



Amex Notice

Date: August 9, 2002
To: Members and Member Organizations
From: Brett Redfearn, Senior Vice President, Business Strategy and Equity Order Flow
Subject: Nasdaq UTP Rules -- Rules Governing Amex Trading in Nasdaq National Market Securities

The Securities and Exchange Commission has approved Amex rules governing trading on the Amex of Nasdaq National Market securities pursuant to unlisted trading privileges (“UTP”) (Release No. 34-46305, August 2, 2002). Trading on the Floor in the first nine securities is expected to begin on Monday, August 12, 2002. This Information Circular is to inform members and member organizations of applicable new rules, the text of which are attached as Exhibit A to this Circular.

As a general matter, Amex rules applicable to trading in Amex-listed equities apply to trading in Nasdaq securities. New Rule 118 (Trading in Nasdaq National Market Securities) is the primary rule governing Nasdaq UTP trading. In addition, the SEC has approved exceptions from application of certain Amex rules to accommodate Nasdaq UTP trading (see Commentary .01 to Rule 118). The following is a summary of significant rule changes adopted by the Exchange to accommodate the trading of Nasdaq stocks on the Amex.

Short Sales

Amex’s Rule 7, (which incorporates the tick-test restriction of SEC Rule 10a-1 to short sales of Amex-listed securities), does not apply to short sales of Nasdaq UTP securities on the Amex.

Rule 118 (Trading in Nasdaq National Market Securities)

The following are significant provisions of Rule 118 relating to trading on the Floor in Nasdaq National Market securities. (Members and member organizations are referred to the full text of Rule 118 in Exhibit A.)

- Rule 118 provides that the Amex Constitution and rules apply to trading Nasdaq National Market securities, except to the extent that Rule 118 governs or unless the context otherwise requires.
- Amex specialists are required to permit Nasdaq market makers direct telephone access to the specialist post and Nasdaq market makers are allowed to use telephone access to transmit orders for execution on the Amex. Orders in Nasdaq National Market securities sent via telephone from Nasdaq market makers to the Exchange Floor and executed by the specialist must be compared and cleared through an Amex member or member organization or the clearing firm of a member or member organization. (See Rule 104.) (Comparison and clearance procedures are discussed below.)
- Quotations distributed by Nasdaq market makers will be displayed on the Floor. Amex specialists may send orders from the Floor for execution via telephone to Nasdaq market makers. Quotations in Nasdaq securities from other market centers have no standing on the Floor.
- The Amex will report intermarket transactions in which the Exchange member is the seller to the Nasdaq UTP Processor.
- Specialists in Nasdaq securities who wish to trade Nasdaq National Market securities must be registered and qualified by the Exchange. Such persons will be required to:
 - (1) if conducting business with the public, obtain a Series 7, General Securities Representative license; and,
 - (2) complete a training period as deemed adequate by the Exchange.
- The specialist financial requirements of Rule 171, Commentary .04 apply to specialists in Nasdaq securities. Rule 171, Commentary .04 currently provides that a specialist in a security principally traded or priced in another U.S. market must maintain a cash or net liquid asset position sufficient to assume a position of 20 trading units.
- Odd-lot execution procedures are set forth in 118(j). (See Exhibit A).

Comparison and Clearance of Telephone Orders

Amex transactions in Nasdaq UTP securities will be compared through Amex comparison systems (Intraday Comparison System for Equities, or IDCE). They will not be compared using Nasdaq's ACT system. As a result, Amex will require orders from Nasdaq market makers that are telephoned to and executed by Amex specialists to be compared and cleared through an Amex member or Amex member clearing firm. The Exchange notes that Amex Rule 104 requires members to give up the name of a member for any transaction on the Amex Floor. Amex specialists, therefore, would be required to give up the name of an Amex member clearing firm in connection with execution of a telephone order from a Nasdaq market maker. In practical terms, this would mean that any Nasdaq market maker, before telephoning an order to an Amex specialist in a Nasdaq UTP security, must first arrange with an Amex clearing member for comparison of Amex transactions in Nasdaq UTP securities.

Other Rule Amendments

The following are some additional Amex rules that have been amended to accommodate Nasdaq UTP trading:

Rule 3

Trading with non-member Nasdaq market makers is exempted from the prohibition on trading with non-members to accommodate orders telephoned to the specialist.

Rule 24

Transactions in Nasdaq National Market securities are exempted from the Rule 24 block transactions restrictions. Rule 24 states that, after learning about a trade executed or about to be executed on the Floor involving 10,000 shares or more, a member or employee of a member or member organization cannot initiate or transmit to the Floor an order for the account of a member or member organization for two minutes following the print of such trade on the tape. Members and member organizations are advised that, notwithstanding this exemption from Rule 24, it is a violation of just and equitable principles of trade for a person with material non-public information of an imminent transaction in a security to take advantage of that information by effecting trades in that security or related securities. The Exchange's frontrunning prohibition

encompasses trading activity in the same stock (“stock to stock frontrunning”).

Rule 126 Precedence of Bids and Offers

Commentary .06 to Rule 126 provides that a cross transaction in a Nasdaq National Market security involving 5,000 shares or more can be effected at a price between the quoted market without interference by a specialist or market maker if, prior to presenting the cross transaction, a broker requests that the specialist and market makers at the post quote their current market for the security.

Rule 170, Comm. .11

Specialists are exempted from Rule 170, paragraph (e) and Commentaries .01, .02, .05, .07, .08 and .09 to the rule. Rule 170(e) restricts specialists or persons affiliated with a specialist from purchasing or selling a specialty security for an account in which such persons or parties have an interest, except when acting as specialist. The Exchange notes that the requirements of Rule 150 (restricting member purchases or sales while holding unexecuted customer market or limit orders) and Rule 155 (requiring specialist to give precedence to orders in a specialty security entrusted to specialist as agent) will apply to orders entered with a specialist in Nasdaq National Market securities from affiliates of the specialist. The new rule changes also exempt specialists from the stabilization and liquidating transaction restrictions of Commentaries .01 and .02; restrictions on adjustment of a LIFO inventory (Commentary .05), and restrictions on assignment to the specialist’s investment account (Commentary .07). Commentaries .08 and .09 to Rule 170, which relate to transactions in the Intermarket Trading System (“ITS”) are inapplicable insofar as Nasdaq securities are not traded in ITS.

Rule 190

Paragraph (b) of Rule 190 will not apply to specialists in Nasdaq UTP securities and their affiliates. Paragraph (b) prohibits specialists and their affiliates from accepting an order to buy or sell specialty securities directly from specified entities, including the issuer; an officer, director or 10% shareholder in the issuer; a pension fund; or a bank, insurance company or investment company. Specialists in Nasdaq UTP securities and their affiliates are exempt from this provision and, accordingly, may accept orders from such entities at the post if otherwise

qualified to do a public business.

Sub-Penny Rounding Interpretation

The Amex currently does not quote, print transactions, process orders, or clear trades in sub-pennies. As a result, Amex specialists who trade in other markets can be expected to face situations where they receive an execution of an order for their account in a sub-penny amount and will be unable to provide a similar sub-penny execution to an agency order they are holding. The Amex has advised specialists in Nasdaq stocks that receive a report in sub-pennies from another market center in connection with representing an agency order on the Amex on a riskless principal basis that they should execute their agency order at the price received through the other market center rounded to the nearest penny. Specialists, accordingly, should observe the following rounding procedures for trades executed in other market centers:

Equal to or less than \$0.005	always round down to the nearest penny
Greater than \$0.005	always round up to the nearest penny

Further Information

For more information regarding these rules or the Exchange's Nasdaq UTP program, contact the following Amex staff: for questions on rules, Michael Cavalier, Associate General Counsel, (212) 306-1404 or David Fisch, Director, Rulings, (212) 306-1450; for questions on operation of the Nasdaq UTP program, Susan Ameel (212) 306-1252 or Brett Redfearn (212) 306-1943. General questions can also be addressed to (800) 932-1332 or via email to: tradenasdaq@amex.com. Additional information can be found on www.amextrader.com.

AMERICAN STOCK EXCHANGE LLC
Rules Relating to Trading in Nasdaq National Market Securities

Rule 1. Hours of Business

Commentary.

.05 The hours of business for a security traded on the Exchange pursuant to unlisted trading privileges shall be the same as the hours during which the security is traded in the primary market for such security.

Rule 3. Excessive Dealing

(a) Trading with non-member

No regular or options principal member shall effect, in the rooms of the Exchange, a transaction with an associate member or with a non-member, in any security dealt in on the Exchange; but this rule shall not prohibit transactions permitted by Rule 118, Rule 152 or by Section 7 of Part II of the Rules of the Exchange or with an employee of the Exchange or American Stock Exchange Clearing Corporation engaged in carrying out arrangements approved by the Board of Governors to facilitate the borrowing and lending of money.

(b) through end. No change

Rule 7. Short Sales

Commentary

.02 This Rule 7 does not apply to transactions on the Exchange in Nasdaq National Market securities pursuant to unlisted trading privileges effected under Exchange Rule 118.

Rule 24. Block Transactions

(b) The restrictions of paragraph (a) shall not apply to:

(vi) orders in Nasdaq National Market securities to which the Exchange has extended unlisted trading privileges.

Rule 115. Exchange Procedures for Use of Unusual Market Exception

Commentary .01

3. The Market Operations Division, either upon receiving notification from a Floor Official with respect to a specialist as provided in paragraph 1(b) or upon making

its own determination with respect to the Exchange as provided in paragraph 2, shall notify the Securities Industry Automation Corporation (and request that it notify quotation vendors) or, with respect to Nasdaq National Market securities to which the Exchange has extended unlisted trading privileges, the Processor for Nasdaq National Market securities, regarding the Exchange's inability to accurately collect, process, and make available the quotation data required by SEC Rule 11Ac1-1.

Rule 118. Trading in Nasdaq National Market Securities

(a) Definitions

(i) The term "Nasdaq National Market security" shall mean any security designated as such pursuant to National Association of Securities Dealers ("NASD") Rule 4200 and as to which the Exchange has extended unlisted trading privileges pursuant to Section 12(f) of the Securities Exchange Act of 1934.

(ii) The term "Nasdaq System" shall mean the Nasdaq's Automated Quotation System.

(b) Except to the extent that the provisions of Rule 118 govern, or unless the context otherwise requires, the provisions of the Constitution and Rules of the Exchange are applicable to trading in Nasdaq National Market securities.

(c) Each Exchange specialist shall permit each Nasdaq System market maker, acting in its capacity as market maker, direct telephone access to the specialist post in each Nasdaq National Market security in which such market maker is registered as a market maker. Such access shall include appropriate procedures to assure the timely response to communications received through telephone access. Nasdaq System market makers may use such telephone access to transmit orders for execution on the Exchange. Any order received on the Floor via telephone from a Nasdaq System market maker shall be effected in accordance with the rules relating to the making of bids and offers and transactions on the Floor, subject to exceptions to Exchange rules applicable to trading in Nasdaq National Market Securities as set forth in Commentary .01 to this Rule.

(d) The Exchange will display on its trading floor the quotations distributed by any Nasdaq System market maker in Nasdaq National Market securities. Exchange specialists may send orders from the Floor of the Exchange for execution via telephone to any Nasdaq System market maker in each Nasdaq National Market security in which it displays quotations. Quotations in Nasdaq National Market securities from other market centers shall have no standing in the trading crowds on the Floor.

(e) Pursuant to the Nasdaq Unlisted Trading Privileges Plan ("Plan"), the Exchange shall report to the Plan Processor intermarket transactions effected on the Exchange for which the Exchange member is the seller.

(f) Orders in Nasdaq National Market securities sent via telephone from other market centers to the Exchange Floor and executed by the specialist must be compared and cleared through a member or member organization or the clearing firm of a member or member organization. (See Rule 104.)

(g) Registration of Specialists - Specialists who wish to trade Nasdaq National Market securities must be registered and qualified by the Exchange. Such persons will be required to:

- (3) if conducting business with the public, obtain a Series 7, General Securities Representative license; and,
- (4) complete a training period as deemed adequate by the Exchange.

(h) Non-Liability of Exchange-Article IV, Section 1(e) of the Exchange Constitution shall apply to trading of Nasdaq National Market securities on the Exchange pursuant to unlisted trading privileges, and the Exchange, its affiliates, and any of its or their respective officers, governors, committee members, employees or agents shall not be liable to a member of the Exchange, a member organization, or a person associated with a member or member organization to the extent provided in Article IV, Section 1(e).

(i) Specialists in Nasdaq National Market securities are subject to the financial requirements set forth in Rule 171, Commentary .04.

(j) Odd-Lot Orders – Odd lot orders in Nasdaq National Market securities shall be executed in the following manner:

(i) Market and Executable Limit Orders – A market or executable limit order shall receive automatic execution, unless otherwise provided herein, at the price of the qualified national best offer (in the case of an order to buy) or qualified national best bid (in the case of an order to sell) in the security at the time the order has been received at the trading post or through the Amex Order File.

All market and executable limit odd-lot orders entered prior to the opening of trading of Nasdaq National Market securities on the Exchange shall receive automatic execution at the price of the first round-lot or Part of Round Lot (PRL) transaction on the Exchange.

For purposes of this subparagraph (j)(i), the qualified national best bid or offer for a Nasdaq National Market security shall mean the highest bid and lowest offer, respectively, disseminated (A) by the Exchange or (B) by another market center participating in the Joint Self-Regulatory Organization Plan Governing the Collection, Consolidation and Dissemination of Quotation and Transaction Information for Nasdaq Listed Securities Traded on Exchanges on an Unlisted Trading Privileges Basis (“Plan”); provided, however, that the bid and offer in another such market center will be considered in determining the qualified national best bid or offer in a stock only if (i) the quotation conforms to the requirements of Rule 127 (“Minimum Price Variations”), (ii) the quotation does not result in a locked or crossed market, (iii) the market center is not experiencing operational or system problems with respect to the dissemination of quotation information, and (iv) the bid or offer is “firm,” that is, members of the market center disseminating the bid or offer are not relieved of their obligations with respect to such bid or offer under paragraph (c)(2) of Rule 11Ac1-1 pursuant to the “unusual market” exception of paragraph (b)(3) of Rule 11Ac1-1.

(ii) Limit Orders; Stop Orders; Stop-Limit Orders; Other Order Types – Unless otherwise provided herein, non-executable limit, stop, and stop limit orders shall be executed in accordance with Rule 205, Parts A (2), A(3), and A(4), respectively. Orders to buy or sell “at the close” shall be filled at the price of the closing round-lot sale on the Exchange. An odd-lot order received prior to the close but not filled either before the close or on the close may be filled after the close in accordance with the provisions of Rule 205, Part C (1).

- (iii) Non-Regular Way Trades – Non-regular way trades shall be effected in accordance with the provisions of Rule 205, Part C (2).
- (iv) Locked and Crossed Market Conditions

(a) For market and executable limit orders entered after the opening, when the national best bid and offer is in a locked market condition (i.e., the bid and offer are the same), odd-lot buy and sell orders will be executed at that locked market price.

(b) Crossed Market Condition – When a crossed market condition exists (i.e., bid higher than offer) and the national best displayed bid is higher than the national best displayed offer by \$.05 or less, market and executable limit orders will receive automatic execution at the mean of the bid and offer prices. If the mean is in a subpenny increment, the price of execution would be rounded up to the nearest \$.01. When the national best displayed bid is higher than the offer by more than \$.05, an odd-lot order will not receive automatic execution and is to be executed manually at the time a locked or crossed market condition no longer exists, in accordance with subparagraph (i) of this paragraph (j).

(v) No odd-lot differential may be charged on any odd-lot orders, except for non-regular way trades effected under Rule 118 (j)(iii).

(vi) Odd-lot orders in Nasdaq National Market securities are permitted to be marked (“short”) and are acceptable for all order types, and Rule 7, Commentary .02 shall apply to such orders.

Commentary

.01 The following rules refer to trading in Nasdaq National Market securities and should be consulted by members and member organizations trading Nasdaq National Market securities on the Floor: Rule 1 (Commentary .05); Rule 3; Rule 7 (Commentary .02); Rule 24 (b); Rule 115 (Commentary .01); Rule 170 (Commentary .11); Rule 175; Rule 190 (Commentary .06); and Rule 205 (Commentary .05).

Rule 126. Precedence of Bids and Offers

Commentary

.04 Reserved

.05 Reserved

.06 If prior to presenting a cross transaction in a Nasdaq National Market security involving 5,000 shares or more, a broker requests that the specialist and market makers at the post quote their current market for the subject security, the broker may execute a cross transaction at a price between the quoted market without interference by a specialist or market maker.

In no event shall an agency order in the book, having time priority, remain unexecuted after any other order at its price has been effected pursuant to this rule or otherwise.

Rule 170. Registration and Functions of Specialists

Commentary

.11 The following provisions of this Rule shall not apply to the trading of Nasdaq National Market securities to which the Exchange has extended unlisted trading privileges: paragraph (e), Commentary .01, .02, .05, .07, .08 and .09.

Rule 190. Specialists' Transactions with Public Customers

Commentary

.06 Paragraph (b) of this Rule shall not apply to the trading of Nasdaq National Market securities to which the Exchange has extended unlisted trading privileges.

Rule 205. Manner of Executing Odd-Lot Orders

Commentary

.05 Odd-lot orders in Nasdaq National Market securities shall be executed in accordance with Rule 118(j).

Company Guide Sec. 950 Explanation of Difference between Listed and Unlisted Trading Privileges

First paragraph - No change

Subject to Commentary .01 of this section, securities other than those fully listed on the Exchange were, in the past, admitted to dealings on the Exchange under the designation "admitted to unlisted trading privileges". Securities in this category were admitted to dealings without a formal listing application or request for listing by the issuing company. Most of these securities were admitted to dealings prior to 1934, and further admission of securities to this type of dealings has been virtually terminated. Since companies whose securities are admitted to unlisted trading privileges never filed any listing application or request with the Exchange for trading privileges in their securities, they are not subject to any of the listing agreements applicable to fully listed companies.

Commentary

.01 Notwithstanding the provisions of Section 950, the Exchange may extend unlisted trading privileges to Nasdaq National Market securities pursuant to Section 12(f)

of the Securities Exchange Act of 1934. Nasdaq National Market securities are designated as such by the National Association of Securities Dealers, Inc. (“NASD”), pursuant to NASD rules. The Exchange has implemented certain rules applicable to trading in Nasdaq National Market securities. See Amex Rule 118.