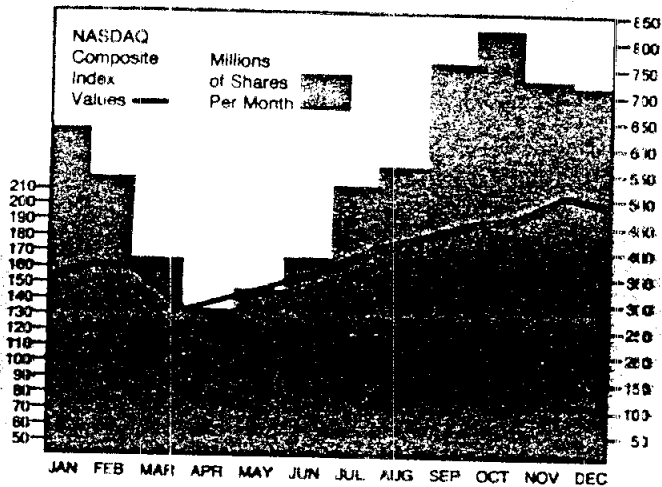


**NATIONAL ASSOCIATION OF  
SECURITIES DEALERS, INC.**



**1980 Annual Report**

# Highlights of 1980



All-time record highs for the NASDAQ Composite Index and NASDAQ share volume marked the sixth successive year of the bull market for NASDAQ securities (Pages 4-5)

**MARKET SURVEILLANCE** kept pace with the record activity, with (Pages 10-11)

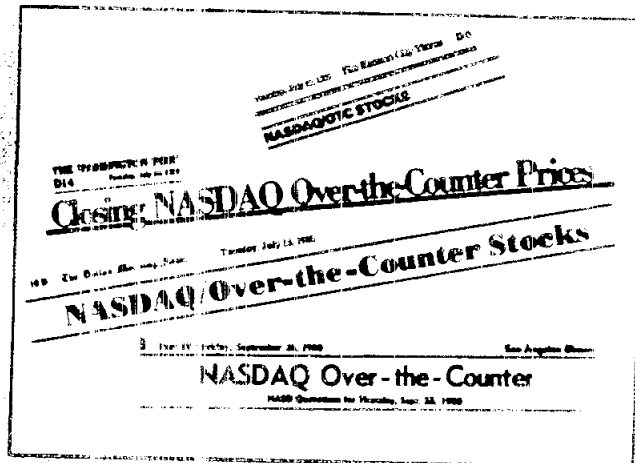
- 4,141 on-line computer notifications of price parameter breaks
- 3,592 on-line and routine surveillance reviews of unusual activity
- 73 formal investigations

as did **BROKER/DEALER SURVEILLANCE**, with (Pages 12-13)

- 2,179 main office routine examinations
- 125 financial & operational examinations
- 537 special examinations
- 315 branch office examinations
- 259 formal & summary complaints

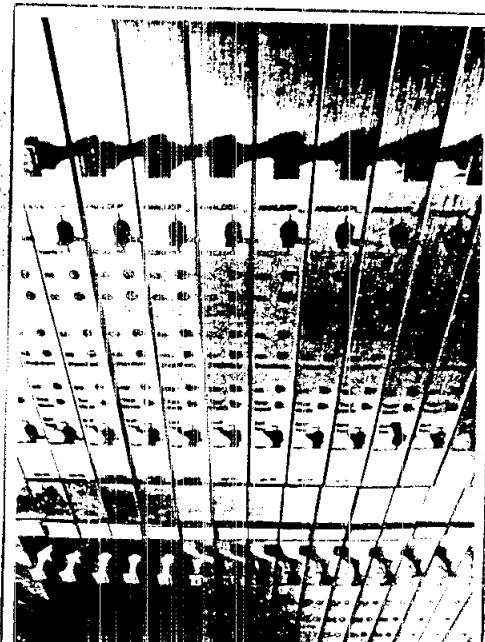
## Published Spreads on NASDAQ Securities after Inside Quotations

|                  |              |
|------------------|--------------|
| <b>NARROWED</b>  | <b>86.5%</b> |
| <b>UNCHANGED</b> | <b>10.8%</b> |
| <b>WIDENED</b>   | <b>2.7%</b>  |



The most significant market information improvement since the start-up of the NASDAQ System in 1971 was the display of inside quotations—the highest bids and the lowest offers—in July 1980. This sharply narrowed the published spreads (left) and increased visibility (right) for NASDAQ securities. (Page 4)

A \$10 million upgrade of the NASDAQ System got underway, to increase the capacity and efficiency of the OTC market and to provide it with new surveillance and clearing services. (Pages 8-9)

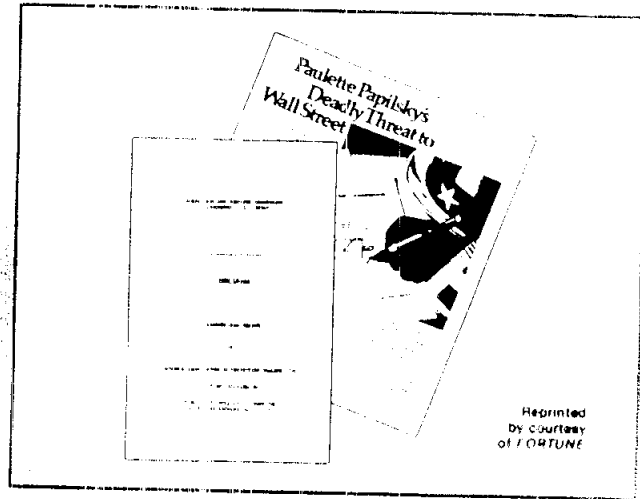


**CORPORATE OFFERINGS**  
(millions of dollars)

|      |                    |
|------|--------------------|
| 1980 | \$27,599           |
| 1979 | \$10,973           |
| 1978 | \$10,319 (Page 12) |
| 1977 | \$10,286           |
| 1976 | \$12,258           |

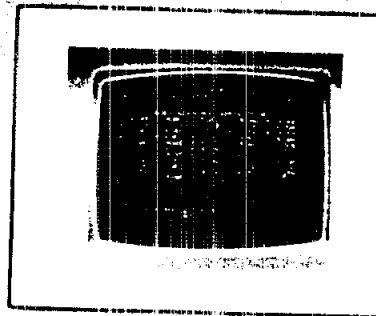
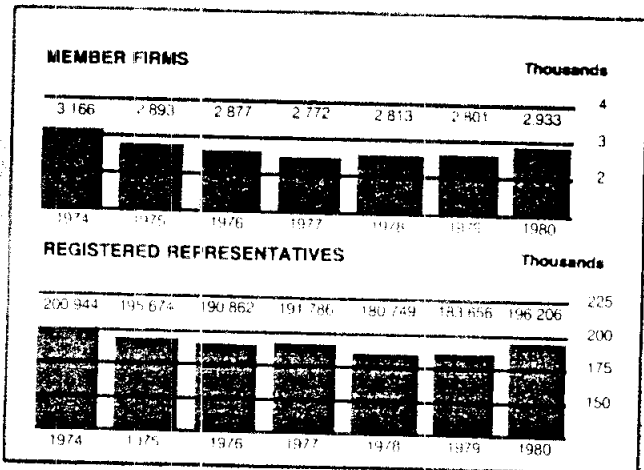
**DIRECT PARTICIPATION PROGRAMS**  
(millions of dollars)

|      |         |
|------|---------|
| 1980 | \$6,627 |
| 1979 | \$3,677 |
| 1978 | \$2,836 |
| 1977 | \$1,902 |
| 1976 | \$1,299 |

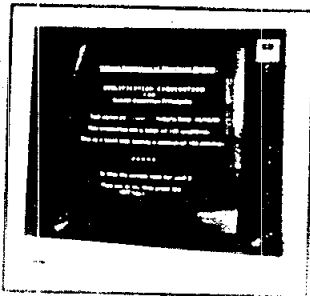


Reprinted by courtesy of FORTUNE

As corporate offerings reached new record levels, the landmark SEC approval of the NASD's "Papilsky" rules package preserved and reaffirmed the fixed price distribution system. (Page 16)

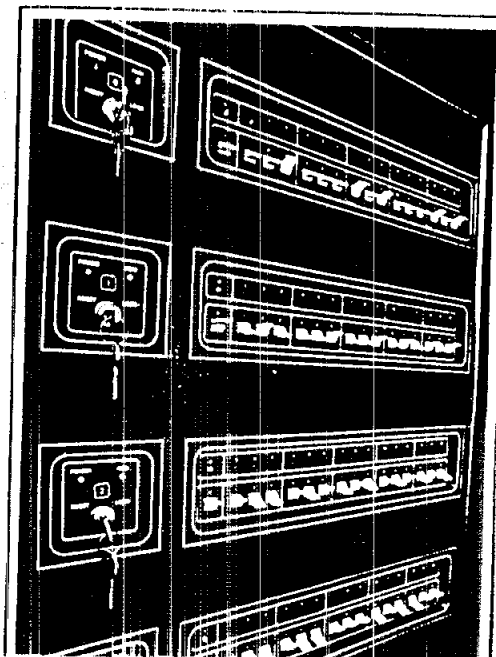


NASD membership and Registered Representatives rose significantly for the first time in years, and the Central Registration Depository moved to the verge of 1981 implementation. (Page 17)



Automating 70% of the qualifications examinations administered by the NASD made testing more expeditious for securities professionals. (Page 17)

For National Market System development, an NASD subsidiary invested \$2.5 million in a Computer Assisted Execution System (CAES) and a Switch linking the OTC and exchange markets. (Pages 6-7)



# Chairman's and President's Report



James F. Keegan, *Chairman*



Gordon S. Macklin, *President*

1980 will be remembered as a year of record prices and volume for NASDAQ securities coupled with a record level of activity within almost every area of NASD responsibility. While the single most significant development of the year may well be the reaffirming of the fixed price distribution system of underwriting, there were many actions taken during the year which will prepare the NASD to operate and regulate the over-the-counter market of the future.

## **NASDAQ**

In the NASDAQ System, the six-year bull market climbed to new price and volume highs. The NASDAQ Composite Index was up 34% over 1979, the previous record year, and volume rose 83%. This price performance topped that of the NYSE Composite Index by 32%, and NASDAQ share volume grew to nearly 60% of NYSE share volume. The number of NASDAQ quoted companies rose to 2,800, 300 more than in 1979 and the highest level since 1974.

The most significant NASDAQ development of 1980 was the introduction of inside quotations, the highest bids and lowest offers on NASDAQ securities, onto the desk-top terminals of Registered Representatives and into newspapers throughout the nation. Inside quotations dramatically narrowed the published spreads on 85% of NASDAQ securities and made more visible the quality of the markets which have long existed for NASDAQ securities.

Plans were completed during the year for a \$10 million upgrade of virtually all of the facilities connected to the NASDAQ System. The System's new central computers, when they are fully installed in 1981, will have triple the memory capacity and twice the speed of the ones they replace. The new NASDAQ terminals will have eight times the display capacity of the old ones, and the reliability of the entire System will be greatly enhanced.

## **CORPORATE FINANCING**

Over \$27 billion of corporate offerings, also a record level, were filed by members with the NASD during the year. This compares to \$12.5 billion in 1975. Filings of direct participation programs amounted to \$6.6 billion, nearly double the level filed in 1979.

In addition to reviewing the underwriting terms of offerings filed, the NASD conducted seminars in four cities throughout the country on due diligence investigations. Over 400 securities professionals attended the seminars, which should serve to improve members' knowledge of their responsibilities in this area.

The most far reaching development in 1980 relating to corporate financing was the SEC's approval of the Association's so-called "Papilsky" rules which preserve and reaffirm the fixed price distribution system of underwriting. Resolution of the questions relating to the Association's underwriting rules was an important achievement brought about by a superb cooperative effort involving the Securities Industry Association as well as the SEC and the NASD.

## **SURVEILLANCE**

In keeping with the record level of activity during the year, NASD Market Surveillance set a record of 3,600 reviews of unusual activity in NASDAQ securities, compared to 2,300 in 1979. Meaningful progress was made in the establishment of timely quotation halts in conjunction with the release of important news by NASDAQ companies. There were 532 quotation halts initiated during the year, in contrast to 482 in 1979.

Broker/dealer surveillance, in which more than half of the industry representatives serving on Association committees are directly engaged, substantially exceeded previous levels in terms of the number and scope of on-site examinations of member firms. Particular effort was directed in 1980 to branch office examinations and anti-fraud activity.

The surveillance capabilities of the NASD will be substantially elevated as a result of the work initiated this past year to construct a Market Information Data Access System, called MIDAS, that will provide instantaneous access to historical quotations of all market makers in NASDAQ securities.

## **NATIONAL MARKET SYSTEM**

Adoption by the SEC in July 1980 of Rule 19c-3, which allows exchange members to make off-board markets in securities listed on an exchange after April 26, 1979, is a major step in the evolving National Market System. However, after six months of experience with Rule 19c-3, it is evident that the experiment is proceeding slowly, as many of us predicted. Most OTC market makers terminate their sponsorship of a security when it lists because nearly all currently functioning automated routing systems direct order flow in listed securities only to exchange floors.

NASD Market Services, Inc., a subsidiary of the

Association, committed \$2.5 million to build a message switch and Computer Assisted Execution System (CAES) which will give off-board market makers the rapid and economical access to retail order flow that is needed to compete with exchanges. A CAES pilot linkage between market makers and retail order departments will become operational in early 1981, and a linkage between CAES and the Intermarket Trading System of the exchanges is to follow.

#### MEMBERSHIP

The Association's membership grew to 2,933 firms, 132 more than in 1979 and the largest number since 1975, while the number of Registered Representatives rose to 196,000, 13,000 more than in 1979 and also the highest since 1975.

During the year, development of the battery of qualifying tests needed to cover the full range of members' business activities was completed. Further, 70% of the examinations taken by candidates were administered on the automated PLATO System.

As a result of an historic cooperative agreement between the NASD and the North American Securities Administrators Association, construction was initiated on the Central Registration Depository (CRD), with start-up scheduled for April of 1981. This System will provide for the licensing and registration of representatives with exchanges, the NASD and participating states through a single form and a single check mailed to the NASD. Implementation of CRD will

greatly reduce members' costs for bringing new personnel into a productive state.

#### MANAGING 1981

Based on the accomplishments and initiatives taken during the past year, 1980 can be viewed as one of the most significant in the forty-one years of the Association's existence. Substantial progress was made to prepare the over-the-counter market and the NASD for the increasingly complex challenges of the future. Continued progress, as with progress in the past, will be the product of the skills and time commitment of those who participate in the Association's activities. An important step was taken in late 1980 with the creation of four more Governor-at-Large positions on the Board of Governors. These new positions will be filled in future years by outstanding representatives from such industry-related professions as accounting and the law, as well as additional executives of NASDAQ-quoted companies. The expertise of such Governors-at-Large, together with the talent and dedication of the hundreds of industry volunteers who guide the affairs of the NASD, gives us every reason to face the future with confidence.

Respectfully submitted,

*James F. Keegan*

James F. Keegan, Chairman

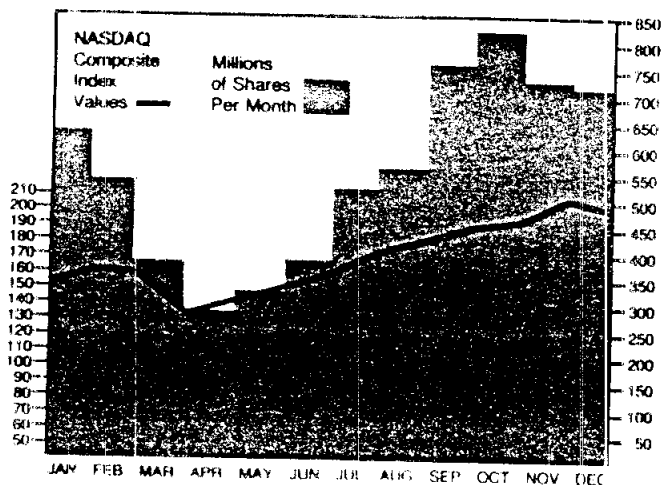
*Gordon S. Macklin*

Gordon S. Macklin, President



Board of Governors for 1981 includes (seated, from left) James F. Wade, Vice Chairman William B. Madden, Chairman L. C. Petersen, Vice Chairman Francis J. McCormack, Mason F. New, Williamson S. Stuckey, Jr. (standing, first row, from left) Edward S. Arnold, Shannon Michael Drew, Walter N. Frueck III, Ernest F. Rice, Jr., Gordon S. Macklin, James W. Ratzlaff, Benjamin L. Lubin, David Marcus, Conrad S. Young, W. Lincoln Mossop, Jr. (standing, second row from left) Robert H. Atkinson, Jr., Vernon B. Willis, Glenn F. Oxner, Norman T. Wilda, Jr., A. James Jacoby, H. Lawrence Parker, J. M. Hill. (Other 1981 Governors are) Andrew M. Blum, Frances B. Dyleski, Ray J. Groves, Bruce A. Mann, B. Mills Sinclair and Donald E. Weston.

# The Record Year for NASDAQ Securities



In 1980, the six-year bull market for NASDAQ securities reached all-time record levels

- The NASDAQ Composite Index closed 1980 at 202.34, up 34% for the year and 240% since the end of 1974;

- NASDAQ share volume of 6.69 billion shares was 83% higher than in 1979 and better than 5 1/2 times the volume in 1974, and

- The market value of the 2,700 domestic common stocks on NASDAQ at the end of the year was \$122 billion, compared to a market value of \$92 billion for 2,375 stocks in 1979

The great growth in NASDAQ share volume brought it to nearly 60% of the volume on the NYSE and to over four times the volume on the AMEX.

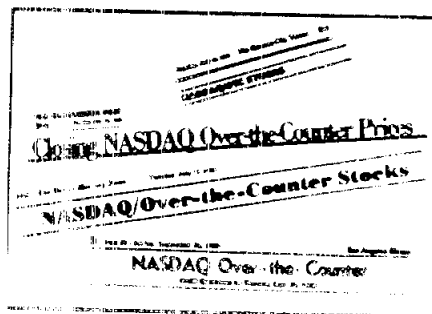
Three major developments accentuated the activity records.

## Inside Quotations

Inside quotations on NASDAQ securities—the highest bids and the lowest asks—replaced the Representative Bid/Ask quotations in July. Inside quotations benefitted issuers and investors more than any market information improvement since the start-up of the NASDAQ System in 1971, by narrowing published spreads . . .

|                  |              |
|------------------|--------------|
| <b>NARROWED</b>  | <b>86.5%</b> |
| <b>UNCHANGED</b> | <b>10.8%</b> |
| <b>WIDENED</b>   | <b>2.7%</b>  |

. . . and by heightening the newspaper visibility of NASDAQ securities.



## Higher Qualification Standards

Higher qualification standards for NASDAQ securities were proposed by the Association, doubling the present entry requirements to \$2 million in total assets and \$1 million in capital and surplus, and raising the requirements for continued quotation by 50%. The proposal, which requires SEC approval, would fit NASDAQ qualification standards to ongoing economic realities.

## Voluntary Display of Size

The voluntary display of size by NASDAQ market makers, along with their quotations, was under consideration at the end of 1980. This enhancement would allow market makers to commit themselves, if they so chose, for more than a normal unit of trading. Investors would benefit because market maker competition would become more intense, and orders could be executed faster, since more information on market makers' bids and offers would be displayed on NASDAQ screens.

### NASDAQ & the Exchanges 1980 Share Volume

|        |                |
|--------|----------------|
| NASDAQ | 6,691,630,900  |
| AMEX   | 1,625,790,000  |
| NYSE   | 11,352,293,351 |



Russell H. Baumgardner (second from left), Chairman of the Board and President of NASDAQ-quoted Apogee Enterprises, Inc. and a member of the NASD Corporate Advisory Committee, was the opening speaker at the October 1980 NASDAQ Company-NASD Consultation meeting in Chicago. Others on the speakers' panel were (from left) David S. Ruder, Dean and Professor of Law, Northwestern University School of Law; John H. Hodges, Jr., NASD Senior Vice President, Member Services-NASDAQ; NASD Governor Ernest F. Rice, Jr.; 1980 NASD Chairman James C. Keegan; and Douglas H. Curtis, NASDAQ Corporate Consultant for the Midwest.

## NASDAQ Company Involvement in the NASD

### Company Representation on NASD Board

The role of NASDAQ-quoted companies in the NASD, steadily on the increase since 1975, continued to expand in 1980. J.M. Hill, President of Rangaire Corporation, was elected to the NASD Board as a Governor-at-Large for 1981-84. Also, the membership of the Association approved a proposal to add four Governors-at-Large to the Board from NASDAQ companies and accounting and legal and other professions involved with the OTC market.



J. M. Hill

### The Corporate Advisory Committee

Mr. Hill assumed the Chairmanship of the Corporate Advisory Committee, which played a key role in the introduction of inside quotations and the proposals for higher qualification standards and the display of size. The Committee also developed NASD policy in the corporate governance area, positions on SEC regulatory proposals and Association services to NASDAQ companies (right). In 1981, the Committee will be enlarged to broaden the geographic and industry category representation of companies.

### 1980 NASDAQ Company-NASD Consultations

To bring NASDAQ companies up to date on developments and opportunities in the market for their securities, the Association in October conducted its annual program of NASDAQ Company-NASD Consultation meetings in Chicago (above) and 14 other cities across the country. Attendance consisted of 579 executives from 442 companies. Topics discussed were (1) how progressive NASDAQ companies attract investors (2) how market makers select their favorite NASDAQ securities (3) NASDAQ's six-year bull market (4) market surveillance (5) corporate responsibility.

### Corporate Consultants' Program

Three NASDAQ Corporate Consultants were appointed during the year, Douglas H. Curtis (in picture above) for the Midwest, Raymond J. Kiernan for the Southeast and Lewis M. Weston for the Northeast.



Raymond J. Kiernan



Lewis M. Weston

Their function is to advise NASDAQ companies on how best to maximize the benefits of the services which the NASD, the NASDAQ System and the OTC market provide. Companies drew extensively on the consultants' services.

# For OTC Participation in a National Market System

An unprecedented build-up of facilities to make the OTC market a strong force in a National Market System went steadily forward during the year.

## Situation: The 19c-3 Experiment

The NASD strongly endorsed an experiment in competition between OTC market makers and exchanges. The experiment began in July, when SEC Rule 19c-3 permitted the OTC departments of exchange member firms to make off board markets in listed securities, which had previously been forbidden by exchange rules. The securities involved were those listed after April 26, 1979.

As had been anticipated, the experiment proceeded slowly. At year end, 31 securities firms were making off board markets in 57 of the 208 19c-3 eligible securities.

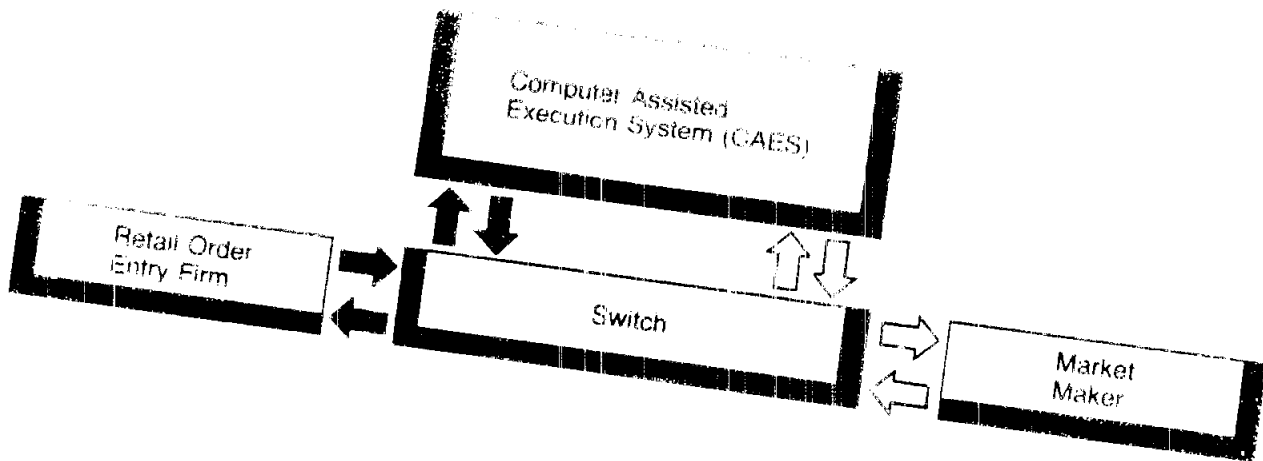
## Response: CAES

To strengthen the competitive position of market makers, NASD Market Services, Inc. put in place a message switching computer (opposite page), which will operate a new Computer Assisted Execution System (CAES). CAES will permit broker/dealers to execute transactions over the counter as economically as they are executed on an exchange.

Off board volume in these securities was 11.5% of total consolidated volume.

Both exchange member and non-member market makers limited their participation in the experiment because the automated order routing system of the exchanges temporarily gave floor specialists a competitive advantage. It was easier and more economical for order departments to attract the specialists, so that where off board market makers offered the same or even a better price for a security, they were not likely to get sufficient order flow.

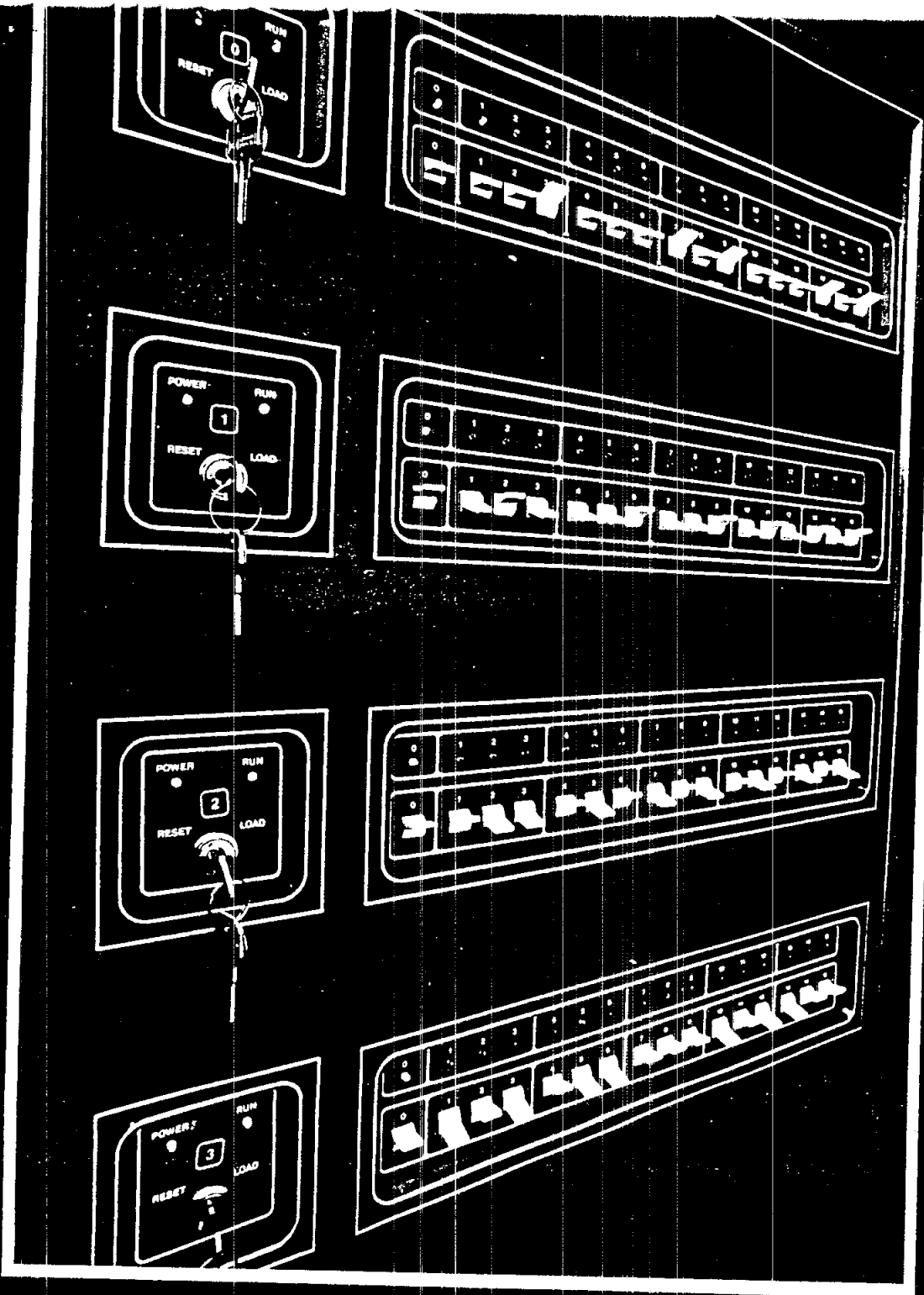
In 1981, CAES will become operational in a pilot linkage between the upstairs order rooms of exchange member firms and fourteen off board market makers, for retail order flow in selected and other listed securities.



## Proposed ITS Link

Beyond the pilot linkage, an automated connection between the CAES and the Intermarket Trading System of the stock exchanges was explored by the NASD and the NYSE. This would open the way to broad competition between off board market makers and exchange specialists.



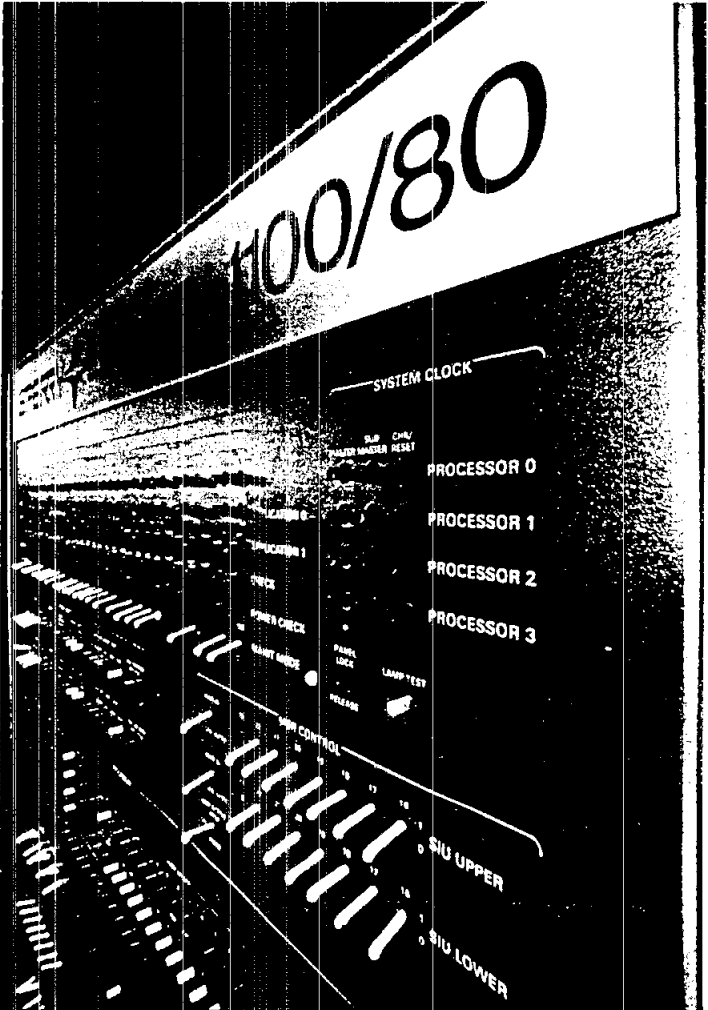
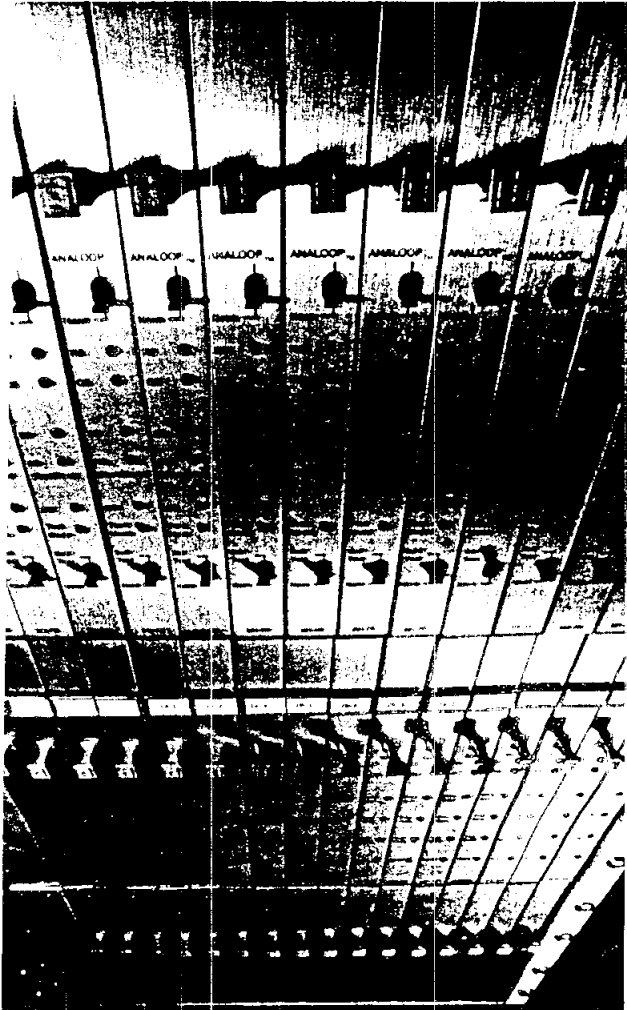


## A \$12.5 Million Upgrading of OTC Facilities

The sophisticated message-switching computer whose control panel is shown above, is part of the \$2.5 million investment by NASD Market Services, Inc. in CAES and in the linkage of the OTC and listed markets. The much larger investment of \$10 million by NASDAQ, Inc. will totally renew and expand the NASDAQ System (next pages) with more powerful, rapid and reliable central computers, network controls, concentrators and 1,700 NASDAQ terminals on NASDAQ's 3,000 mile-long trading floor.

Network Control Panel for upgraded NASDAQ System provides early warning of troubles in telephone lines and terminals of the System and pinpoints problems that have arisen.

New Central Computer will meet demands of far higher share days on the NASDAQ System, and also support CAES, the ITS interface, MIDAS (Page 11), TARS (Page 13) and CRD (Page 17).



New NASDAQ Terminal for market makers and financial institutions can display eight times the information on securities and operate at twice the speed of the one it replaces.

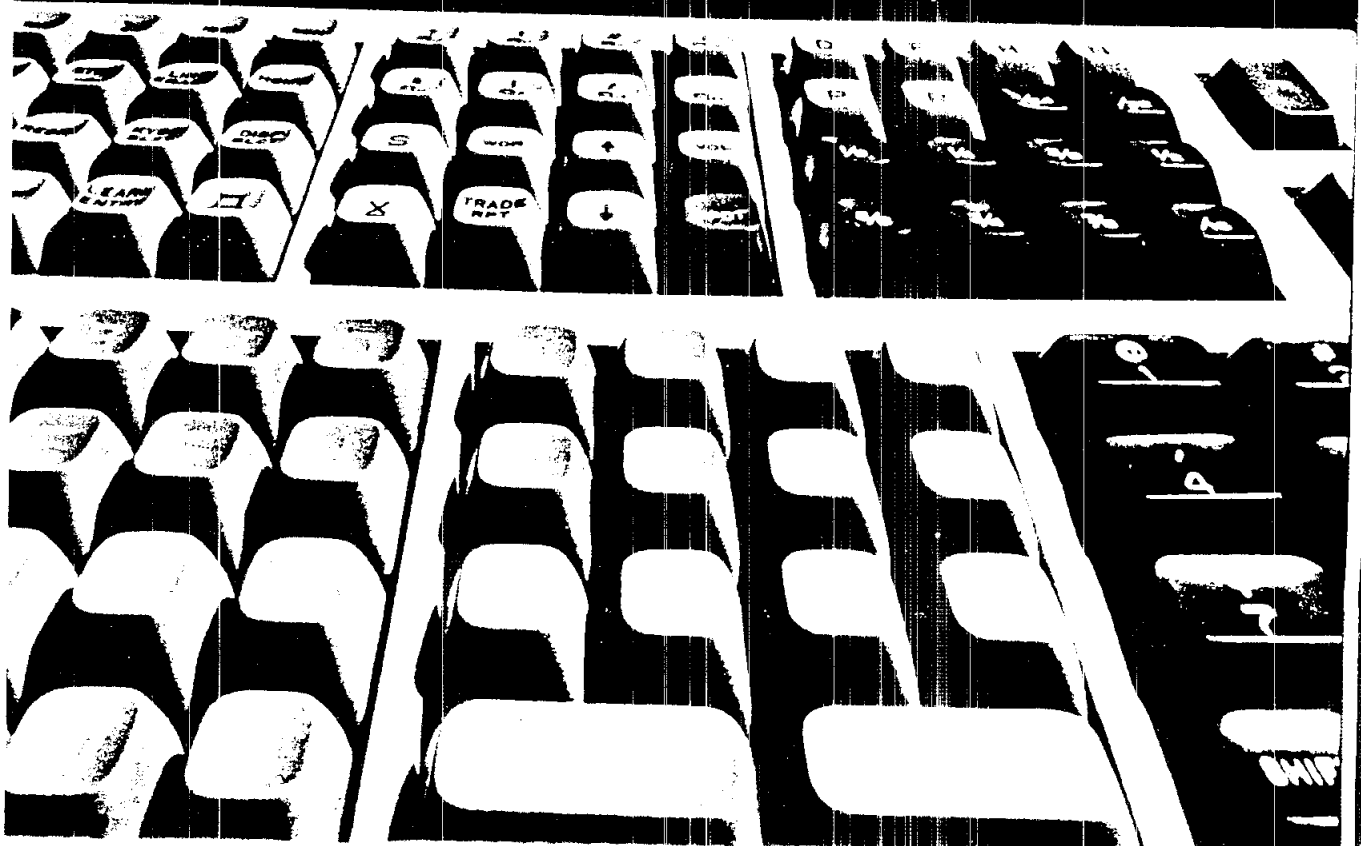
CLNP 17 3/8 17 1/2¢  
 FSWC 17 1/4 17 3/4  
 DBLR 17 3/8 17 7/8¢  
 WERT 17 1/4 17 3/4¢  
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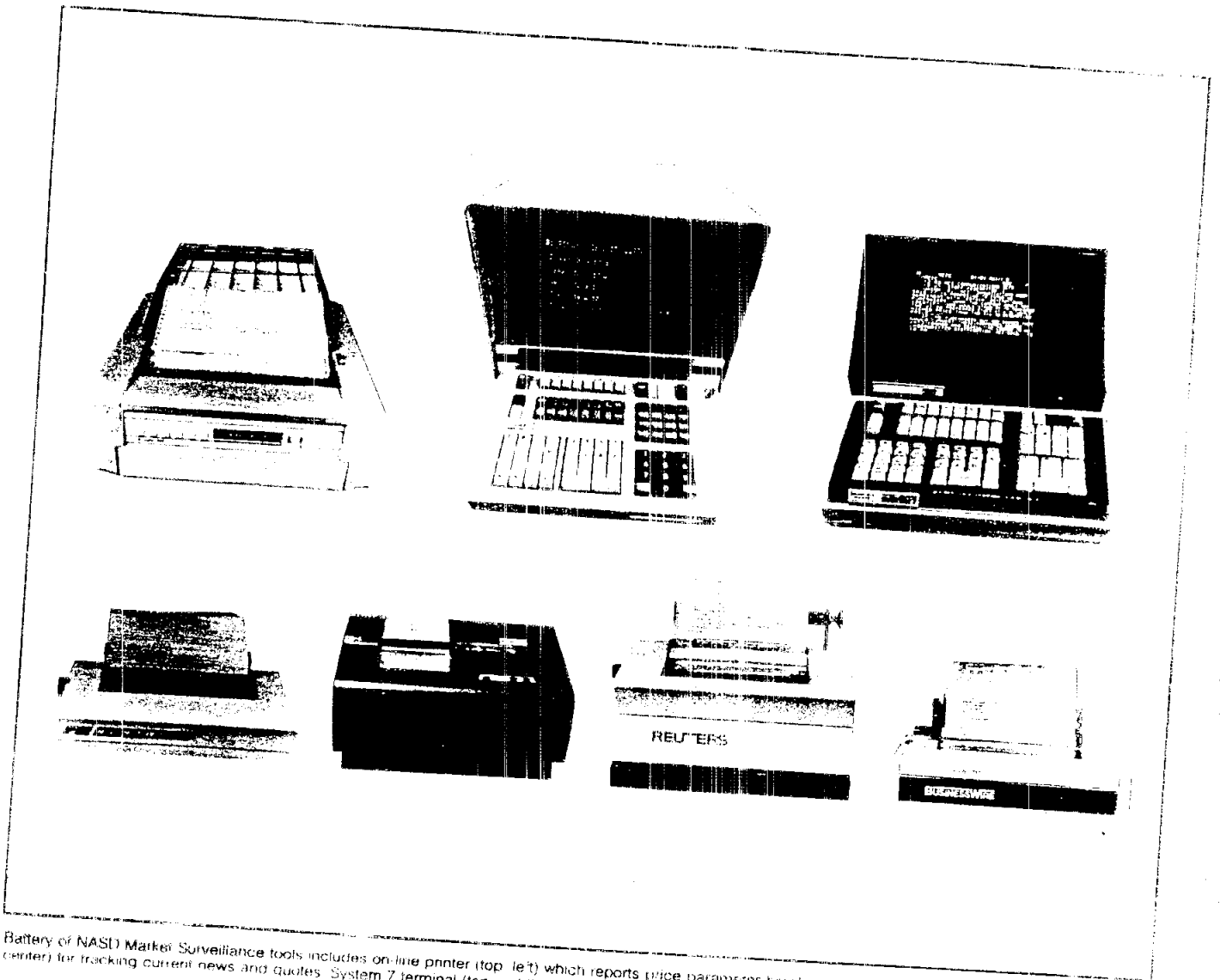
TNOM 83

3/8/6 SECURITY ADDITIONS.....  
 GNL GEMCO NATIONAL INC.....  
 SEP STATEX PET INC.....  
 EM ENERGY MINERALS CORP.....  
 CHE\$ L COMMONWEALTH ED 12.75 PFD

RASDQ-OR-B-I TERM-NORMAL PR/LP- - PG ERR SS-TWT



# Market Surveillance



Battery of NASD Market Surveillance tools includes on-line printer (top, left) which reports price parameter breaks on NASDAQ securities, NASDAQ terminal (top, center) for tracking current news and quotes, System 7 terminal (top, right) for retrieval of prior news and four newswires (bottom row)

## Procedure

With a combination of electronic tools and professional analysts, NASD Market Surveillance seeks to deter and detect manipulative practices and insider trading in NASDAQ securities. The NASDAQ computer is programmed with price parameters for NASDAQ securities. When a security breaks those parameters, the computer immediately notifies Market Surveillance and the analysts go to work to determine whether the unusual behavior of the stock was the result of legitimate market forces or improper activity.

# For NASDAQ Securities

## Statistics

During the intense market activity of 1980, NASD Market Surveillance

- Responded to 4,141 on-line notifications from the NASDAQ computer of price parameter breaks, compared to 1,600 such notifications in 1979;
- Completed 3,592 on-line and routine reviews of unusual activity, compared to 2,270 in 1979;
- Conducted 73 formal investigations of possibly improper activity, compared to 50 in 1979, and

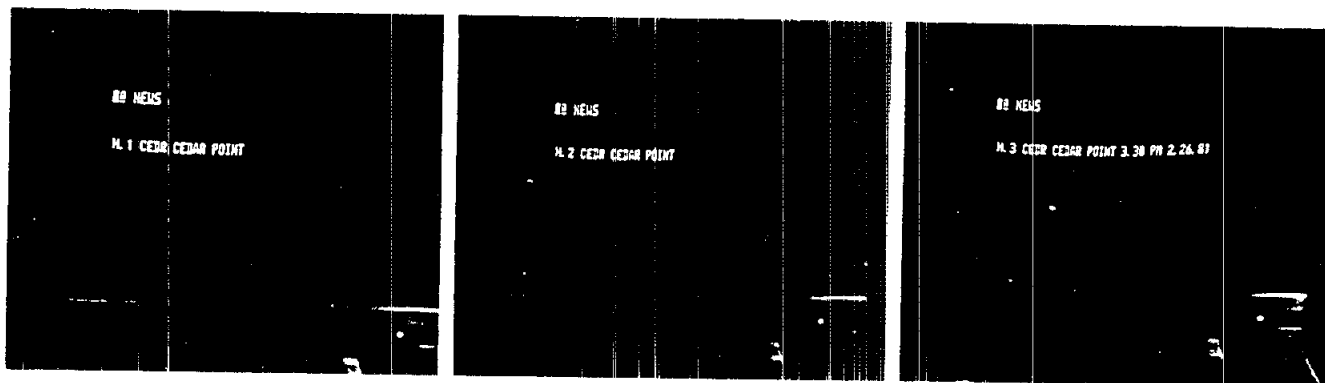
— Referred 24 of its formal investigation reports to NASD District Offices, the NASD's Anti-Fraud Section and to the SEC, for further investigation and disciplinary action, where appropriate, compared to 23 such referrals in 1979.

Nine disciplinary actions on cases developed by Market Surveillance became final.

## Quotations Halts

The quotations halt procedure is an integral part of NASD Market Surveillance activity. Under the procedure, quotations are halted on a security while important news about its issuer, which could affect the

price of the stock, is being disseminated. The halt gives investors the opportunity to make decisions on the basis of fair and equal access to the news.



Quotations halt proceeds in three stages. "H 1" indicates news on issuer is pending, "H 2" that NASD is verifying the news and "H 3" when halt will be lifted.

There were 532 quotations halts in 1980, compared to 482 in 1979. The great majority of the halts were initiated with the full assistance of NASDAQ-quoted

companies, who are aware that the procedure protects their relations with investors and market makers.

## The MIDAS Touch

As a result of developmental work in 1980, the battery of NASD Market Surveillance tools will be augmented in 1981 by the Market Information Data Access System (MIDAS). MIDAS will provide on-line access to an historical data base of minute-by-minute market maker price movements, which will be very helpful in precisely reconstructing and analyzing market activity under investigation.



District Committee officers for 1981 include (seated, from left) J. Sheldon Jones, Arnold L. Hoffman, Murray L. Finebaum, Edwin J. Pitcock; (standing, first row, from left) Carl Hohnbaum, David B. Coates, G. C. McCall, Jr., John E. McTavish; (standing, second row, from left) H. Keith Allen, Julian F. Gillespie, John I. Dolpfin, Bernard R. Bober and Carl H. Sherr. Other District Chairmen are C. Thomas Gray, Jr., Joseph M. Hickey and Peter K. Loeb.

## Examination Program

In meeting the Association's responsibilities for investor protection, the District Offices across the country (front cover) completed 2,179 main office routine, 125 financial and operational, 537 special (or "for cause") and 315 branch office examinations. All member firms designated by the SEC to the NASD for financial responsibility purposes were given at least one main office routine examination during the year.

## Disciplinary Actions

After review of all the examination reports, the thirteen District Business Conduct Committees (Pages 20-24) filed 252 formal and 7 summary complaints and accepted 51 Letters of Admission, Waiver and Consent (compared to 252 complaints and 59 letters in 1979). These actions resulted in the expulsion of 4 firms (15 in 1979), the barring of 52 individuals (90 in 1979), the suspension of 3 firms (6 in 1979) and the suspension of 49 individuals (54 in 1979).

## Self-Liquidation

In the year, the Association monitored the successful self-liquidation of five member firms designated to it for financial responsibility purposes. Since the inception of the program in 1975, the self-liquidation of 70 firms has led to the distribution of some \$56 million to customers and broker/dealers.

## SIPC Referrals & Trustees

Two SIPC trustees were appointed for broker/dealers designated to the NASD, and five altogether. In addition, six firms were on report to SIPC at year end as being in or approaching financial difficulty.

## Free-Riding Questionnaires

Because of the rebirth of the hot new issue market, free-riding questionnaires for 78 issues were authorized and nearly 3,000 copies of the questionnaires forwarded to members. In 1979, questionnaires were sent for only 20 issues.

## Customer Complaints

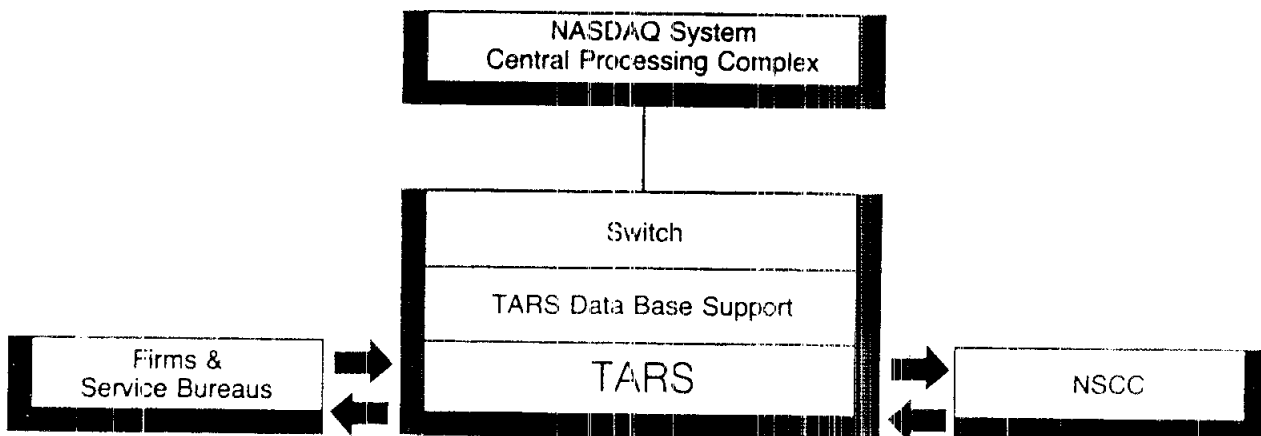
In the year, 1,071 customer complaints were received and 984 resolved. In 1979 and 1978, customer complaints received were 816 and 575, respectively.

## Anti-Fraud Section

The Anti-Fraud Section opened seven new investigations during the year and referred seven cases to the District Offices. Since September 1980, the Section has been working with the NASD's Denver office and the SEC Division of Enforcement on investigations of several speculative new offerings.

## Trade Acceptance & Reconciliation Service (TARS)

To facilitate clearing during high market activity, NASD Market Services, Inc. developed the concept of an automated OTC trade data reporting system, which will make possible comparison of trades through the NASDAQ System. The Trade Acceptance & Reconciliation Service (TARS) is to be implemented in a joint effort with the National Securities Clearing Corporation (NSCC).



# Corporate Financing

## A Dramatic Increase

Corporate financing activity of NASD members and investors in 1980 increased even more dramatically over 1979 than did activity in NASDAQ securities. Public offerings of corporate debt and equity securities filed with the NASD had two-and-a-half times the dollar value of such offerings in the previous year, and the value of direct participation program and REIT filings was 80% higher. The Association's Corporate Financing Department reviewed these offerings to determine the fairness and reasonableness of the underwriting terms and arrangements.

### Corporate Offerings

| Year | Number Filed | Gross Amount     |
|------|--------------|------------------|
| 1973 | 873          | \$10,457,624,923 |
| 1974 | 382          | \$ 6,906,023,659 |
| 1975 | 478          | \$12,522,667,348 |
| 1976 | 502          | \$12,257,751,962 |
| 1977 | 460          | \$10,285,528,468 |
| 1978 | 540          | \$10,318,820,869 |
| 1979 | 619          | \$10,972,669,051 |
| 1980 | 1279         | \$27,598,722,569 |

### Direct Participation Programs and REITs

| Year | Number Filed | Gross Amount     |
|------|--------------|------------------|
| 1973 | 555          | \$ 3,673,227,085 |
| 1974 | 319          | \$ 1,751,121,394 |
| 1975 | 252          | \$ 1,144,098,931 |
| 1976 | 204          | \$ 1,298,730,433 |
| 1977 | 191          | \$ 1,901,639,902 |
| 1978 | 220          | \$ 2,835,716,107 |
| 1979 | 251          | \$ 3,676,564,420 |
| 1980 | 344          | \$ 6,626,568,462 |

## A Clearer Outlook

The overall outlook for future underwriting activity was clarified in December 1980, when the fixed price distribution system was reaffirmed as a result of SEC approval of the NASD's so-called "Papilsky" rule package. (See Page 14.)

## No Filing of Private Offerings

The specific question of whether private offerings of direct participation programs would have to be filed with the NASD was resolved. A study of 1,415 private offerings showed that their underwriting arrangements and levels of compensation did not vary significantly from those normally found in public offerings, and that only a small percentage of the offerings studied posed any regulatory problems. The Association therefore decided not to require the filing of these offerings on an ongoing basis.

## "Due Diligence" Seminars

To reduce compliance problems with offerings which the Corporate Financing Department reviews, the Association in the Summer of 1980 sponsored four seminars—in Chicago, Denver, Los Angeles and New York—on "due diligence" investigations. Four hundred representatives of NASD member firms heard prominent securities attorneys and specialists in underwriting discuss the legal and practical aspects of these investigations, particularly in connection with direct participation programs.



At due diligence seminar in Chicago, panel members were (from left) NASD Vice President Dennis Hensley, underwriting specialists Peter J. Eichler and Peter A. Bernard, NASD President Macklin, securities attorneys Arthur Fleischer, Jr. and Linda A. Wertheimer, and 1979 NASD Chairman J. Stephen Putnam.

## Three Regulatory Changes

Three changes in the NASD's rules pertaining to corporate financing were initiated:

— The "operations, structure and management" of direct participation programs became subject to the Association's regulatory review with the approval of Article III, Section 34 of the Rules of Fair Practice. Appendix F of that Section, the substantive regulations, is on file with the SEC and is not yet effective.

— Also filed with the SEC were proposed changes to Schedule E of the Association's By-Laws, liberalizing the rules regarding a member's underwriting of its own securities or those of an affiliate, and

— A new draft Corporate Financing Rule, which would eventually replace the existing Board of Governors' interpretation with respect to Corporate Financing, was approved for member comment.



# More Investment Products

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## Money Market and Mutual Funds

— In response to industry and public demand, the Association began, in June 1980, the collection and dissemination of yield quotations on some 90 money market funds. The yield quotes, which are accompanied by quotations of each fund's dollar-weighted average portfolio maturity, are collected and released weekly to wire services for relay to newspapers.

— In September 1980, the membership approved revision of the Association's "Anti-Reciprocal" Rule and other amendments to the investment company-related regulations in Article IV, Section 26 of the Rules of Fair Practice. These amendments received SEC approval in early 1981.

— On October 28, 1980, the SEC adopted Rule 12b-1 under the Investment Company Act of 1940, which permits open-end investment management companies to bear expenses associated with distribution of their shares, if such companies comply with certain conditions and procedures. The Association had supported the rule change.

— Effective November 3, 1980, the Federal Reserve Board adopted an amendment to its Regulation T, which eliminated a long-standing prohibition against the extension of credit by broker/dealers on mutual fund shares. While this action represented an appropriate removal of a competitive inequality between banks and broker/dealers, a variety of legal and practical bars to such extension of credit remain.

## Municipal Securities

Throughout 1980, the NASD and its Municipal Securities Committee continued their close working relationship with the Municipal Securities Rulemaking Board (MSRB). The MSRB, in an important determination, concluded after a hearing and extended deliberation that there should be no pricing guidelines for municipal securities, because the nature of their marketplace made a structured mark-up policy impracticable.

## Variable Contracts

The principal development in the Variable Contracts area was the registration under the Federal Securities Laws of fixed annuity contracts issued by two life insurance companies. This was the first time that annuity contracts issued out of the general accounts of life insurance companies had been registered as securities. The Association is conducting a review of its By-Laws and Regulations to discover whether such contracts can be treated, for purposes of regulation, in the same manner as variable contracts.

## Variable Life Insurance

Another insurance company product engaging the Association's attention was variable life insurance. This contract, with reserves invested in a separate account consisting mostly of common stocks, provides a minimum guaranteed death benefit and the possibility of growth potential both in face amount and cash value. Until 1980, only one major company marketed such contracts, but a second major insurance company introduced a variable life insurance policy in September 1980, and a third is pending registration. Since these contracts are registered under Federal Securities Laws and are sold through NASD members, the Association has regulatory responsibility for them.

## Government-Guaranteed Securities

A Government-Guaranteed Securities Committee was formed and began to develop Association positions on the regulation of GNMA, GHLMC and other securities. Draft Federal legislation in this area has been prepared jointly by the Federal Reserve Board, the Treasury Department and the SEC.

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## Advertising Reviews & Rules

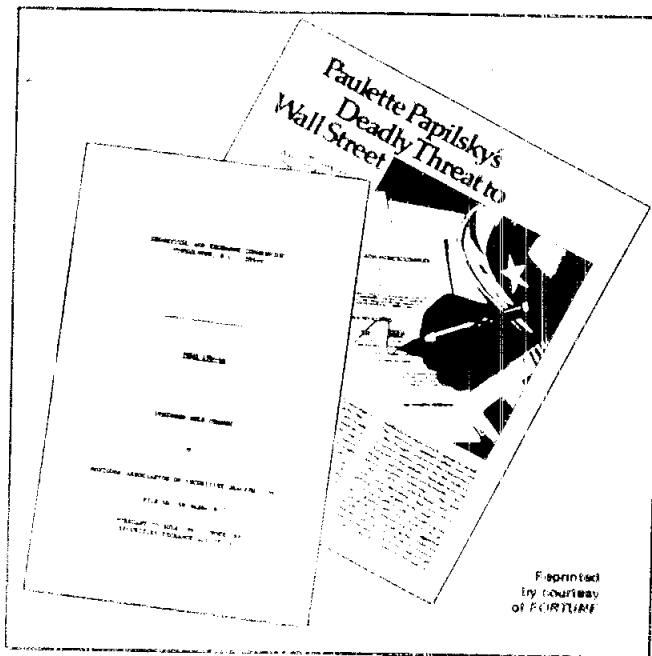
The Association's Advertising Department reviewed 9,700 pieces of advertising and sales literature filed by members during 1980, compared with approximately 8,800 pieces reviewed during 1979. Much of the increase in volume consisted of material concerning direct participation programs. In addition, approximately 3,700 pieces of material were reviewed in routine spot-checks, compared with 3,200 in 1979.

In December of 1980, the Association adopted a new rule regarding member advertising and sales literature. This rule codified various interpretations and policies into a single rule and eliminated the requirement that all members file advertising with the NASD.

## Fidelity Bonding

In late 1980, the Fidelity Bonding Committee began to study the possibility of the NASD's sponsoring a group-buying program to provide fidelity bonds for its members. The various insurance organizations contacted have been receptive to the proposal and the Committee is engaged currently in developing the specifications for such a program.

# Major Regulatory Developments



## The "Papilsky" Rules

On December 12, 1980, the Securities and Exchange Commission approved a package of rules proposed by the Association relating to the fixed price system of distributing offerings of securities. This approval was the culmination of four years of effort by the Association and a number of industry volunteers to preserve the established capital-raising mechanism. The rules, which were filed with the Commission on May 31, 1978 and amended on September 4, 1980, were developed in the wake of the decision in the case of *Papilsky vs. Berndt*, and have come to be known as the "Papilsky" rules.

The rules package consists of a new definition of the term "fixed price offering" in the Rules of Fair Practice, together with an amendment to Section 8, which imposes a more explicit prohibition on members' taking securities in trade at more than their fair market price, an amendment to Section 24 which clearly reaffirms that selling concessions, discounts or other allowances, whether direct or indirect, can only be paid to members actually engaged in the investment banking or securities business and only for services rendered in a distribution, and a new Section 36, which prohibits members from the sale of securities from a fixed price offering to related parties.

These rules will be declared effective by the Association during the first quarter of 1981, after they have been fully explained to the membership.

## Proposed Amendments to Net Capital Rule

Broker/dealer net capital became the focus of a great deal of Association attention in the latter part of 1980 when the SEC proposed a number of amendments to its five-year-old uniform net capital rule, Rule 15c3-1. The proposals would amend the alternative method of computing net capital by lowering both the ratio of required net capital to certain debit items and the minimum, as well as changing the treatment of certain debit items in the Reserve Formula. The Commission also proposed increases in haircuts for certain debt securities maintained in broker/dealer accounts. The Association's Capital and Margin Committee is prepared to respond to the SEC in early 1981.

## SEC Proposal to Amend FOCUS

In late 1980, the Association expressed general opposition to a Commission proposal to amend the FOCUS Reporting System. In its comments, the Association cited doubts about the need and usefulness of the proposals and characterized them as ill-timed because their implementation would significantly affect the industry's computer facilities at a time when these facilities are being heavily taxed by market conditions. The Association also noted that, in light of recent proposals to amend the net capital rule, it is examining a broad range of questions regarding the scope, adequacy and necessity of financial responsibility rules for brokers and dealers. It would be premature and costly to the industry to proceed with efforts to finalize FOCUS, a report which is predicated on the provisions of the net capital rule.

# Membership and Qualifications

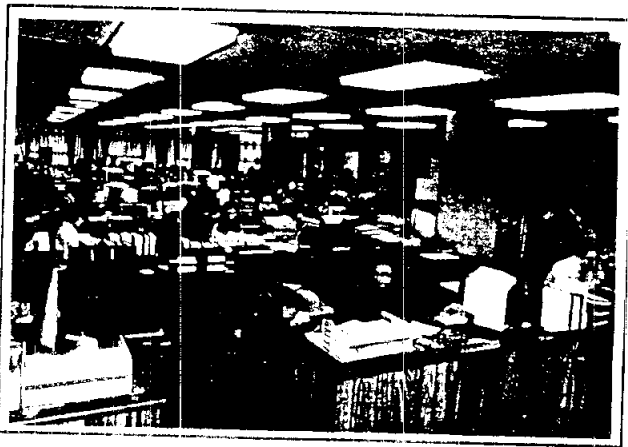
## Membership Growth

The first pronounced membership growth in more than a decade was recorded as 296 new firms were admitted to the NASD, bringing the total membership to 2,932, a gain of 133 firms over 1979. In addition, 226 applications for membership were on file at the end of the year. Most of the new firms are involved in the distribution of direct participation programs.

The total number of Registered Representatives increased from 183,656 to 196,206.

## Central Registration Depository (CRD)

The new Central Registration Depository is scheduled to become operational in the first half of 1981, and will permit a broker/dealer to file one form with one check to effect multiple registrations and licenses with the self-regulatory organizations and the states. During 1980, the Registration Department added staff, CRT terminals, microfilm machinery and computer software to prepare for CRD implementation.

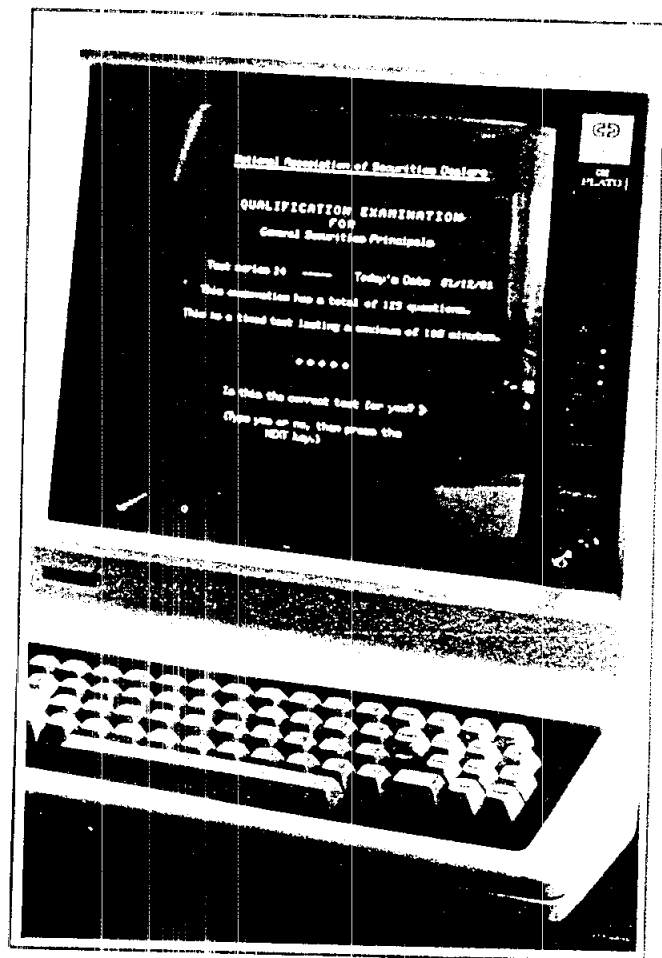


On 9th Floor at NASD in Washington, staff members process registration data that will appear on CRD screens.

## Qualifications

As the test administrator for the industry, the NASD administered more than 60,000 qualifications examinations for itself, other self-regulatory organizations, the SEC, the states and the commodity exchanges.

Some 70% of the NASD's examinations were automated on the PLATO System of Control Data Corporation's nationwide Learning Centers.



The Association completed its battery of tests covering the full range of members' business activities, as it implemented limited representative examinations for persons selling (1) investment company products and (2) direct participation programs. It also worked with the options exchanges and the NYSE to upgrade the Registered Options Principal examination program, and with a group of SROs to develop a new examination for general securities branch office managers.

## Greater SIPC Protection

Higher limits of protection for securities accounts of customers of broker/dealers who are SIPC members became effective in October, through Congressional amendment of the Securities Investor Protection Act of 1970. These increased limits of protection of \$500,000, including up to \$100,000 for claims for cash, represent a major improvement in the SIPC program.

## Small Business Financing

### H.R. 7554

In May 1979, the NASD's Joint Industry/Government Committee on Small Business Financing produced a report which addressed many of the capital-raising problems of small business. Included among the nineteen recommendations contained in that report was one which called for an exemption for venture capital companies from the Investment Company Act of 1940. In October 1980, President Carter signed into law H.R. 7554, the Small Business Investment Incentive Act of 1980 which, among other things, allows for the creation of a new type of entity to be known as the "business development company." It is a form of venture capital company designed to provide investment capital and managerial assistance to small businesses. In virtually all respects, it provides the relief the NASD and others had long sought. The new law exempts business development companies from many of the 1940 Act regulations which restrict the activities of investment companies; however, these new types of companies will nonetheless be subject to many of the provisions of the 1940 Act, including those designed to protect shareholders and to prevent misconduct. With the removal of many of the former restrictions, it is anticipated that venture capital companies will be able to attract new sources of risk capital and thus be able to make a greater contribution to the financing of small business.

### Other Progress

The most promising prospect for the Small Business Financing Committee was a Senate Finance Committee proposal which contained no less than five of the Committee's recommendations, including a market maker loss reserve, more favorable tax treatment for employee stock options, an increase in subchapter S corporation shareholders, wider corporate tax rate brackets and payroll-based tax credits for employee stock option plan contributions. The proposal was ultimately tabled by the Senate in the waning days of the 96th Congress but the Association is optimistic that its recommendations will be reintroduced.

## Challenges to the NASD Disciplinary Process

### In Texas

The United States District Court for the Northern District of Texas restrained the Association from proceeding with a disciplinary hearing in the presence of a customer with a complaint, except for the purpose of her direct testimony. The order also restrained such proceedings from continuing while the customer's attorney was present, except that he could be present during her direct testimony and cross-examination. The plaintiffs brought this action because they believed the customer intended to use the testimony from the NASD proceeding in her civil proceeding against plaintiffs. Even after the customer's action was settled, plaintiffs continued to assert that the customer should be excluded from any part of the hearing except for her direct testimony. The Judge's order was immediately appealed to the United States Court of Appeals for the Fifth Circuit and the Securities and Exchange Commission filed a brief *amicus curiae* in support of the Association's position.

On May 16, 1980, the Fifth Circuit reversed the District Court, holding that the decision of the Association not to sequester the complainant witness at the disciplinary hearing during the discussion of the complainant's account amounted to a nonfinal procedural ruling which was not subject to District Court oversight in the absence of extraordinary circumstances justifying immediate review. It ruled that the District Court should not have intervened in the administrative process, prior to exhaustion of administrative remedies by the broker, that the broker could not realistically argue that the Association's procedural ruling threatened it with irreparable injury, and that there was not a clear and unambiguous constitutional or statutory violation. The decision can be found at 616 F.2d 1363 (5th Cir. 1980).

### In New York

Another case also involving a significant challenge to the Association was filed in New York Supreme Court in July 1980. Plaintiff, a broker/dealer, alleged that action taken by three staff employees was a conspiracy maliciously to interfere with plaintiff's business. While the suit was filed in state court, it was removed by the Association to Federal District Court. The Association filed a Motion for Summary Judgment and/or Dismissal and the SEC filed a brief *amicus curiae* in support of the Association's position. On October 28, 1980, the court dismissed plaintiff's complaint, holding that plaintiff had failed to exhaust its administrative remedies with respect to each of the three events over which it complained.

While there is on-going involvement by the Office of General Counsel in other litigation, no other cases pose significant challenges to the Association.



## A Resolution

In Tribute to the Memory of

**RAY GARRETT, JR.**

*Adapted by the Board of Governors of the National Association of Securities Dealers, Inc. on March 14, 1980*

**WHEREAS**, a long, dedicated and brilliant career as an educator, government official and private practitioner in the corporate and securities bar of the legal profession came to a sudden close with the death on February 3, 1980 of Ray Garrett, Jr., a former member of the Association's Board of Governors, former Chairman of the Securities and Exchange Commission and former senior partner of Gardner, Carton & Douglas, and

**WHEREAS**, he served with distinction as Governor of the National Association of Securities Dealers, Inc. from January 1976 to January 1979, and

**WHEREAS**, he gave unstintingly his time, thought and energy to the Association, its purpose and objectives of which he vigorously and ably advanced, and thereby earned the gratitude of his colleagues on the Board, and

**WHEREAS**, he imparted to the deliberations of the Board of Governors an impartial and objective voice, commanding in its breadth of experience, diverse in its representation of the interests of investors, issuers and broker/dealers, and deliberate in its ability to focus our attention upon all aspects of the most complex of issues before the Board, and

**WHEREAS**, his warm personality, conviviality, deep concern for and desire to share knowledge with others won him the friendship and admiration of all his colleagues on the Board, and

**WHEREAS**, his continuing service as counsel has been of critical importance to the Association,

**Now, Therefore, Be It Resolved**, that the Members of the Board of Governors express their deep sorrow at the passing of their valued friend and colleague, and

**Be It Further Resolved**, that the Members of the Board of Governors sincerely acknowledge his outstanding contribution to the securities industry, and the public interest, and

**Be It Further Resolved**, that a copy of the resolution be presented to Virginia, his wife, and to the partners of his firm, Gardner, Carton & Douglas.

*[Signature]*  
Chairman of the Board of Governors

*[Signature]*  
President

# ASD Officers and Board of Governors 1980



Gordon S. Macklin  
President and  
member of the Board

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



James F. Keegan  
Morgan, Keegan & Company, Inc.  
Memphis, Tennessee  
Chairman, 1980



John D. Berio  
Sutro & Co. Incorporated  
Los Angeles, California  
Vice Chairman, 1980



Douglas H. Curtis  
Franklin Electric Co. Inc.  
Bluffton, Indiana  
Vice Chairman Finance, 1980



Peter A. Herlihy  
Bache, Halsey Stuart  
Shelton, Incorporated  
New York, New York

To Serve Until January 1981



L. C. Petersen  
Kirkpatrick, Pettis, Smith,  
Polish Inc.  
Omaha, Nebraska  
Chairman, 1981



William E. Madler  
Schneidst. Berlet  
& Hickman, Inc.  
Dallas, Texas  
Vice Chairman, 1981



James J. McCormack  
Metropolitan Life Insurance  
Company  
New York, New York  
Vice Chairman-Finance, 1981



Edward S. Arnok  
Paine, Wenber, Jackson  
& Curtis Incorporated  
Palo Alto, California

To Serve Until January 1982



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



Francis B. Dylecki  
Robert C. Carr & Co., Inc.  
Manchester, New Hampshire



Benjamin L. Lubin  
Bruno, Norderman, Rea & Co.  
New York, New York



David Marcus  
Drexel Burnham Lambert  
Incorporated  
New York, New York

To Serve Until January 1983



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



Ray J. Groves  
Emis & Whinney  
Cleveland, Ohio



J. W. Hill  
Rangaire Corporation  
Cleburne, Texas



A. James Jacoby  
Asiel & Company  
New York, New York



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

To Serve Until  
January 1984



John C. Phinton  
Phinton, Kane & Co  
Summit, New Jersey



William W. Slaughter, Jr.  
Continental American  
Securities, Inc.  
Phoenix, Arizona



William Z. Suplee, III  
Elkins & Co  
Philadelphia, Pennsylvania



David W. Wiley, Jr.  
Wiley Bros., Inc.  
Nashville, Tennessee



Andrew M. Blum  
L. F. Rothschild,  
Unterberg, Towbin  
New York, New York



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Barrett & Company  
Providence, Rhode Island



Milton T. New  
Branch, Cabell & Company  
Richmond, Virginia



Williamson S. Stuckey, Jr.  
Former Congressman  
Washington, D.C.



James F. Wade  
Julien Collins & Company  
Chicago, Illinois



James W. Ratzlaff  
Capital Research and  
Management Company  
Los Angeles, California



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



Donald E. Weston  
Gradson & Company Incorporated  
Cincinnati, Ohio



Vernon B. Willis  
Darr  
Bosworth Incorporated  
Las Vegas, Nevada



Conrad S. Young  
United of Omaha  
Omaha, Nebraska



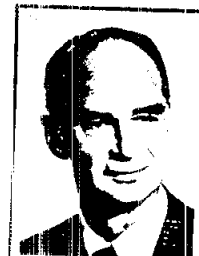
Glenn R. Ozner  
Interstate Securities Corporation  
Greenville, South Carolina



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



B. Mills Sinclair  
Young, Smith & Peacock, Inc.  
Phoenix, Arizona



Walter N. Trulock, III  
Deer, Witter Reynolds, Inc.  
One Bluff, Arkansas



Norman T. Wikse, Jr.  
Janney Montgomery Securities  
Philadelphia, Pennsylvania

# National Committees 1980

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

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L. C. Petersen\*  
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William W. Strawther, Jr.\*  
William Z. Suplee, III\*  
Gordon S. Macklin\*  
Jack A. Schindler  
(Ex Officio)

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Arnold J. Weinberg

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Julian E. Gillespie  
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John C. Printon\*  
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Benjamin L. Lubin\*  
Robert A. Mackie, Jr.  
Maurina J. McGinn  
John C. Printon\*  
Helen Shenlman  
James F. Wadle\*

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Bruce Avedon  
Robert R. Baird  
Harold Engelman  
David D. Horn  
Donald A. Kinney  
James W. Ratzlaff\*  
Milton F. Sveinics, Jr.  
Conrad S. Young\*

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Chairman  
J. Logan Burke, Jr.  
Vice Chairman  
John Barnard, Jr.  
J. Coleman Budd  
John Daly  
Philip D. Davidson  
Lloyd J. Darrickson  
Donald M. Feuerstein  
William J. Fitzpatrick  
William R. Hambrecht  
William Harman  
David H. Klann  
John E. Kohl  
Robert E. Linton  
David W. Meskor  
W. Allen Northcutt, III  
Michael S. O'Brien  
Lewis M. Weston  
Samuel H. Wobbot, III

**Rule and By-Law Amendments**

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

\*NASD Board of Governors Member

# District Committees 1980

## District 1

**Gilbert C. Powers**  
Chairman  
Kidder, Peabody & Co.  
Incorporated  
Seattle, Washington

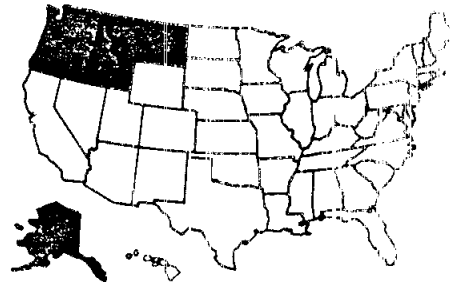


## District 2

**Lynn P. Reinouer**  
Co-Chairman  
Crowell, Weedon & Co  
Los Angeles, California  
**William R. Timken**  
Co-Chairman  
Hambrecht & Quist  
San Francisco, California



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



ALASKA  
IDAHO  
MONTANA  
OREGON  
WASHINGTON

**J. Sheldon Jones**  
Vice Chairman  
June S. Jones Co  
Portland, Oregon

**Robert D. Kraus**  
Smith Blemey, Harris Upson & Co.  
Incorporated  
Portland, Oregon

**Richard T. McLain**  
Seattle-Northwest Securities  
Corporation  
Seattle, Washington

**Jarvis P. Mandenhall**  
Bach's Halsay Stuart Shickel  
Incorporated  
Seattle, Washington

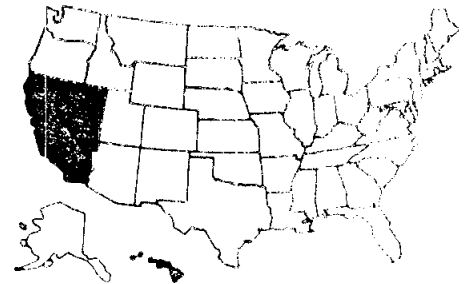
**Rod A. Moore**  
Adams, Hess, Moore & Co  
Portland, Oregon

**William G. Papesh**  
Murphy Favre, Inc  
Spokane, Washington

**William J. Peck**  
Foster & Marshall Inc  
Spokane, Washington

**Hannish M. Sneider**  
FIMS Financial Services, Inc.  
Seattle, Washington

**Erskford M. Petterson**  
Director  
1111 IBM Building  
Seattle, Washington 98101



CALIFORNIA  
HAWAII  
NEVADA

**Richard J. Becker**  
Baten Eichen Hill Richards  
Incorporated  
Los Angeles, California

**Thomas R. Belsie**  
F.F. Hutton & Company, Inc.  
San Francisco, California

**Luclaco S. Bright**  
Sage Financial Corporation  
La Jolla, California

**Betty R. Carter**  
Edelstein Campbell & Co., Inc.  
San Francisco, California

**John J. Dougherty**  
Daniel Reeves & Co., Incorporated  
Los Angeles, California

**Donald R. Duff**  
Waldron & Co., Inc.  
San Rafael, California

**Murray L. Finebaum**  
Cantor Fitzgerald & Co., Inc.  
Beverly Hills, California

**Arnold L. Hoffman**  
Dress Brothers Lambert  
Incorporated  
San Francisco, California

**Theodore G. H. Jung**  
Bach's Halsay Stuart Shickel  
Incorporated  
Honolulu, Hawaii

**Richard A. Kellogg**  
Paine, Webber Jackson & Curtis  
Incorporated  
Los Angeles, California

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

**Thomas E. Miller**  
San Diego Securities Incorporated  
San Diego, California

**James L. Owens**  
Jefferson & Company, Inc.  
Los Angeles, California

**Loren H. Peck**  
Morgan Olmstead Swartz &  
Gardner, Incorporated  
Los Angeles, California

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

**Theodore F. S. Smead**  
Director  
425 California Street  
Room 1400  
San Francisco, California 94104

**William J. Radding Jr.**  
Director  
606 South Olive Street  
Los Angeles, California 90014

75 MEMBERS  
369 BRANCHES  
5,908 REGISTERED REPRESENTATIVES

359 MEMBERS  
1,252 BRANCHES  
26,586 REGISTERED  
REPRESENTATIVES

**District 3**

**Michael T. Hamilton**  
*Chairman*  
Hyder and Company  
Albuquerque, New Mexico



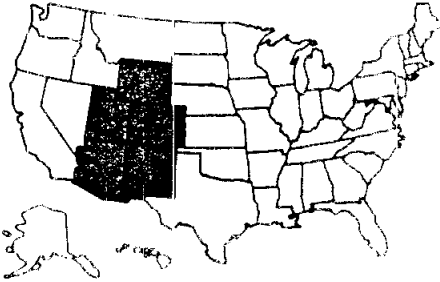
**District 4**

**John E. Hayes**  
*Chairman*  
McCourtney-Breckenridge &  
Company  
St. Louis, Missouri



**District 5**

**John O. Roy, Jr.**  
*Chairman*  
E.F. Hutton & Company, Inc.  
New Orleans, Louisiana



ARIZONA  
COLORADO  
NEW MEXICO  
UTAH  
WYOMING

**Edward H. Sundermann, Jr.**  
*Vice Chairman*  
Hanfen, Imhoff & Sanford, Inc.  
Denver, Colorado

**Richard Hutnagel**  
Boettcher & Company  
Denver, Colorado

**James D. Payne**  
Olsen & Company  
Salt Lake City, Utah

**James Peck**  
Dean, Bosworth Incorporated  
Casper, Wyoming

**Edwin J. Pittock**  
E. J. Pittock & Co., Incorporated  
Denver, Colorado

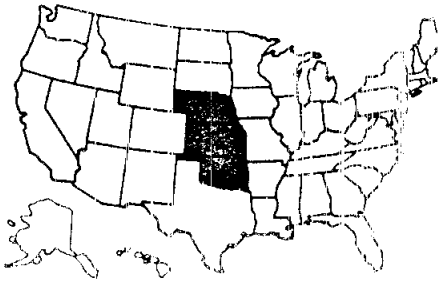
**Robert W. Plenge**  
Plenge Thomas & Nofel  
Incorporated  
Phoenix, Arizona

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

**Burton A. Struthers**  
E.F. Hutton & Company, Inc.  
Tucson, Arizona

**Darlene V. Swanson**  
Manequity, Inc.  
Englewood, Colorado

**Frank J. Birgfeld**  
*Director*  
909 17th Street  
Room 608  
Denver, Colorado 80202



KANSAS  
MISSOURI  
NEBRASKA  
OKLAHOMA

**Owen L. Sackler, Jr.**  
*Vice Chairman*  
Kirkpatrick, Patis, Smith  
Polian Inc.  
Omaha, Nebraska

**Bradley W. Eberle**  
Shearson Loeb Rhoades Inc.  
Kansas City, Missouri

**Fred M. Cotterworth**  
Smith, Moore & Co.  
St. Louis, Missouri

**J. Paul Erickson**  
Mutual of Omaha Fund  
Management Company  
Omaha, Nebraska

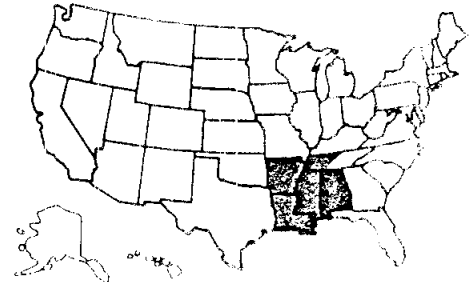
**A. Wayne Harrison**  
Independent Investors  
Services, Inc.  
Overland Park, Kansas

**John H. Henning**  
George K. Baum & Company  
Kansas City, Missouri

**Woodrow R. McCoskey**  
Stifel, Nicolaus & Company,  
Incorporated  
St. Louis, Missouri

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

**James M. Carrigano**  
*Director*  
911 Main Street, Suite 2200  
Commerce Tower Building  
Kansas City, Missouri 64105



ALABAMA  
ARKANSAS  
LOUISIANA  
MISSISSIPPI  
WESTERN  
TENNESSEE

**William K. McHenry, Jr.**  
*Vice Chairman*  
Sterne, Agee and Beach Inc.  
Birmingham, Alabama

**David B. Coates**  
T. J. Panay & Sons, Inc.  
Little Rock, Arkansas

**John B. Dickey**  
John B. Dickey & Co.  
Paragould, Arkansas

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

**John B. Levert, Jr.**  
Howard, Weil, Labrousse,  
Fredrichs Incorporated  
New Orleans, Louisiana

**W. Thad McLaurin**  
Doty, McLaurin & Taylor, Inc.  
Jackson, Mississippi

**Joseph C. Weiler**  
Morgan, Keegan & Company, Inc.  
Memphis, Tennessee

**A. Duncan Williams**  
A. Duncan Williams, Inc.  
Memphis, Tennessee

**Edward J. Newton**  
*Director*  
1004 Richards Building  
New Orleans, Louisiana 70112

118 MEMBERS  
464 BRANCHES  
7,418 REGISTERED REPRESENTATIVES

123 MEMBERS  
447 BRANCHES  
9,810 REGISTERED REPRESENTATIVES

94 MEMBERS  
311 BRANCHES  
5,514 REGISTERED REPRESENTATIVES

**District 6**

**David M. Underwood**  
*Chairman*  
 Underwood, Neuhaus & Co., Inc.  
 Houston, Texas



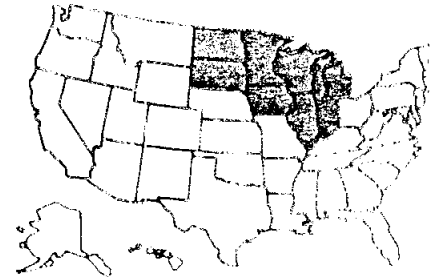
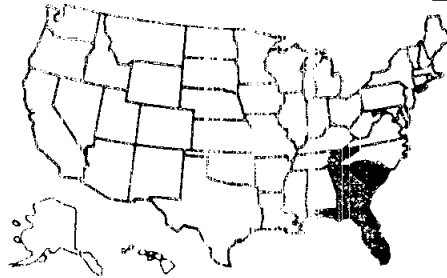
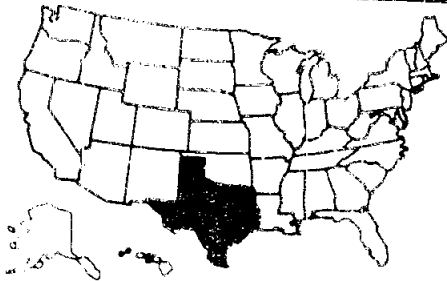
**District 7**

**Ralph C. Allen**  
*Chairman*  
 Allen & Company  
 Lakeland, Florida



**District 8**

**Richard C. Romano**  
*Chairman*  
 Romano Brothers and Company  
 Evanston, Illinois



**TEXAS**

- Frederick L. Baker**  
*Vice Chairman*  
 Fred Baker & Associates, Inc.  
 San Antonio, Texas
- Diana L. Bonnell**  
 John Burren & Co., Incorporated  
 Austin, Texas
- C. Thomas May, Jr.**  
 May, Glikson, Ragland & Britton,  
 Inc.  
 Dallas, Texas
- Samuel P. Mitchell**  
 Eppley, Guynn & Turner, Inc.  
 Dallas, Texas
- Robert J. Mooney**  
 Merrill Lynch, Pierce, Fenner &  
 Smith Incorporated  
 Lubbock, Texas
- James E. Trice**  
 Bache Halsey Stuart Shields  
 Incorporated  
 San Antonio, Texas
- Charles E. Zinsky**  
 Parks, Webber, Jackson  
 & Curtis Incorporated  
 Fort Worth, Texas
- Paul H. Walker**  
*Director*  
 1610 Metropolitan Federal Savings  
 Building  
 1407 Main Street  
 Dallas, Texas 75202

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

- L. Massey Clackson, Jr.**  
*Vice Chairman*  
 Drexel Burnham Lambert  
 Incorporated  
 Atlanta, Georgia
- Derek J. Fischer**  
 Fischer, Johnson, Allen & Burke  
 Incorporated  
 St. Petersburg, Florida
- James H. Galt**  
 Parks, Webber, Jackson  
 & Curtis Incorporated  
 Ft. Lauderdale, Florida
- G. C. McCull, Jr.**  
 J. C. Bradford & Co.  
 Nashville, Tennessee
- Alan S. Parent**  
 First Equity Corporation of Florida  
 Miami, Florida
- Paul B. Smith**  
 Frost, Johnson, Reed & Smith, Inc.  
 Charleston, South Carolina
- Robert L. Wilcox**  
 Provident National Assurance  
 Company  
 Chattanooga, Tennessee
- John L. Weaver, III**  
 The Robinson Humphrey  
 Company, Inc.  
 Atlanta, Georgia
- Bennett Whipple**  
*Director*  
 1100 Atlanta Center  
 250 Piedmont Avenue, N.E.  
 Atlanta, Georgia 30306

**ILLINOIS  
 INDIANA  
 IOWA  
 MICHIGAN  
 MINNESOTA  
 NORTH DAKOTA  
 SOUTH DAKOTA  
 WISCONSIN**

- King R. Frank**  
*Vice Chairman*  
 Franklin Company, Inc.  
 Indianapolis, Indiana
- John M. Belkovich**  
 The Lincoln National Life Insurance  
 Company  
 Fort Wayne, Indiana
- Robert M. Leontovich**  
 Robert W. Baird & Co.  
 Incorporated  
 Milwaukee, Wisconsin
- John E. McTavish**  
 John Noveck & Co., Incorporated  
 Chicago, Illinois
- Joseph H. Heinger**  
 First of Michigan Corporation  
 Detroit, Michigan
- Patrick A. Noonan**  
 Dwan, Broecker, Noonan &  
 Springfield, Illinois
- Richard A. Pecora**  
 Pecora and Company  
 New York, New York
- Thomas H. Herlihy**  
 Atlas, Pacific, Woodard &  
 Company  
 Chicago, Illinois
- Thatcher W. Root**  
 Manley, Bennett, McDonald &  
 Detroit, Michigan
- Eugene H. Hudrick**  
 B. C. Ziegler and Company  
 West Bend, Wisconsin
- John R. Stephens**  
 Equity Securities, Fidelity Company  
 Minneapolis, Minnesota
- John L. Watson**  
 Dan, Bosworth Incorporated  
 Minneapolis, Minnesota
- William F. White**  
 Bacon, Whipple & Co.  
 Chicago, Illinois
- Michael J. Veyeli**  
 Charles Newman Securities  
 Company  
 Chicago, Illinois
- E. Craig Dearborn**  
*Director*  
 1055 LaSalle Street  
 Room 1000  
 Chicago, Illinois 60602

140 MEMBERS  
 440 BRANCHES  
 9,225 REGISTERED REPRESENTATIVES

196 MEMBERS  
 808 BRANCHES  
 14,151 REGISTERED REPRESENTATIVES

377 MEMBERS  
 1,207 BRANCHES  
 33,766 REGISTERED  
 REPRESENTATIVES

**District 9**

**Prentice E. Brown**  
*Chairman*  
 Johnston, Brown, Burnett & Knight  
 Inc.  
 Louisville, Kentucky



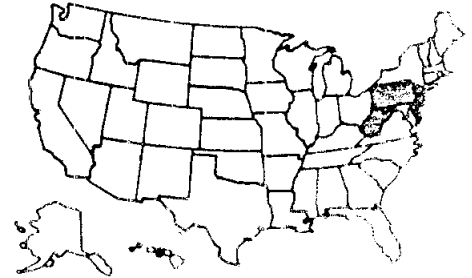
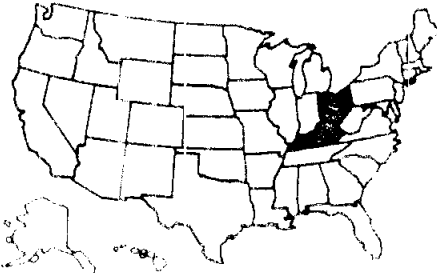
**District 10**

**Edmund J. Cushman, Jr.**  
*Chairman*  
 Legg Mason Wood Walker,  
 Incorporated  
 Baltimore, Maryland



**District 11**

**Rudolph C. Sander**  
*Chairman*  
 Janney Montgomery Scott, Inc.  
 Philadelphia, Pennsylvania



**KENTUCKY  
 OHIO**

- H. Keith Allen**  
 The Ohio Company  
 Columbus, Ohio
- W. Pat Conners**  
 Conners & Company, Inc.  
 Cincinnati, Ohio
- Peter B. Halliday**  
 Vercoe & Company, Inc.  
 Columbus, Ohio
- Joseph M. Hickey**  
 Prescott, Ball & Turben  
 Cleveland, Ohio
- James K. Luntz**  
 Merrill Lynch, Pierce, Fenner &  
 Smith Incorporated  
 Canton, Ohio
- James C. Stone, III**  
 J.J.B. Hilliard, W.L. Lyons, Inc.  
 Louisville, Kentucky
- William B. Summers, Jr.**  
 McDonald & Company  
 Cleveland, Ohio
- Stephen J. Wolfe**  
 S. J. Wolfe & Co.  
 Dayton, Ohio
- George W. Mann, Jr.**  
*Director*  
 600 Freeway Plaza  
 Cleveland, Ohio 44114

**DISTRICT OF COLUMBIA  
 MARYLAND  
 NORTH CAROLINA  
 VIRGINIA**

- Edwin B. Horner, Jr.**  
*Vice Chairman*  
 Horner, Barksdale & Co.  
 Lynchburg, Virginia
- Ruth G. Adler**  
 A. G. Edwards & Sons, Inc.  
 Chevy Chase, Maryland
- William C. Bolneet**  
 Craigie Incorporated  
 Richmond, Virginia
- Julian E. Gillespie**  
 Johnston, Lerron & Co.  
 Incorporated  
 Washington, D.C.
- George W. Graves, Jr.**  
 NEL Equity Services Corporation  
 Washington, D.C.
- Thomas C. Lockney**  
 Wheat, First Securities,  
 Incorporated  
 Charlotte, North Carolina
- G. Lewis Nichols**  
 Carolina Securities Corporation  
 Raleigh, North Carolina
- Julia M. Walsh**  
 Julia M. Walsh & Sons  
 Incorporated  
 Washington, D.C.
- Thomas P. Forge**  
*Director*  
 1735 K Street, N.W.  
 6th Floor  
 Washington, D.C. 20006

**DELAWARE  
 NEW JERSEY\*  
 PENNSYLVANIA  
 WEST VIRGINIA**

\*With exception  
 of counties adjacent  
 to New York City

- Richard J. Beisel**  
*Vice Chairman*  
 Parker-Hurter Inc.  
 Pittsburgh, Pennsylvania
- Charles J. Anderson**  
 Delaware Management  
 Company, Inc.  
 Philadelphia, Pennsylvania
- John L. Dolphin**  
 Dolphin & Bradbury  
 Philadelphia, Pennsylvania
- Thomas A. Grey**  
 Butcher & Singer Inc.  
 Philadelphia, Pennsylvania
- Richard A. Purkiss**  
 Dean Witter Reynolds Inc.  
 Rytale, Pennsylvania
- Samuel R. Robb, Jr.**  
 Shearson Loeb Rhoades Inc.  
 Pittsburgh, Pennsylvania
- Samuel R. Roberts**  
 W. R. Newbold's Sons & Co., Inc.  
 Philadelphia, Pennsylvania
- Evan R. Rosser, Jr.**  
 Evan R. Rosser & Company  
 Williamsport, Pennsylvania
- Harold F. Scattergood, Jr.**  
 Boenning & Scattergood Inc.  
 Philadelphia, Pennsylvania
- George S. Weaver, Jr.**  
 Hazlett, Bun & Watson Inc.  
 Wheeling, West Virginia
- Robert S. Woodcock**  
 Hopper Soliday & Co., Inc.  
 Philadelphia, Pennsylvania
- Robert B. Gilmore**  
*Director*  
 1818 Market Street, 12th Floor  
 Philadelphia, Pennsylvania 19103

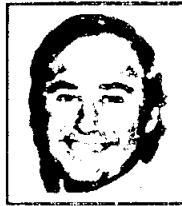
76 MEMBERS  
 314 BRANCHES  
 8,038 REGISTERED REPRESENTATIVES

103 MEMBERS  
 411 BRANCHES  
 12,459 REGISTERED REPRESENTATIVES

194 MEMBERS  
 523 BRANCHES  
 16,169 REGISTERED REPRESENTATIVES

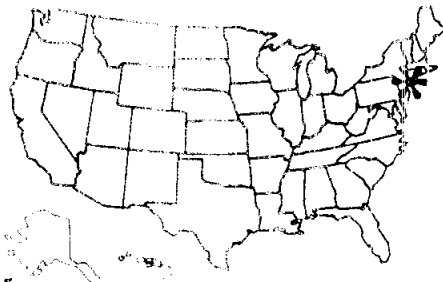
**District 12**

**George W. Benoit**  
*Chairman*  
 Matthews & Wright, Inc.  
 New York, New York



**District 13**

**Eugene F. Miller**  
*Chairman*  
 E. F. Miller Municipals Inc.  
 Rochester, New York



**NEW YORK CITY\***

\*Includes all branches in NY and NJ Counties

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

**Frederic J. Bell, Jr.**  
 Daniels & Bell, Inc.  
 New York, New York

**Edward H. Bobe**  
 Ehrlich-Bobe & Co., Inc.  
 New York, New York

**John F. Bryan**  
 Moseley, Hallgarten, Estabrook & Weeden, Inc.  
 New York, New York

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

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

**Robert de Bary**  
 Marquette de Bary Co.  
 Incorporated  
 New York, New York

**William H. Fickel**  
 Metropolitan Life Insurance  
 Company  
 New York, New York

**John A. LaGrue**  
 Scandinavian Securities  
 Corporation  
 New York, New York

**Peter K. Loeb**  
 Shearson Loeb, Rhoades Inc.  
 New York, New York

**Leonard Milyer**  
 Mayer & Schwabert, Inc.  
 Jersey City, New Jersey

**Sarah Scott Miller**  
 Paine, Webber, Jackson & Curtis  
 Incorporated  
 New York, New York

**Thomas L. Pipav, III**  
 New Court Securities Corporation  
 New York, New York

**Richard P. Rittersperger**  
 Merril Lynch, Pierce, Fenner & Smith Incorporated  
 New York, New York

**John B. Stevenson**  
 Glotzerhaus & Co.  
 New York, New York

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

**Michael L. Tamopol**  
 Bear, Stearns & Co.  
 New York, New York

**George J. Berger**  
 Director  
 Two World Trade Center, South  
 Tower, 99th Floor  
 New York, New York 10048

**CONNECTICUT  
 MAINE  
 NEW HAMPSHIRE  
 NEW YORK\*  
 RHODE ISLAND  
 VERMONT**

\*With the exception of New York City and adjacent counties

**Tarrant Cutler**  
*Vice Chairman*  
 Massachusetts Financial Services  
 Company  
 Boston, Massachusetts

**Stephen W. Adams**  
 CG Equity Sales Company  
 Hartford, Connecticut

**Inez Chase**  
 Moseley, Hallgarten  
 & Estabrook Inc.  
 Springfield, Massachusetts

**William Claffin, Jr.**  
 Merril Lynch, Pierce, Fenner & Smith Incorporated  
 Boston, Massachusetts

**Robert L. Clark**  
 Alex. Brown & Sons  
 Boston, Massachusetts

**John S. Eastwaker, Jr.**  
 The Travelers Equities Sales, Inc.  
 Hartford, Connecticut

**Dewey E. Hall**  
 Bache Halsey Stuart Shields  
 Incorporated  
 Buffalo, New York

**Arthur A. Larkins**  
 Advent, Inc.  
 Hartford, Connecticut

**Paul B. Means**  
 Means Investment Company  
 Bangor, Maine

**Howard R. Merzman, Jr.**  
 Miller & George  
 Providence, Rhode Island

**Carl P. Shen**  
 Carl P. Sherr & Co.  
 Worcester, Massachusetts

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

**William S. Ciendennis**  
 Director  
 75 Federal Street  
 Boston, Massachusetts 02110

815 MEMBERS  
 470 BRANCHES  
 34,064 REGISTERED REPRESENTATIVES

268 MEMBERS  
 539 BRANCHES  
 20,602 REGISTERED REPRESENTATIVES

# National Association of Securities Dealers, Inc. and NASDAQ, Inc.

## BALANCE SHEETS

| Assets   | September 30,       |                     |                     |                     |                     |                     |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|  | 1980                |                     |                     | 1979                |                     |                     |
|  | NASD                | NASDAQ              | Consolidated        | NASD                | NASDAQ              | Consolidated        |
| <b>Current assets</b>  |                     |                     |                     |                     |                     |                     |
| Cash   | \$ 203,095          | \$ 178,701          | \$ 381,796          | \$ 231,890          | \$ 143,415          | \$ 375,305          |
| Marketable debt securities, principally U.S. Government, at cost (approximate market value for 1980: NASD \$13,132,867, NASDAQ \$11,769,767; for 1979: NASD \$12,634,000, NASDAQ \$12,796,000)                             | 13,927,150          | 11,531,861          | 25,859,011          | 13,062,073          | 12,951,818          | 26,013,891          |
| Interest and other current receivables   | 1,395,296           | 1,097,520           | 2,379,234           | 934,940             | 1,279,509           | 2,050,746           |
| Total current assets   | 15,525,541          | 13,208,082          | 28,620,041          | 14,228,903          | 14,374,742          | 28,439,942          |
| <b>Investments in</b>  |                     |                     |                     |                     |                     |                     |
| NASDAQ, Inc., at equity in net assets (Notes 1 and 2)  | 12,991,169          |                     |                     | 10,946,705          |                     |                     |
| National Securities Clearing Corporation, at cost (Note 2)   | 300,000             |                     | 300,000             | 300,000             |                     | 300,000             |
| Depository Trust Company, at cost (Note 4)   | 191,260             |                     | 191,260             | 199,583             |                     | 199,583             |
| <b>Special investment account, at lower of cost or market (Note 2)</b>   | 262,645             |                     | 262,645             | 267,916             |                     | 267,916             |
| <b>Data processing, subscriber equipment and software, at cost less accumulated depreciation and amortization of \$8,482,684 (NASDAQ) in 1980, and \$7,994,000 in 1979 (Note 2)</b>  | 455,556             | 1,439,086           | 1,894,642           |                     | 803,429             | 803,429             |
| <b>Land, buildings and improvements, at cost less accumulated depreciation of \$698,443 (NASD) and \$86,724 (NASDAQ) in 1980, and \$615,000 in 1979 (Notes 2 and 5)</b>  | 2,875,212           | 1,157,221           | 4,042,433           | 2,951,361           |                     | 2,951,361           |
| <b>Furniture, equipment and leasehold improvements, at cost less accumulated depreciation and amortization of \$28,213 (NASD) and \$22,214 (NASDAQ) in 1980, and \$3,000 (NASD) and \$85,000 (NASDAQ) in 1979 (Note 2)</b> | 532,877             | 203,065             | 735,942             | 62,129              | 133,120             | 195,249             |
| Other assets   | 298,695             |                     | 298,695             | 255,016             | 12,620              | 267,636             |
|  | <u>\$33,432,955</u> | <u>\$16,017,454</u> | <u>\$36,345,658</u> | <u>\$29,211,613</u> | <u>\$15,323,911</u> | <u>\$33,425,116</u> |
| <b>Liabilities and Association Equity</b>  |                     |                     |                     |                     |                     |                     |
| <b>Current liabilities</b>   |                     |                     |                     |                     |                     |                     |
| Accounts payable and accrued expenses  | \$ 1,622,971        | \$ 1,026,285        | \$ 2,535,674        | \$ 1,658,016        | \$ 377,206          | \$ 1,871,519        |
| Prepaid NASDAQ issuers fees  | 2,122,882           |                     | 2,122,882           | 1,767,348           |                     | 1,767,348           |
| Loans payable, 5%–6%   | 320,250             |                     | 320,250             | 320,250             |                     | 320,250             |
| Current portion of mortgage payable  | 124,163             |                     | 124,163             | 117,533             |                     | 117,533             |
| Current portion of note payable (Note 5)   |                     | 2,000,000           | 2,000,000           |                     | 2,000,000           | 2,000,000           |
| Total current liabilities  | 4,190,266           | 3,026,285           | 7,102,969           | 3,863,147           | 2,377,206           | 6,076,650           |
| <b>Long-term liabilities</b>   |                     |                     |                     |                     |                     |                     |
| Accrued deferred compensation  | 262,645             |                     | 262,645             | 267,916             |                     | 267,916             |
| Mortgage payable (Note 5)  | 582,070             |                     | 582,070             | 706,233             |                     | 706,233             |
| Note payable (Note 5)  |                     |                     |                     |                     | 2,000,000           | 2,000,000           |
| Total liabilities  | 5,034,981           | 3,026,285           | 7,947,684           | 4,837,296           | 4,377,206           | 9,050,799           |
| <b>Association equity</b>  | 28,397,974          | 12,991,169          | 28,397,974          | 24,374,317          | 10,946,705          | 24,374,317          |
| <b>Commitments and contingencies (Notes 5 and 6)</b>   |                     |                     |                     |                     |                     |                     |
|  | <u>\$33,432,955</u> | <u>\$16,017,454</u> | <u>\$36,345,658</u> | <u>\$29,211,613</u> | <u>\$15,323,911</u> | <u>\$33,425,116</u> |

# National Association of Securities Dealers, Inc. and NASDAQ, Inc.

## STATEMENTS OF OPERATIONS AND ASSOCIATION EQUITY

|  | Year Ended September 30, |                     |                     |                     |                     |                     |
|--|--------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|  | 1980                     |                     |                     | 1979                |                     |                     |
|  | NASD                     | NASDAQ              | Consolidated        | NASD                | NASDAQ              | Consolidated        |
| <b>Income</b>  |                          |                     |                     |                     |                     |                     |
| Member assessments and branch office fees  | \$ 9,203,639             |                     | \$ 9,203,639        | \$ 7,872,371        |                     | \$ 7,872,371        |
| NASDAQ user services fees  |                          | \$12,094,890        | 12,094,890          |                     | \$15,274,616        | 15,274,616          |
| Registered representative fees   |                          |                     |                     |                     |                     |                     |
| Applications   | 2,107,265                |                     | 2,107,265           | 1,361,601           |                     | 1,361,601           |
| Examinations   | 2,730,596                |                     | 2,730,596           | 1,371,878           |                     | 1,371,878           |
| Corporate finance fees   | 2,139,080                |                     | 2,139,080           | 1,127,073           |                     | 1,127,073           |
| Fines  | 453,755                  |                     | 453,755             | 405,052             |                     | 405,052             |
| Interest and other   | 1,645,337                | 1,422,646           | 2,954,363           | 1,360,012           | 1,015,435           | 2,375,447           |
| NASDAQ issuers fees  | 4,133,481                |                     | 4,133,481           | 3,177,558           |                     | 3,177,558           |
| Regulatory services NSCC (Note 3)  | 1,094,833                |                     | 1,094,833           | 795,190             |                     | 795,190             |
|  | <u>23,507,986</u>        | <u>13,517,536</u>   | <u>36,911,902</u>   | <u>17,470,735</u>   | <u>16,290,051</u>   | <u>33,760,786</u>   |
| <b>Expenses</b>  |                          |                     |                     |                     |                     |                     |
| Salaries and employee benefits   | 14,746,524               | 2,483,629           | 17,230,153          | 11,938,241          | 1,348,970           | 13,287,211          |
| System operator's fees   |                          | 3,611,572           | 3,611,572           |                     | 4,098,638           | 4,098,638           |
| Travel, meeting and investigation  | 1,746,606                | 449,719             | 2,196,325           | 1,323,264           | 155,597             | 1,478,861           |
| Publication, supplies and postage (net of publication sales of \$90,745 in 1980 and \$88,000 in 1979)    | 1,230,512                | 261,852             | 1,495,364           | 988,810             | 107,501             | 1,096,311           |
| Professional and other services  | 1,441,365                | 495,280             | 1,859,766           | 887,174             | 293,772             | 1,180,946           |
| Occupancy (net of rent received of \$279,290 in 1980 and \$256,000 in 1979)                              | 974,566                  | 485,646             | 1,447,212           | 959,301             | 429,592             | 1,388,893           |
| Telephone and office   | 764,883                  | 187,939             | 952,822             | 569,052             | 80,555              | 649,607             |
| Interest   | 42,373                   | 280,000             | 322,373             | 48,649              | 496,000             | 536,649             |
| Depreciation and amortization  | 108,656                  | 608,328             | 716,984             | 83,183              | 1,561,231           | 1,644,414           |
| Data processing and transmission (net of computer time sales of \$151,070 in 1980 and \$104,000 in 1979) | 416,924                  | 1,757,925           | 2,151,108           | 354,366             | 1,460,970           | 1,815,336           |
| Other  | 56,384                   | 843,182             | 904,566             | 55,844              | 231,893             | 287,737             |
|  | <u>21,528,793</u>        | <u>11,473,072</u>   | <u>32,888,245</u>   | <u>17,207,884</u>   | <u>10,258,719</u>   | <u>27,466,603</u>   |
| <b>Net Income</b>  |                          |                     |                     |                     |                     |                     |
| NASD   | 1,979,193                |                     | 1,979,193           | 262,851             |                     | 262,851             |
| NASDAQ, Inc.   | 2,044,464                | 2,044,464           | 4,088,928           | 6,031,332           | 6,031,332           | 12,062,664          |
| Consolidated   | 4,023,657                |                     | 4,023,657           | 6,294,183           |                     | 6,294,183           |
| <b>Association equity, beginning of year</b>   | <u>24,374,317</u>        | <u>10,945,705</u>   | <u>24,374,317</u>   | <u>18,080,134</u>   | <u>4,915,373</u>    | <u>18,080,134</u>   |
| <b>Association equity, end of year</b>   | <u>\$28,397,974</u>      | <u>\$12,991,169</u> | <u>\$28,397,974</u> | <u>\$24,374,317</u> | <u>\$10,946,705</u> | <u>\$24,374,317</u> |



# National Association of Securities Dealers, Inc. and NASDAQ, Inc.

## STATEMENTS OF CHANGES IN FINANCIAL POSITION

|  | Year Ended September 30, |                      |                     |                     |                     |                      |
|--|--------------------------|----------------------|---------------------|---------------------|---------------------|----------------------|
|  | 1980                     |                      |                     | 1979                |                     |                      |
|  | NASD                     | NASDAQ               | Consolidated        | NASD                | NASDAQ              | Consolidated         |
| <b>Financial resources were provided by:</b>   |                          |                      |                     |                     |                     |                      |
| Net income   | \$ 1,979,193             | \$ 2,044,464         |                     | \$ 262,851          | \$ 6,031,332        |                      |
| Net income of NASDAQ, Inc.   | <u>2,044,464</u>         |                      |                     | <u>6,031,332</u>    |                     |                      |
|  | 4,023,657                | 2,044,464            | \$ 4,023,657        | 6,294,183           | 6,031,332           | \$ 6,294,183         |
| <b>Items not affecting working capital in the period</b>                                     |                          |                      |                     |                     |                     |                      |
| Net income of NASDAQ, Inc.   | (2,044,464)              |                      |                     | (6,031,332)         |                     |                      |
| Depreciation and amortization  | 108,656                  | 608,328              | 716,984             | 83,183              | 1,561,231           | 1,644,414            |
| Loss on disposition of furniture, equipment and leasehold improvements                       | 2,978                    |                      | 2,978               |                     |                     |                      |
| Loss on disposition of data processing, subscriber equipment and software                    |                          | 6,500                | 6,500               |                     | 28,165              | 28,165               |
| Decrease in investment in Depository Trust Company   | 8,323                    |                      | 8,323               | 9,579               |                     | 9,579                |
| Decrease in non-current investment securities  |                          |                      |                     | 4,494,987           |                     | 4,494,987            |
| Proceeds from disposition of data processing, subscriber equipment and software              |                          | <u>3,500</u>         | <u>3,500</u>        |                     | <u>100,000</u>      | <u>100,000</u>       |
|  | <u>2,099,150</u>         | <u>2,662,792</u>     | <u>4,761,942</u>    | <u>4,850,600</u>    | <u>7,720,728</u>    | <u>12,571,328</u>    |
| <b>Financial resources were used for:</b>  |                          |                      |                     |                     |                     |                      |
| Purchase of data processing, subscriber equipment and software                               | 455,556                  | 1,212,472            | 1,668,028           |                     | 55,191              | 55,191               |
| Purchase of land, building and improvements, furniture, equipment and leasehold improvements | 506,233                  | 1,278,679            | 1,784,912           | 113,446             | 50,016              | 163,462              |
| Increase (decrease) in other assets  | 43,679                   | (12,620)             | 31,059              | 35,733              | (12,140)            | 23,593               |
| Decrease in long-term note payable   |                          | 2,000,000            | 2,000,000           |                     | 2,000,000           | 2,000,000            |
| Decrease in long-term mortgage payable   | <u>124,163</u>           |                      | <u>124,163</u>      | <u>117,532</u>      |                     | <u>117,532</u>       |
|  | <u>1,129,631</u>         | <u>4,478,531</u>     | <u>5,608,152</u>    | <u>266,711</u>      | <u>2,093,067</u>    | <u>2,359,778</u>     |
| <b>Increase (decrease) in working capital</b>  | <b>\$ 969,519</b>        | <b>\$(1,815,739)</b> | <b>\$ (846,210)</b> | <b>\$ 4,583,889</b> | <b>\$ 5,627,661</b> | <b>\$ 10,211,550</b> |
| Analysis of Changes in Working Capital   |                          |                      |                     |                     |                     |                      |
| <b>Increase (decrease) in current assets</b>   |                          |                      |                     |                     |                     |                      |
| Cash   | \$ (28,795)              | \$ 35,286            | \$ 6,491            | \$ 40,510           | \$ (47,967)         | \$ (7,457)           |
| Marketable debt securities   | 865,077                  | (1,019,957)          | (154,880)           | 5,489,366           | 4,071,164           | 9,560,530            |
| Interest and other current assets  | <u>460,356</u>           | <u>(181,989)</u>     | <u>328,488</u>      | <u>37,762</u>       | <u>209,863</u>      | <u>247,625</u>       |
|  | <u>1,296,638</u>         | <u>(1,166,660)</u>   | <u>180,099</u>      | <u>5,567,638</u>    | <u>4,233,060</u>    | <u>9,800,698</u>     |
| <b>Decrease (increase) in current liabilities</b>  |                          |                      |                     |                     |                     |                      |
| Accounts payable and accrued expenses  | 35,045                   | (649,079)            | (664,155)           | (555,284)           | 43,923              | (511,361)            |
| Prepaid NASDAQ issuers fees  | (355,534)                |                      | (355,534)           | (101,939)           |                     | (101,939)            |
| Loans payable  |                          |                      |                     | (320,250)           |                     | (320,250)            |
| Current portion of mortgage payable  | (6,630)                  |                      | (6,630)             | (6,276)             |                     | (6,276)              |
| Refund of user service fees  |                          |                      |                     |                     | 1,350,678           | 1,350,678            |
|  | <u>(327,119)</u>         | <u>(649,079)</u>     | <u>(1,026,319)</u>  | <u>(983,749)</u>    | <u>1,394,601</u>    | <u>410,852</u>       |
| <b>Increase (decrease) in working capital</b>  | <b>\$ 969,519</b>        | <b>\$(1,815,739)</b> | <b>\$ (346,210)</b> | <b>\$ 4,583,889</b> | <b>\$ 5,627,661</b> | <b>\$ 10,211,550</b> |

# National Association of Securities Dealers, Inc. and NASDAQ, Inc.

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 1980 AND 1979

### Note 1—Organization

The National Association of Securities Dealers, Inc. (NASD) is a not-for-profit membership association established to regulate the over-the-counter securities market. NASDAQ, Inc., which was incorporated in 1976 to operate the NASDAQ quote information system, National Clearing Corporation (NCC) and NASD Market Services, Inc. (MSI) are wholly-owned subsidiaries of the NASD.

### Note 2—Summary of Significant Accounting Policies Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the NASD, NASDAQ, Inc., MSI and NCC after elimination of all significant intercompany transactions.

In November, 1979, the NASD acquired all the authorized capital stock of a newly formed corporation, NASD Market Services, Inc. The new corporation was formed primarily for the purpose of establishing national market facilities to assist the NASD in carrying out its regulatory responsibilities and for the benefit of the NASD members in their pursuit of efficient execution of securities transactions. The assets, liabilities and operations of MSI have been consolidated with the NASD in the accompanying financial statements. No revenues were generated by MSI for the year ended September 30, 1980.

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

### Retirement Benefits and Deferred Compensation

NASD maintains a savings plan and a defined benefit pension plan for the benefit of all eligible employees. Certain employees have been granted extended retirement and death benefits.

NASD's policy is to fund pension costs and to provide for the cost of other benefits as they accrue. Unfunded prior service costs are being funded over a period of 30 years. Pension and savings plan costs were \$1,003,613 and \$762,000 for the years ended September 30, 1980 and 1979, respectively. As of January 1, 1980, the net assets of the plan exceeded the actuarially computed value of vested benefits.

The Special Investment Account represents amounts set aside to fund the accrued deferred compensation, which relates to five former or current employees.

### Depreciation and Amortization

NASD's building and improvements are being depreciated on a straight-line basis over lives of 30 and 10 years, respectively. Furniture and equipment is being depreciated on a straight-line basis over 10 years. No depreciation has been taken on data processing equipment as it has not been placed in service.

NASDAQ, Inc.'s data processing, subscriber equipment and software acquired in early 1976 have been fully depreciated. Other NASDAQ equipment subsequently acquired is being depreciated using various methods over useful lives of from 4 to 10 years. NASDAQ, Inc.'s building and improvements are being depreciated on a straight-line basis over lives of 30 and 10 years, respectively.

### Software Costs

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

### Prepaid NASDAQ Issuers Fees

Prepaid NASDAQ issuers fees are deferred and included in income of the applicable fiscal year.

### Income Taxes

NASD is a tax-exempt not-for-profit organization. NASDAQ, Inc. has also been ruled exempt from Federal and certain state and city income taxes. In November, 1980, MSJ applied for an exemption from Federal income taxes.

### Note 3—Related Party Transactions

NASDAQ, Inc. utilizes the services of NASD employees. In addition, NASD provides NSCC regulatory services relating to NASD members who are also members of NSCC. Such regulatory

services include periodic examination of the books, records and operations of NSCC for monitoring and investigating the financial and operating condition of members and new users for membership, and advising NSCC of unusual market conditions which affect securities. In addition, NASD bills NASDAQ, Inc. for other expenses incurred and billed from NASD during 1980 and 1979 for these activities are summarized as follows:

|                      | Billings from NASD for year ended<br>September 30 |             |
|----------------------|---|-------------|
|                      | 1980  | 1979        |
| NASDAQ, Inc.         | \$3,414,273                                       | \$1,417,827 |
| NSCC regulatory fees | 1,094,833   | 745,250     |

Unpaid receivable (payable) balances of NASD at September 30, 1980 and 1979 with NASDAQ, Inc. and NSCC are summarized as follows:

|              | NASD receivable (payable)<br>at September 30 |           |
|--------------|--|-----------|
|              | 1980   | 1979      |
| NASDAQ, Inc. | \$183,824                                    | \$143,703 |
| NSCC         | 313,454                                      | 278,961   |

Effective October 1, 1979, NASD changed its method of calculating the allocation of general administrative expenses to NASDAQ, Inc. The new method of allocation is based on NASD revenues as compared to combined revenues in prior years. The allocation was based on NASDAQ's direct salaries. The change resulted in the allocation of approximately \$600,000 of expenses to NASDAQ, Inc. during the current year.

### Note 4—Investment in Depository Trust Company

Pursuant to a plan to diversify the ownership of Depository Trust Company (DTC) among self-regulatory and other organizations, in October, 1975, NASD acquired 6% of the outstanding shares of DTC from the New York Stock Exchange. Entitlement to own shares of DTC is determined each year based on usage of its facilities. Since 1975, NASD has acquired additional shares and, when necessary, to adjust its holdings to its predetermined entitlement, has purchased 10% of the outstanding shares of DTC.

### Note 5—Leases and Mortgage Payable

NASD's land and buildings are pledged as security for a 5 1/2% mortgage. The mortgage is payable through 1985 in equal monthly installments of principal and interest of \$43,000.

NASD has guaranteed payment of a 10 1/2% note issued by NASDAQ, Inc. The principal of this payable is in annual installments of \$2,000,000 through 1987.

### Note 6—Commitments and Contingencies

In connection with the operations of its district offices, NASD leases office space in various locations. Office and equipment rental expense amounted to \$1,213,425 and \$1,021,000 for the years ended September 30, 1980 and 1979, respectively. Minimum lease obligations for succeeding fiscal years are as follows: \$1,067,025 in 1981; \$1,033,516 in 1982; \$976,017 in 1983; \$830,017 in 1984; \$735,828 in 1985 and \$5,128,543 from 1986 through 1995. The lease extends beyond 1995. The majority of these leases contain escalation clauses for increases in property taxes and building operation costs.

On February 9, 1976, NASDAQ, Inc. entered into an agreement under which it has been performing certain services relating to the operation of the NASDAQ system. This agreement expires on June 30, 1981 and the payments in fiscal 1981 to that date will be \$27,500,000. NASDAQ, Inc. incurred office and equipment rental expense of \$803,200 and \$908,000 for the years ended September 30, 1980 and 1979, respectively. Minimum commitments for these operations in succeeding fiscal years are as follows: \$663,342 in 1981; \$1,143,948 in 1982; \$1,443,948 in 1983; \$1,143,948 in 1984; \$1,143,948 in 1985 and \$1,525,264 in 1986 through 1987.

During the current year, the companies entered into contractual agreements for the purchase of computer hardware and software. At September 30, 1980, the amount of unexecuted contracts agreements was approximately \$8,700,000.

There are no legal proceedings pending against the NASD separately or with others. Management believes, based upon the opinion of counsel, that liabilities arising from these proceedings will not have a materially adverse effect on the NASD.

## REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying individual and consolidated balance sheets and the related statements of operations and Association equity and of changes in financial position present fairly the financial positions of the National Association of Securities Dealers, Inc. (NASD) and its subsidiary NASDAQ, Inc. at September 30, 1980 and 1979, and the individual and consolidated results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other matters as we considered necessary in the circumstances.

Washington, D.C.  
December 23, 1980

Price Waterhouse & Co.

## Purposes Of The NASD

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- To promote the investment banking and securities business;
- To standardize its principles and practices
- To promote high standards of commercial honor and to promote among members observance of federal and state securities laws;
- To provide a medium through which the membership may consult with governmental and other agencies;
- To cooperate with governmental and other agencies in the solution of problems affecting the securities business and investors;
- To adopt and enforce rules of fair practice in the securities business;
- To promote just and equitable principles of trade for the protection of investors;
- To promote self-discipline among members; and,
- To investigate and adjust grievances between the public and members.