MKPL
- MKTAY
- MLAB
- MLBC
- MLCH
- MLHR

Nasdaq Initial Public Offerings for 1997 Since it began operations in 1971, The Nasdaq Stock Market has functioned as an engine of growth for the world's economy by providing entrepreneurial companies an opportunity to expand substantially their access to capital. This is still true today. More companies go public or list their shares on Nasdaq than on any other U.S. market. A list of companies making their initial public offerings on Nasdaq during 1997 follows.

Listings from USA unless otherwise noted.

	Name	TSCE	Country	Name	TSCE	Country
MLIN				AutoCyte, Inc.	ACYT	
MLMI	@Entertainment, Inc.	ATEN		Aviation Distributors, Inc.	ADIN	
MLNM				Aviation Group, Inc.	AVGP	
MLOG	3Dfx Interactive, Inc.	TDFX		AVTEAM, Inc.	AVTM	
MLRC				Axiom, Inc.	AXIM	
MLTND	8x8, Inc.	JRJR		Azurel Ltd.	AZUR	
MMAC	A.C. Moore Arts & Crafts, Inc.	EGHT		Bank of the Ozarks	OZRK	
MMAN				Barbeques Galore Limited	BBQZY	Australia
MMBLF	A.C.S. Electronics Limited	ACMR	Israel	Bay Bancshares, Inc.	BAYB	
MMCN				BEA Systems, Inc.	BEAS	
MMGC	Aastrom Biosciences, Inc.	ACSEF		Bell Canada International, Inc.	BCICF	Canada
MMGR				Beringer Wine Estates Holdings, Inc.	BERW	
MMSI	AccelGraphics, Inc.	ASTM		Best Software, Inc.	BEST	
MMSY				Big Dog Holding, Inc.	BDOG	
MNBB	Acorn Products, Inc.	ACCL		Bioanalytical Systems, Inc.	BASI	
MNES	Advance Financial Bancorp	ACRN		Bionx Implants, Inc.	BINX	
MNMD				Biora AB	BIORY	Sweden
MNDC	Advanced Communication System, Inc.	AFBC		BioReliance Corporation	BREL	
MNRCY	Advanced Electronic Support Products, Inc.	ACSC		Biosite Diagnostic, Inc.	BSTE	
MNRO	Advanced Learning Systems, Inc.	AESP		Birman Managed Care, Inc.	BMAN	
MNRHA				Boron, LePore & Associates, Inc.	BLPG	
MNTG	Aehr Test Systems	AEHR		Brass Eagle, Inc.	XTRM	
MNTR				BridgeStreet Accommodations, Inc.	BEDS	
MNTE	AHL Services, Inc.	AEHR		Brigham Exploration Company	BEXP	
MNYC	Allstar Systems, Inc.	AHLS		Bright Horizons, Inc.	BRHZ	
MOCO				Brookdale Living Communities, Inc.	BLCI	
MODA	Amazon.com, Inc.	ALLS		Broughton Foods Company	MILK	
MODI				Brunswick Technologies, Inc.	BTIC	
MODM	Ambassador Bank of the Commonwealth	AMZN		C.H. Robinson Worldwide, Inc.	CHRW	
MODT				C3, Inc.	CTHR	
MOFN	American Capital Strategies, Ltd.	ABPA		Cal Dive International, Inc.	CDIS	
MOGN	American Champion Entertainment, Inc.	ACAS		Capital Beverage Corporation	CBEV	
MOIL	American Physician Partners, Inc.	ACEI		Captec Net Lease Realty, Inc.	CRRR	
MOKA				Cardima, Inc.	CRDM	
MOEX	Ameripath, Inc.	APPM		Carey International, Inc.	CARY	
MOND	AmeriTrade Holding Corporation	PATH		Caring Products International, Inc.	BDRY	
MONFA	AmerUs Life Holdings, Inc.	AMTD		Carrizo Oil & Gas, Inc.	CRZO	
MONM				Casella Waste Systems, Inc.	CWST	
MONT	Amplidyne, Inc.	AMRS		Castle Dental Centers, Inc.	CASL	
MOOV				CD Warehouse, Inc.	CDWI	
MORP	Annapolis National Bancorp, Inc.	AMPD		Celerity Systems, Inc.	CLRT	
MOSX				Cell Therapeutics, Inc.	CTIC	
MOTO	Antivirals, Inc.	ANNB		Centennial HealthCare Corp.	CTEN	
MOTR						
MOVA	Apex PC Solutions, Inc.	AVII				
MOVE						
MOVH	Apollo BioPharmaceutics	APEX				
MOXY						
MOYC	Apollo International of Delaware	ABPI				
MPAA						
MPAC	Applied Films Corporation	AIOD				
MPARY						
MPDI	Applied Micro Circuits Corporation	AFCO				
MPET						
MPML	Aramex International Limited	AMCC				
MPRS						
MPSI	ARIS Corporation	ARMXF	Bermuda			
MPTBS						
MPVIF	Ascent Pediatrics, Inc.	ARSC				
MPWVG						
MRBK	ASD Group, Inc.	ASCT				
MRCF						
MRCM	ASI Solutions, Incorporated	ASDG				
MRET						
MRCO	Asia Electronics Holding Co.	ASIS				
MRRW						
MRSI	At Home Corporation	AEHCF	Canada			
MRTN						
MRVC	ATL Products, Inc.	ATHM				
MRVT						
MSBC	Augment Systems, Inc.	ATLPA				
MSBF						
MSBK	Aurora Biosciences Corporation	AUGS				
MSCA						
MSCC	Authentic Specialty Foods, Inc.	ABSC				
MSCM						
MSDX						
MSDF						

**The Nasdaq International
Markets Advisory Board**
→

Ricardo Hector Arriazu
Argentina



David Brooke
Great Britain



Joseph Clechanover
Israel



MSEX
MSFT
MSGI
MSIX
MSON
MSPG
MSPT
MSSI
MSIG
MTRN
MTEC
MTEL
MTGNY
MTIC
MTIN
MTIX
MTEC
MTLG
MTLI
MTLM
MTMC
MTMS
MTNT
MTON
MTRA
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MTRD
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MTRX
MTSC
MTSI
MTSLF
MTRN
MTST
MTWRF
MTXC
MUET
MUEL
MURCC
MURXF
MVAC
MVBI
MVCO
MVII
MVIS
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MVSNI
MWAR
MWAV
MWBI
MWBX
MWDS
MWFD
MWGP
MWH5
MWHX
MWRK
MWSI
MXBIF
MXCY
MXIM
MXWL
MYCO
MYGN
MYLX
MYSW
MZON
NABC
NABI
NACT
NADX
NAFC
NAFI
NAGI
NAII
NAMC
NAND
NARX
NASB
NATH
NATI
NATK
NATL
NATR
NATS
NATW

Name	TSCE	Country
Century Bancshares, Inc.	CTRY	
Cerus Corporation	CERS	
CFI Mortgage Inc.	CFIM	
ChoiceTel Communications, Inc.	PHON	
ChromaVision Medical Systems, Inc.	CVSN	
Ciena Corporation	CIEN	
Citizens National Bank of Texas	CNBT	
CMP Media Inc.	CMPX	
Coast Dental Services, Inc.	CDEN	
Cognicase Inc.	COGIF	Canada
Coinstar, Inc.	CSTR	
Coldwater Creek, Inc.	CWTR	
Colonial Downs Holdings, Inc.	CDWN	
Commodore Separation Technologies, Inc.	CXOT	
Commonwealth Biotechnologies, Inc.	CBTE	
Compass Plastics & Technologies, Inc.	CPTI	
Complete Business Solutions, Inc.	CBSL	
Complete Wellness Centers, Inc.	CMWL	
Compu-Dawn, Inc.	CODI	
Computer Motion, Inc.	RBOT	
Concentric Network Corporation	CNCX	
Concord Communications, Inc.	CCRD	
Conning Corporation	CNNG	
Consolidation Capital Corporation	BUYR	
Continental Natural Gas, Inc.	CNGL	
Corixa Corporation	CRXA	
CorporateFamily Solutions, Inc.	CFAM	
Corsair Communications, Inc.	CAIR	
Coulter Pharmaceutical, Inc.	CLTR	
Coyote Sports, Inc.	COYT	
Creative Host Services, Inc.	CHST	
Cresud S.A.C.I.F. y A.	CRESY	Argentina
CrossKeys Systems Corporation	CKEYF	Canada
CrossZ Software Corporation	CRSZ	
Crystal Systems Solutions, Ltd.	CRYSF	Israel
CTB International Corp.	CTBC	
CTI Industries Corporation	CTIB	
D.G. Jewellery of Canada Ltd.	DGJLF	Canada
DAOU Systems, Inc.	DAOU	
DeCrane Aircraft Holdings, Inc.	DAHX	
Deltek Systems, Inc.	DLTK	
Denali Incorporated	DNLI	
Denison International plc	DENHY	England

Name	TSCE	Country
Dental Care Alliance, Inc.	DENT	
Dental/Medical Diagnostic Systems, Inc.	DMDS	
DepoMed, Inc.	DPMD	
Didax Inc.	AMEN	
Digital Lightwave, Inc.	DIGL	
Discas, Inc.	DSCS	
DOCdata N.V.	DOCDF	Netherlands
DSI Toys, Inc.	DSIT	
DTM Corporation	DTMC	
Dunn Computer Corporation	DNCC	
e-Net, Inc.	ETEL	
Eagle Geophysical, Inc.	EGEO	
Earthlink Network, Inc.	ELNK	
Eco Soil Systems, Inc.	ESSI	
EDAP TMS S.A.	EDAPY	France
Edge Petroleum Corporation	EPEX	
EduTrek International, Inc.	EDUT	
Electric Lightwave, Inc.	ELIX	
Electronic Processing, Inc.	EPIQ	
Eltek Ltd.	ELTKF	Israel
EMCORE Corporation	EMKR	
Empire Federal Bancorp, Inc.	EFBC	
Endocardial Solutions, Inc.	ECSI	
Energis Plc	ENGSY	England
Energy Search, Incorporated	EGAS	
Engel General Developers Ltd.	ENGEF	Israel
EPIX Medical, Inc.	EPIX	
ErgoBilt, Inc.	ERGB	
Esat Telecom Group plc	ESATY	Ireland
ESG Re Limited	ESREF	Bermuda
Esprit Telecom Group plc	ESPRY	England
Euro Tech Holdings Company, Limited	CLWTF	Hong Kong
Euronet Services, Inc.	EEFT	
Excel Switching Corporation	XLSW	
Excelsior-Henderson Motorcycle Manufacturing Co.	BIGX	
Execustay Corporation	EXEC	
FARO Technologies, Inc.	FARO	
Faroudja, Inc.	FDJA	
FieldWorks, Inc.	FWRX	
fine.com Corporation	FDOT	
First Aviation Services, Inc.	FAVS	
First Carnegie Deposit	SKBO	

Jorg K. Fischer
Switzerland



Lawrence Huntington
United States



Masaaki Kurokawa
Japan



Francis P. T. Leung
Hong Kong

Name	TSCE	Country	Name	TSCE	Country
Jenna Lane, Inc.	JLNY		MMC Networks, Inc.	MMCN	
JetFax, Inc.	JTFX		Monarch Dental Corporation	MDDS	
Jevic Transportation, Inc.	JEVC		Montgomery Financial Corporation	MONT	
JLM Industries, Inc.	JLMI		Motor Cargo Industries, Inc.	CRGO	
Karts International, Inc.	KINT		MPW Industrial Services Group, Inc.	MPWG	
Kaynar Technologies Inc.	KTIC		MultiMedia Access Corporation	MMAC	
Kendle International Inc.	KNDL		N2K, Inc.	NTKI	
Knightsbridge Tankers Ltd.	VLCCF	Bermuda	NACT Telecommunications, Inc.	NACT	
Kofax Image Products, Inc.	KOFX		Nanophase Technologies Corporation	NANX	
Kos Pharmaceuticals, Inc.	KOSP		National Auto Finance Company, Inc.	NAFI	
Lamalie Associates, Inc.	LAIX		National Research Corporation	NRCI	
Landmark Systems Corporation	LDMK		NAVIDEC, Inc.	NVDC	
Laser Power Corporation	LPWR		NEI WebWorld, Inc.	NEIP	
Let's Talk Cellular & Wireless, Inc.	LTCW		NeoMagic Corporation	NMGC	
LeukoSite, Inc.	LKST		Net.B@nk, Inc.	NTBK	
Lexington Healthcare Group, Inc.	LEXI		NetSpeak Corporation	NSPK	
LHS Group, Inc.	LHSG		Network Solutions, Inc.	NSOL	
Life Financial Corporation	LFCO		Neutral Posture Ergonomics, Inc.	NTRL	
LINC Capital, Inc.	LNCC		NevStar Gaming Corporation	NVST	
Logility, Inc.	LGTY		New Century Financial Corp.	NCEN	
Logitech International S.A.	LOGIY	Switzerland	New Era Networks, Inc.	NEON	
Long Beach Financial Corp.	LBFC		NEWCOM, Inc.	NWCM	
Macrovision Corporation	MVSN		NewSouth Bancorp, Inc.	NSBC	
Made2Manage Systems, Inc.	MTMS		Nexar Technologies, Inc.	NEXR	
Marine Management Systems, Inc.	MMSY		NEXTLINK Communications, Inc.	NXLK	
Market Financial Corporation	MRKF		NHancement Technologies, Inc.	NHAN	
MAS Technology Limited	MASSY	New Zealand	Notify Corporation	NTFY	
Meade Instruments Corp.	MEAD		NovaCare Employee Services, Inc.	NCES	
MediaLink Worldwide, Inc.	MDLK		Novamerican Steel, Inc.	TONSF	Canada
Medical Manager Corporation	MMGR		NovAtel, Inc.	NGPSF	Canada
Medical Science Systems, Inc.	MSSI		Novel Denim Holdings Limited	NVLDF	Hong Kong
Med.risk, Inc.	MDMD		OAO Technology Solutions, Inc.	OAOT	
Megabios Corp.	MBIO		Objective Communications, Inc.	OCOM	
Melita International Corporation	MELI		Ocular Sciences, Inc.	OCLR	
MER Telemanagement Solutions, Ltd.	MTSLF	Israel	Ocwen Asset Investment Corp.	OAIC	
Mercury Waste Solutions, Inc.	MWSI		Old Guard Group, Inc.	OGGI	
Metro Information Services, Inc.	MISI		Omega Orthodontics, Inc.	ORTH	
Metromedia Fiber Network, Inc.	MFNX		Omega Research	OMGA	
MetroNet Communications Corp.	METNF	Canada	OMNI Energy Services Corp.	OMNI	
Metropolitan Health Networks, Inc.	MDPA		Omniquip International, Inc.	OMQP	
Micro Therapeutics, Inc.	MTIX		Omtool, Ltd.	OMTL	
Microcell Telecommunications, Inc.	MICTF	Canada	On Stage Entertainment, Inc.	ONST	
Midway Airlines Corporation	MDWY		ONSALE, Inc.	ONSL	

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NOBLF
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NORPF
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NPBC
NPCJ
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NPPJ
NPRMW
NPRO
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NPTH
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NRES
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NRGN
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NRMJ
NRRD
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NRVH
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NSATF
NSBC
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NSCF
NSCI
NSCP
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 OFIS
 OFIXE
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 OFPI
 OGAR
 OGGI
 OGLE
 OGNB
 OHMCG
 OHRH
 OHSC
 OHSI
 OHSL
 OHCO
 OHVY
 OISI
 OKEN
 OKSB
 OLCMF
 OLDB
 OLGC
 OLGR
 OLOG
 OLSWF

John Manser
Great Britain



Michael Marks
Great Britain



Elie Saouaf
France



Christian Strenger
Germany



Name	TSCE	Country	Name	TSCE	Country
OptiSystems Solutions Ltd.	OPTLF	Israel	Progenics Pharmaceuticals Inc.	PGNX	
ORBIT/FR, Inc.	ORFR		Progenitor, Inc.	PGEN	
Oregon Trail Financial Corp.	OTFC		ProMedCo Management Company	PMCO	
Organic Food Products, Inc.	OFPI		PRT Group Inc.	PRTG	
OrthAlliance, Inc.	ORAL		PSW Technologies, Inc.	PSWT	
OSI Systems, Inc.	OSIS		QAD, Inc.	QADI	
Outsource International, Inc.	OSIX		Qualix Group, Inc.	QLIX	
Overland Data, Inc.	OVRL		Qwest Communications International, Inc.	QWST	
OYO Geospace Corporation	OYOG		Racing Champions Corporation	RACN	
PacificHealth Laboratories, Inc.	PHLI		Racom Systems, Inc.	RCOM	
PalEx, Inc.	PALX		RADCOM Ltd.	RDCMF	Israel
Paper Warehouse, Inc.	PWHS		Radiant Systems, Inc.	RADS	
Paradise Music & Entertainment, Inc.	PDSE		Rambus, Inc.	RMBS	
PAULA Financial	PFCO		RealNetworks, Inc.	RNWK	
PC411, Inc.	PCFR		Recovery Network, Inc.	RNET	
Peak International Limited	PEAKF	Bermuda	Renex Corporation	RENX	
Peapod, Inc.	PPOD		Retrospectiva, Inc.	RTRO	
Pegasus Systems, Inc.	PEGS		RF Micro Devices, Inc.	RFMD	
Peoples-Sidney Financial Corporation	PSFC		RIT Technologies Ltd.	RITTF	Israel
Peregrine Systems, Inc.	PRGN		Robocom Systems Inc.	RIMS	
Pericom Semiconductor Corporation	PSEM		Rock of Ages Corporation	ROAC	
Peritus Software Services, Inc.	PTUS		Roslyn Bancorp, Inc.	RSLN	
Pervasive Software Inc.	PVSW		RSL Communications, Ltd.	RSLCF	Bermuda
Petroglyph Energy, Inc.	PGEI		RWD Technologies, Inc.	RWDT	
Photoelectron Corporation	PECX		Ryanair Holdings plc	RYAAY	Ireland
Physicians' Specialty Corp.	ENTS		Saxton Incorporated	SXTN	
Piranha Interactive Publishing, Inc.	PRAN		Scheid Vineyards, Inc.	SVIN	
Pivot Rules, Inc.	PVTR		Schick Technologies, Inc.	SCHK	
Positron Fiber Systems Corp.	PFSCF	Canada	Schuff Steel Company	SHUF	
Power-One, Inc.	PWER		SCM Microsystems, Inc.	SCMM	
Power Integration, Inc.	POWI		Scoop, Inc.	SCPI	
Precision Auto Care, Inc.	PACI		SEEC, Inc.	SEEC	
Preferred Employers Holding, Inc.	PEGI		SIGA Pharmaceuticals, Inc.	SGPH	
Premier Concepts, Inc.	FAUX		Signature Eyewear, Inc.	SEYE	
Premier Research Worldwide, Inc.	PRWW		Silgan Holdings, Inc.	SLGN	
Premium Cigars International, Ltd.	PCIG		Simulations Plus, Inc.	SIMU	
Preview Travel, Inc.	PTVL		Sky Network Television Limited	NZSKY	New Zealand
Prime Bancshares, Inc.	PBTX		Somnus Medical Technologies, Inc.	SOMN	
Princeton Video Image, Inc.	PVII		Southwest Bancorporation of Texas, Inc.	SWBT	
Priority Healthcare Corp.	PHCC		Special Metals Corporation	SMCX	
ProBusiness Services, Inc.	PRBZ		Specialty Care Network, Inc.	SCNI	
Professional Transportation Group Ltd., Inc.	TRUC		Spectra-Physics Lasers, Inc.	SPLI	
Profile Technologies, Inc.	PRTK		SpectrX, Inc.	SPRX	

George E. K. Teo
Singapore



Marzuki Usman
Indonesia



Deepak Valdia
India



R. Brian Williamson
Great Britain



OMED
OMEF
OMGA
OMGR
OMKT
OMNI
OMNS
OMPT
OMQP
OMTL
ONBK
ONCO
ONDI
ONEL
ONPR
ONPT
ONSI
ONSL
ONSS
ONST
ONTC
ONXX
ONXX
OPMBE
OPMXX
OPPCF
OPSC
OPSI
OPTC
OPTI
OPTK
OPTLF
OPTIN
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ORAL
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ORBKF
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ORVX
ORYX
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OSFT
OSHSF
OSII
OSIP
OSIS
OSIX
OSKY
OSSI
OSTE
OSTX
OTCM
OTEXF
OTFC
OTRFB
OTRX
OTTR
OLUSA
OUTL
OVBC
OVID
OVGH
OVRL
OWAV
OWOS
OXGH
OXHP
OXIS
OYOG
OZEMY
OZOM

Name	TSCE	Country
Spiros Development Corp. II, Inc.	SDCOZ	
Sportsline USA, Inc.	SPLN	
SPR, Inc.	SPRI	
Staff Leasing, Inc.	STFF	
Star Buffet, Inc.	STRZ	
STAR Telecommunications, Inc.	STRX	
Startec Global Communications Corp.	STGC	
Sterigenics International, Inc.	STER	
Stirling Cooke Brown Holdings, Limited	SCBHF	Bermuda
Storage Dimensions, Inc.	STDM	
Success Bancshares, Inc.	SXNB	
Summit Holding Southeast, Inc.	SHSE	
Sun Hydraulics Corporation	SNHY	
Surrey, Inc.	SOAP	
Syntel, Inc.	SYNT	
Syscomm International Corporation	SYCM	
T & W Financial Corporation	TWFC	
Take-Two Interactive Software, Inc.	TTWO	
Tekgraf, Inc.	TKGFA	
Telegroup, Inc.	TGRP	
Telepartner A/S	TPARY	Denmark
Teligent, Inc.	TGNT	
Template Software, Inc.	TMPL	
The A Consulting Team, Inc.	TACX	
The Children's Place Retail Stores, Inc.	PLCE	
The Judge Group, Inc.	JUDG	
The Orlando Predators Entertainment, Inc.	PRED	
Thermacell Technologies, Inc.	VCLL	
Tier Technologies, Inc.	TIER	
Tomorrow's Morning, Inc.	TOMM	
Total Control Products, Inc.	TCPS	
Total Entertainment Restaurant Corp.	TENT	
Toymax International, Inc.	TMAX	
Track 'n Trail	TKTL	
Trailer Bridge, Inc.	TRBR	
TransCoastal Marine Services, Inc.	TCMS	
Transcript International, Inc.	TRII	
Travel Services International, Inc.	TRVL	
Trendwest Resorts, Inc.	TWRI	
Trimeris, Inc.	TRMS	
Tropical Sportswear International Corp.	TSIC	
TSI International Software Ltd	TSFW	
U.S. Timberlands Company, L.P.	TIMBZ	

Name	TSCE	Country
U.S. Vision, Inc.	USVI	
U.S.A. Floral Products, Inc.	ROSI	
UBICS, Inc.	UBIX	
UNIFAB International, Inc.	UFAB	
Union Community Bancorp	UCBC	
UNIVEC, Inc.	UNVC	
USWeb Corporation	USWB	
Valley National Gases, Inc.	VNGI	
Vari-Lite International, Inc.	LITE	
VDI Media	VDIM	
Vestcom International, Inc.	VESC	
Virgin Express Holdings plc	VIRGY	England
Vision Twenty-One, Inc.	EYES	
Vista Medical Technologies, Inc.	VMTI	
Vistana, Inc.	VSTN	
Visual Data Corporation	VDAT	
Warner Chilcott Public Limited Company	WCRXY	Ireland
Warwick Community Bancorp, Inc.	WSBI	
Waste Industries, Inc.	WWIN	
Wesley Jessen VisionCare, Inc.	WJCO	
Wheels Sports Group, Inc.	WHEL	
White Cap Industries, Inc.	WHCP	
Wilson's The Leather Experts, Inc.	WLSN	
World of Science, Inc.	WOSI	
Young Innovations, Inc.	YDNT	
Yurie Systems, Inc.	YURI	
ZYMETX, Inc.	ZMTX	
Zindart Limited	ZNDTY	Hong Kong

In addition, there were 157 other new listings on Nasdaq in 1997 including switches, seasoned securities, spin-offs, mergers, etc.

OZBK
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 PATH
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 FAWN
 PAYX
 PBCT
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 PCOP
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 PCYC
 PDCO
 PDEX
 PDKL
 PDLCF
 PDLJ
 PDLPY
 PDMC
 PDSE
 PDSF
 PEARF
 PEBK
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 PECA
 PEDE
 PEEY
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The National Association of Securities Dealers, Inc. (NASD) experienced another strong financial year in 1997. Consolidated income before provision for income taxes reached \$69.7 million, while net income was \$36.1 million.

Record revenues of \$634.4 million were achieved in 1997, an increase of 21 percent over the 1996 total of \$524.8 million. The robust financial success reflected the performance of the securities industry overall, and was particularly fueled by



Salvatore F. Sodano, Deputy Chief Operating Officer and Chief Financial Officer

the sharp growth in trading volume of The Nasdaq Stock Market (Nasdaq), up 19 percent to an average of 648 million shares per day; the rapidly escalating use of Nasdaq's order routing, execution and comparison systems; and growth in the sale of market information. Specifically, combined revenues from the distribution of market data to desktops and transaction-based fees for use of Nasdaq systems rose by 40 percent to \$267.8 million. The population of professional retail, institutional, trader and non-professional Nasdaq desktop subscribers rose nearly 24 percent to a record 415,000 devices. Recognizing sharp expansion in the use of the SelectNet execution facility during 1997, the Board voted to reduce transaction fees by one-half in the fourth quarter, and has followed that action with a further significant lessening and restructuring of

the fees for this service in 1998. On the regulatory side, assessments based on members' business volumes grew by \$16 million, providing needed funding for regulatory initiatives aimed at responding to the SEC's 21(a) report and other emerging regulatory issues. Also, regulatory fees and fines increased by approximately \$7.6 million, attributable to the volume surge in Nasdaq share trading and the collection of several large disciplinary fines, respectively. Also of note during 1997, the Board passed a series of pricing changes applicable to the dispute resolution service, the largest such facility in the United States, to provide needed resources for the growing demand for its use.

Despite the growth in revenues and the steps taken to lower certain Nasdaq transaction fees, management also directed its attention to the organization's cost structure during the last year. A reinvestment program, "Reinvesting for Our Future," was launched involving each and every employee to challenge how the NASD conducts business, with a view toward improving the cost and efficiency of its operations. The program was highly successful, resulting in identified cost savings of over \$38 million or 6.5 percent of NASD's budget which were realizable in the current and future years. These savings were used to fund higher priority initiatives and operations for the current and future years. Specifically, incremental resources were targeted to respond to the commitment to the SEC to spend \$100 million over the period 1996 through

2001 to enhance NASD's market surveillance systems, including development and implementation of an enhanced order audit trail, and to increase staffing in the areas of examinations, surveillance, enforcement and internal audit. The past year also saw continued investment in the expansion of market systems and facilities to support the rapid escalation in Nasdaq volumes and attendant utilization. In particular, a \$35 million expansion of Nasdaq's primary data center was completed, providing sufficient capacity to support anticipated needs for the near future. Nasdaq also stepped up its marketing and advertising efforts aimed at providing recognition and brand equity for its listed companies among investors, both domestically and internationally, to buttress the capital raising efforts of these issuers. Finally, in late 1997, the NASD reached agreement with MCI Communications Corporation to replace and upgrade the Nasdaq network connecting its computerized market facilities to the market participants. This agreement, which provides for a minimum guarantee of \$300 million through the year 2003, which costs will be covered directly from market participants, will immediately provide capacity at a 2 billion share day level, scalable up to 8 billion shares.

During 1997, the NASD also made considerable progress in its enterprise-wide program started in 1996 to convert its corporate, regulatory and market computer systems and applications to be year 2000 compliant. To date, the program has focused on the assessment, analysis, remediation, and testing of corporate business and market systems to be year 2000 certified compliant by the end of 1998. Focus of the program in 1999 will be to provide assurance that NASD's systems interface with external systems of members, vendors and other markets. At December 31, 1997, approximately 25 percent of the NASD's systems were compliant, with cumulative spending on the program at \$10 million. The current projection for total spending on the program from 1996 through 1999 is approximately \$25 million, which is being funded through operating cash flows. The NASD is expensing all costs associated with these system changes.

The budget process for 1998 continued the emphasis on cost awareness, requiring zero-based development of operating costs for baseline activities as well as new business initiatives to ensure that revenues generated from members, issuers and others are expended in as prudent a manner as possible.

Capital spending on property and equipment reached a peak of \$121.6 million in 1997, marked by significant outlays for computer mainframe/server, facilities and client/desktop acquisitions in support of the growth of NASD's services. During 1997, the NASD completed the expansion of Nasdaq's primary data center, which will provide ample capacity for handling substantial escalation in transaction volumes and support future expected multi-billion share day trading activity.

Working capital of \$178.4 million, including the non-current portion of unrestricted investments, remains solid despite the record outlay for capital spending. In fact, continued favorable financial returns for the last four years have enabled the NASD to invest more than \$300 million in capital programs while maintaining liquidity at prudent levels.

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PETC
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PETR
PEZVF
PFACP
PFBI
PFCO
PFDC
PFED
PFFB
PFFC
PFGC
PFGI
PFINA
PFKY
PFNC
PFNI
PFSE
PFSEF
PFSL
PGDA
PGEI
PGEN
PGEK
PGIAF
PGLD
PGNS
PGNX
PGTV
PGTZ
PGWCZ
PHBK
PHCC
PHELK
PHFC
PHHM
PHLI
PHLY
PHMX
PHOC
PHON
PHRX
PHSB
PHSE
PHSV
PHSYA
PHIN
PHXX
PHYC
PHYN
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PHYK
PIAM
PICM
PICO
PIFI
PIHC
PILL
PINN
PIOG
PIONA
PIOS
PIPEQ
PIXR
PIXT
PIJAM
PITV
PKOH
PKPS

PLAB
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PMED
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PMCCG
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PMDA
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PMFI
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PMCC
PMCI
PMJXF
PMOY
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PMCCP
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PMCP
PMCI
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PMEN
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PMFN
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PMGO

Management is responsible for the preparation, integrity, and objectivity of the consolidated financial statements of the National Association of Securities Dealers, Inc. (NASD). 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 the NASD. Important elements of the internal control system include capital and operating budgets, which are subjected to continuous review and reporting throughout the year; an organizational structure providing segregation of responsibilities; established policies and procedures; careful selection and training of qualified personnel; and an internal audit program developed and carried out by NASD's Internal Review Department. The Internal Review Department is directly responsible to the Audit Committee of the Board of Governors of the NASD. It is management's opinion that the system of internal control as of December 31, 1997, is effective in providing reasonable assurance that the consolidated financial statements are free of material misstatement.

The Board of Governors of the NASD establishes charters for its Audit and Finance Committees, as applicable. The Audit Committee reviews the following: the adequacy and effectiveness of the NASD's internal controls; significant financial reporting issues and practices, including new or changed accounting principles and disclosures; the scope and results of the annual audit of the NASD's financial statements by the independent auditors; and monitors the independence and performance of the independent auditors. The Audit Committee consists exclusively of non-employee governors, a majority of whom are non-industry governors, including at least two public governors.

The Finance Committee oversees the financial operations and condition of the NASD through review and discussion of current financial results; reviews annual operating and capital budgets and material modifications thereto; and reviews all other financial matters related to the operation and financial position of the NASD. The Finance Committee, with the exception of the Chairman and CEO of the NASD, consists of non-employee governors, a majority of whom are non-industry members.

The 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, 1997 and 1996. 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.

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

	Year ended December 31	
	1997	1996
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 43,551	\$ 37,193
Investments — current	108,713	74,762
Receivables and other current assets, net	76,160	63,699
Total current assets	<u>228,424</u>	<u>175,654</u>
Investments — restricted	28,112	—
Investments — non-current	193,525	192,076
Property and equipment:		
Land, buildings and improvements	89,440	61,761
Data processing equipment and software	232,783	174,242
Furniture, equipment and leasehold improvements	125,237	106,407
	<u>447,460</u>	<u>342,410</u>
Less accumulated depreciation and amortization	(203,834)	(165,374)
	<u>243,626</u>	<u>177,036</u>
Other assets	3,884	3,450
	<u>\$ 697,571</u>	<u>\$ 548,216</u>
Liabilities and Members' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 146,447	\$ 109,596
CRD deposits and deferred revenue	49,358	54,007
Net SEC fees	47,726	—
Total current liabilities	<u>243,531</u>	<u>163,603</u>
Long-term debt	25,000	—
Accrued pension costs	14,740	14,040
Other liabilities	16,493	8,840
Total liabilities	<u>299,764</u>	<u>186,483</u>
Members' equity	397,807	361,733
	<u>\$ 697,571</u>	<u>\$ 548,216</u>

See accompanying notes to consolidated financial statements.

PRGS
PRGX
PRIA
PRKR
PRLN
PRLO
PRLS
PRLX
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PRMS
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PROG
PROI
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PROX
PRRC
PRRR
PRST
PRTG
PRTK
PRTL
PRTW
PRWW
PRXL
PRXM
PRZM
PSAI
PSALY
PSBK
PSCX
PSDI
PSDS
PSEM
PSFC
PSFI
PSFT
PSGVF
PSIX
PSMT
PSNRY
PSON
PSQL
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PUMA
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PURS
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PVAT
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Consolidated Statements of Income and Members' Equity | National Association of Securities Dealers, Inc.

PVTR
PWAV
PWBC
PWBA
PWCC
PWEP
PWH5
PXAI
PYTV
PZZA
PZZI
QAFI
QCBC
QCF5
QCHI
QCOM
QCSB
QDE5
QDEL
QDMN
QDRMY
QDRX
QFEG
QFPC
QFAB
QGENF
QGLY
QHGI
QHVF
QFTN
QLGC
QLXK
QLTF
QMDG
QMED
QMRK
QNTM
QPSI
QSHI
QSPDF
QSR1
QSYS
QTEC
QTEL
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RAWA
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RAZR
RBBR
RBCG
RBDS
RBIN
RBKV
RBNC
RBNE
CRIT

Year ended December 31

1997 1996

(in thousands)

Revenue

Market information and transaction service fees	\$ 267,811	\$ 191,138
Nasdaq issuer fees	113,019	111,832
Member assessments	81,206	65,252
Registration and qualification fees	64,493	59,970
Regulatory fees and fines	39,453	31,859
Interest and other	33,209	29,525
Corporate finance fees	19,585	21,932
Arbitration fees	15,604	13,275
Total Revenue	634,380	524,783

Expenses

Compensation	246,286	198,094
Professional and contract services	129,463	94,075
Depreciation and amortization	51,989	40,509
Computer operations and data communications	44,037	33,757
Occupancy	25,825	19,579
Publications, supplies and postage	22,285	20,238
Travel, meetings and training	21,374	19,464
Other	23,407	16,338
Total Expenses	564,666	442,054

Income before provision for income taxes	69,714	82,729
Provision for income taxes	33,640	27,882

Net income

	36,074	54,847
Members' equity at beginning of year	361,733	306,886

Members' equity at end of year

\$ 397,807 \$ 361,733

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows | National Association of Securities Dealers, Inc.

	Year ended December 31	
	<u>1997</u>	<u>1996</u>
	(in thousands)	
Net Income	\$ 36,074	\$ 54,847
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51,989	40,509
Gain on sale of property and equipment	-	(1,958)
Provision for deferred income taxes	3,751	1,038
(Increase) in receivables and other current assets	(12,461)	(12,144)
(Increase) decrease in other assets	(434)	787
Increase in accounts payable and accrued expenses	36,851	27,864
(Decrease) increase in CRD deposits and deferred revenue	(4,649)	7,307
Increase (decrease) in accrued pension and other liabilities	4,602	(1,429)
Net cash provided by operating activities	115,723	116,821
Investing activities		
Proceeds from redemptions of investments	170,215	127,960
Purchases of investments	(233,727)	(156,176)
Proceeds from sale of property and equipment	-	4,274
Purchases of property and equipment	(118,579)	(75,162)
Net cash used in investing activities	(182,091)	(99,104)
Financing activities		
Increase in net SEC fees	47,726	-
Proceeds from acquisition of long-term debt	25,000	-
Net cash provided by financing activities	72,726	-
Increase in cash and cash equivalents	6,358	17,717
Cash and cash equivalents at beginning of year	37,193	19,476
Cash and cash equivalents at end of year	\$ 43,551	\$ 37,193

See accompanying notes to consolidated financial statements.

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 RWDT
 RWTI
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 RYEL
 RYVA
 SABB
 SABC

1. Summary of Significant Accounting Policies

Principles of Consolidation — The consolidated financial statements consist of accounts of the National Association of Securities Dealers, Inc. (“the NASD” or “the Company”), including its wholly owned subsidiaries The Nasdaq Stock Market, Inc. (Nasdaq), NASD Regulation, Inc. (NASDR), Nasdaq International Market Initiatives, Inc. (NIMI), Nasdaq International, Ltd. (Nasdaq International), Securities Dealers Insurance Company Ltd. (SDIC), and the Securities Dealers Risk Purchasing Group, Inc. (SDRP) after elimination of all significant intercompany transactions.

NASD oversees the activities of the U.S. broker/dealer profession and regulates the Nasdaq market and the over-the-counter securities markets. Nasdaq develops and operates a variety of marketplace systems and services and formulates market policies and listing criteria. NASDR carries out the NASD’s regulatory functions, including onsite examinations of member firms, continuous automated surveillance of markets operated by Nasdaq, and disciplinary actions against broker/dealers and their professionals. NIMI offers a variety of consulting services to assist emerging and established securities markets around the world with both technology applications and regulation. Nasdaq International promotes the Nasdaq market worldwide. SDIC is a captive insurance company established to reinsure risks associated with the member fidelity bond program. SDRP is a risk purchasing group formed to make available professional liability insurance for NASD members.

As an association established to regulate the Nasdaq market and the over-the-counter securities markets and provide information and trading services to market participants, the Company’s receivables are concentrated with firms in the broker/dealer industry.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

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

Property and Equipment — Property and equipment are recorded at cost less accumulated depreciation. 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. Estimated useful lives generally range from 10 years to 40 years for buildings and improvements; 2 years to 5 years for data processing equipment and software; and 5 years to 10 years for furniture and equipment. Leasehold improvements are amortized over the lesser of the useful life of the improvement or the term of the applicable lease.

Software — 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.

Advertising Costs — The Company expenses advertising costs in the periods in which the costs are incurred. Advertising expenses totaled \$41,091,000 and \$24,345,000 for 1997 and 1996, respectively. These expenses are included in professional and contract services in the consolidated statements of income and members' equity.

Net SEC Fees — Pursuant to the National Securities Markets Improvement Act of 1996, the SEC is permitted to collect a fee based on a percentage of the total dollar value of securities sold in the Nasdaq market. These fees are designed to cover costs incurred by the government in the supervision and regulation of securities markets and securities professionals. The NASD charges these fees monthly to its members and remits them to the United States Treasury semiannually on March 15th and September 30th. Net SEC fees of \$47,726,000 at December 31, 1997 represent amounts charged to members less amounts billed and not yet collected, which will be included in the March 15, 1998 remittance to the United States Treasury.

CRD Deposits and Deferred Revenue — CRD deposits represent deposits made by NASD member firms into the Company's Central Registration Depository (CRD) system. These deposits are used by the member firms to pay for CRD transactions, including registration fees charged by states and other self-regulatory organizations. CRD deposits totaled approximately \$25,056,000 at December 31, 1997. Deferred revenues represent cash received for which services have not yet been provided. Total deferred revenues at December 31, 1997 were approximately \$24,302,000.

Classifications — Certain amounts for the prior year have been reclassified to conform with the 1997 presentation.

Income Taxes — NASD and NASDR are tax-exempt organizations under the Internal Revenue Code (IRC) Section 501(c)(6). All other 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.

2. Investments

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 Company. Throughout the year, up to 5 percent of the investments may be classified as available-for-sale to satisfy cash management needs.

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

	1997		1996	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Due in one year or less	\$ 108,713	\$ 108,684	\$ 74,762	\$ 74,885
Due after one year through five years	221,637	224,295	192,076	192,545
	<u>\$ 330,350</u>	<u>\$ 332,979</u>	<u>\$ 266,838</u>	<u>\$ 267,430</u>

The gross unrealized gains and (losses) of the investments at December 31, 1997 were \$2,731,000 and (\$102,000), respectively. The gross unrealized gains and (losses) at December 31, 1996 were \$1,275,000 and (\$683,000), respectively.

SARI
SACM
SAESY
SAFC
SAFE
SAFM
SAFT
SAGE
SAGE
SALD
SALT
SAIV
SAMC
SAND
SANG
SANM
SANO
SANYY
SAPE
SASOY
SASR
SATC
SATH
SAVB
SAVLY
SAVO
SAWS
SBAS
SBCEA
SBCEM
SBCEO
SBEI
SBFL
SBGA
SBGI
SBHC
SBIB
SBIG
SBIO
SBIT
SBLI
SBNN
SBSE
SBTK
SBTVF
SBUF
SBUX
SCAI
SCBHF
SCBI
SCBS
SCCB
SCCO
SCES
SCHH
SCHK
SCHE
SCHN
SCHR
SCIO
SCIXF
SCLN
SCMM
SCNG
SCNI
SCOC
SCON
SCOP
SCOR
SCOT
SCPI
SCSC
SCSWF
SCTC
SCTR
SCUR
SCVL
SDCOZ
SDH
SDIX
SDLI
SDRC
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SEHI
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SELAY
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SEMICF
SEMD
SEMI
SEMY
SENERB
SEPC
SEPR
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SERD
SESI
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SEYE
SEYAM
SFDS
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SFGD
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SFLX
SFNB
SFNCA
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SFSI
SFSX
SFSL
SFSW
SFTW
SFUN
SFXBA
SGASZ
SGC
SGMA
SGNS
SGOLY
SGPH
SGVB
SHBK
SHBZ
SHCR
SHDN
SHEL
SHEH
SHFL
SHLL
SHLM
SHLO
SHLR
SHMN
SHOD
SHOR
SHOW
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3. Long-Term Debt

In May 1997, the Company entered into a \$25,000,000 note payable with a financial institution (the Lender). The note requires monthly interest payments at a rate of 7.41 percent through May 2007. In May 2007, NASD will incur interest equal to the Lender's cost of funds rate, as defined in the agreement, plus .5 percent. Principal payments are scheduled to begin in 2007 and continue in equal monthly installments until maturity in 2012. NASD is required to maintain, in a separate custody account with the Lender, an amount equal to approximately 110 percent of the outstanding principal balance. The investments collateralizing the note are separately disclosed in the consolidated balance sheet as restricted. Interest payments under the agreement totaled \$1,009,000 for 1997. Of this amount, \$381,000 was capitalized in connection with the expansion of NASD facilities. The fair value of the outstanding principal balance at December 31, 1997 approximates the carrying value at that date.

4. Income Taxes

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

	<u>1997</u>	<u>1996</u>
	(in thousands)	
Current income taxes:		
Federal	\$ 23,890	\$ 21,630
State	5,999	5,214
Total current income taxes	<u>29,889</u>	<u>26,844</u>
Deferred income taxes:		
Federal	3,005	865
State	746	173
Total deferred income taxes	<u>3,751</u>	<u>1,038</u>
Total provision for income taxes	<u>\$ 33,640</u>	<u>\$ 27,882</u>
Income taxes paid during the year	<u>\$ 29,074</u>	<u>\$ 25,133</u>

The effective tax rates for the taxable entities were 45 percent and 40 percent for 1997 and 1996, respectively.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Components of the net deferred tax liability consisted of the following as of December 31:

In thousands	<u>1997</u>	<u>1996</u>
	(In thousands)	
Deferred tax assets:		
Deferred entry fees	\$ 518	\$ 2,624
Compensation and benefits	399	2,016
Other	1,116	356
Total deferred tax assets	<u>2,033</u>	<u>4,996</u>
Deferred tax liability:		
Depreciation	(7,398)	(6,610)
Net deferred tax liability	<u>\$(5,365)</u>	<u>\$(1,614)</u>

5. Employee Benefits

The Company 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 employees' average salary during the highest 60 consecutive months of employment.

The Company'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 \$7,270,000 and \$6,533,000 were required for 1997 and 1996, respectively. The following table sets forth the plans' net pension cost for the years ended December 31:

	<u>1997</u>	<u>1996</u>
	(In thousands)	
Service cost	\$ 6,743	\$ 6,301
Interest cost	5,860	5,364
Actual return on plan assets	(10,322)	(8,461)
Net deferral and amortization	7,120	4,655
Net pension cost	<u>\$ 9,401</u>	<u>\$ 7,859</u>

The following table sets forth the plans' funded status and amounts recognized in the balance sheets as of December 31:

	<u>1997</u>	<u>1996</u>
	(In thousands)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$45,188 in 1997 and \$40,748 in 1996	<u>\$ 53,188</u>	<u>\$ 47,471</u>
Projected benefit obligation	90,530	81,288
Less plan assets at fair value, principally equities and U.S. Government and agency debt	<u>68,467</u>	<u>56,054</u>
	22,063	25,234
Unrecognized net asset	2,119	2,335
Unrecognized net gain (loss)	1,039	1,231
Prior service cost	(3,211)	(3,208)
Accrued pension cost	22,010	25,592
Less current portion	7,270	11,552
Long-term accrued pension cost	<u>\$ 14,740</u>	<u>\$ 14,040</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 7.25 percent and 5.5 percent, respectively, at December 31, 1997, and 7.75 percent and 5.5 percent, respectively, at December 31, 1996. The expected long-term rate of return on plan assets was 9 percent for 1997 and 1996. The unrecognized net asset is being recognized over 20 years, the average remaining service period of employees expected to receive benefits under the plan.

The Company also maintains a voluntary savings plan for employees. Employees are immediately eligible to make contributions to the plan and after one year of service are also eligible for an employer contribution match at an amount equal to 50 percent of the first 6 percent of eligible employee contributions. Eligible plan participants may also receive an additional discretionary match from the Company. Savings plan expense for the years 1997 and 1996 was \$5,818,000 and \$5,064,000, respectively. The expense included a discretionary match authorized by the Board of Governors totaling \$2,812,000 for 1997 and \$2,422,000 for 1996.

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6. Leases

Furniture, equipment and leasehold improvements include amounts under capital leases, net of accumulated depreciation and amortization, totaling \$1,030,000 and \$1,383,000 at December 31, 1997 and 1996, respectively.

The Company 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 \$17,072,000 in 1997 and \$13,318,000 in 1996. Future minimum lease payments under noncancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 1997:

	Operating Leases
	(In thousands)
1998	\$ 12,172
1999	11,153
2000	11,090
2001	10,306
2002	9,474
Remaining years	<u>22,064</u>
Total minimum lease payments	<u>\$76,259</u>

7. Commitments and Contingencies

There are certain legal proceedings pending against the Company. Management believes, based upon the opinion of counsel, that any liabilities or settlements arising from these proceedings will not have a material effect on the financial position or results of operations of the Company.

In November 1997, the Company entered into an agreement with MCI Communications Corporation to replace the existing data network that connects the Nasdaq market facilities to market participants. The contract contains a minimum guarantee of \$300,000,000 to be incurred through November 2003. Data communication costs incurred under network agreements are directly charged to market participants and, therefore, are netted against these revenues.

8. Business Segment Information

The NASD operates two primary business segments: NASDR and Nasdaq. NASDR and Nasdaq provide substantially all of the Company's revenues. As described in the summary of significant accounting policies, these segments also represent separate identifiable organizations. Each segment has a President that reports directly to the Company's CEO and the respective Boards. Services provided by all other potential segments represent less than 10% of consolidated gross revenues. Accordingly, activities related to these entities, including those of the NASD Parent, are included in All Other. Revenues generated by entities in All Other consist mainly of interest income and assessments on registered representatives charged to cover regulatory and market policy functions.

NASDR — Carries out the regulatory functions of the Company, including on-site examinations of member firms, continuous automated surveillance of markets operated by Nasdaq, and disciplinary actions against broker/dealers and their professionals. Fees are assessed to cover particular services, both regulatory and non-regulatory, and member assessments are levied to cover examinations and related regulatory functions.

Nasdaq — Develops and operates a variety of marketplace systems and services and formulates market policies and listing criteria. Fees are charged for the sale or distribution of market data and related information and for transactions using Nasdaq's market facilities. Fees are also charged to listed companies to cover the cost of Nasdaq's value added services, as well as listing qualification functions.

Segment Income or Loss

The NASD's accounting policies for segments are the same as those described in the summary of significant accounting policies. Management evaluates segment performance based on operating income or loss before income taxes. Transfers between segments are accounted for at cost.

	1997*			
	NASDR	Nasdaq	All Other	Consolidated
	(In thousands)			
Revenues, principally from				
External Customers	\$220,080	\$381,334	\$ 11,772	\$613,186
Interest Income, net	6,733	6,725	6,935	20,393
Direct Expenses,				
Excluding Depreciation	208,461	196,085	107,330	511,876
Depreciation Expense	6,499	31,205	14,285	51,989
Intercompany Charges, net	11,065	78,503	(89,568)	—
Operating Income Before				
Income Taxes	788	74,413	(5,487)	69,714
Income Taxes	—	33,640	—	33,640
Total Assets	139,168	343,012	215,391	697,571
Working Capital, including				
non-current, unrestricted				
investments	42,542	92,589	43,288	178,419
Capital Expenditures	9,702	79,887	31,985	121,574

*The Company changed the structure of its internal organization in May 1996 with the creation and operation of NASDR. Due to this change it would be impractical to disclose comparable information for the year ended December 31, 1996.

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Report of Independent Auditors | **National Association of Securities Dealers, Inc.**

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National Association of Securities Dealers, Inc.

We have audited the accompanying consolidated balance sheets of the National Association of Securities Dealers, Inc., as of December 31, 1997, and 1996, 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., at December 31, 1997, and 1996, and the consolidated results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst + Young LLP

Washington, DC
February 20, 1998

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