

DIRECT PARTICIPATION PROGRAMS
PROPOSED ARTICLE III, SECTION 35
OF THE RULES OF FAIR PRACTICE

- (a) A member or a person associated with a member shall not underwrite or participate in any way in the distribution to the public of units of a direct participation program, or sponsor a direct participation program, the provisions of which are inconsistent with rules, regulations and procedures prescribing standards of fairness and reasonableness in respect thereto adopted by the Board of Governors pursuant to the authorization granted in subsection (b) hereof.
- (b) The Board of Governors is authorized, for the purpose of preventing fraudulent and manipulative acts and practices, promoting just and equitable principles of trade, providing safeguards against unreasonable profits or unreasonable rates of commissions or other charges, and for the protection of investors and the public interest, to adopt rules, regulations and procedures prescribing standards of fairness and reasonableness for direct participation programs relating to:
- (1) the underwriting or other terms and conditions concerning, directly or indirectly, the distribution of units of such programs to the public, including, but not limited to, all elements of compensation in connection therewith, among other factors;
 - (2) the terms and conditions concerning the operation, structure and management of such programs in which a member or an affiliate of a member is a sponsor including, but not limited to:
 - a. the rights of participants in such programs;
 - b. conflicts or potential conflicts of interest of sponsors thereof, or others;
 - c. the financial condition of sponsors of such programs;
 - d. all elements of sponsor's compensation including, but not limited to, working interests, net profit interests, promotional interests, program management fees, overriding royalty interests, sharing arrangements, interests in program revenues, and overriding interests of all other

kinds, general and administrative expenses and organization and offering expenses;

- e. the minimum unit value which may be offered and the minimum subscription amount per investor;
 - f. the retention and/or exchange of units of the program held by participants;
 - g. the assessments, mandatory, optional or otherwise, to be made on participants in a program in addition to the unit price;
 - h. the reinvestment of revenues derived from the operation of the program;
 - i. the duty of the program to render operational and financial reports to participants;
 - j. the liquidation of units in a program; and
 - k. any other terms, conditions or arrangements relating to the operation of the program which the Board of Governors determines are required for the protection of investors and the public interest;
- (3) the standards of suitability for investment in such programs by investors;
 - (4) the content and filing with the Association of advertising and sales literature to be used in connection with the distribution of direct participation programs; and,
 - (5) the definitions of words commonly used in connection with such programs including words used in this section unless they are otherwise defined herein.
- (c) The rules, regulations and procedures authorized by Subsection (b) hereof shall be incorporated into Appendix F to be attached to and made a part of these Rules of Fair Practice. The Board of Governors shall have the power to adopt, alter, amend, supplement or modify the provisions of Appendix F from time to time without recourse to the membership for approval, as would otherwise be required by Article VII of the By-Laws, and Appendix F shall become effective as the Board of Governors may prescribe unless disapproved by the Securities and Exchange Commission.
- (d) For the purposes of this section, the following terms shall have the stated meanings:

- (1) AFFILIATE - when used with respect to a member or sponsor, shall mean any person which controls, is controlled by, or is under common control with, such member or sponsor, and includes:
- a. any partner, officer or director (or person performing similar functions) of (a) such member or sponsor or (b) a person which beneficially owns 50% or more of the equity interest in, or has the power to vote 50% or more of the voting interest in, such member or sponsor.
 - b. any person which beneficially owns or has the right to acquire 10% or more of the equity interest in or has the power to vote 10% or more of the voting interest in (a) such member or sponsor, or (b) a person which beneficially owns 50% or more of the equity interest in, or has the power to vote 50% or more of the voting interest in, such member or sponsor.
 - c. any person with respect to which such member or sponsor, the persons specified in subparagraph a. or b., and the immediate families of partners, officers or directors (or persons performing similar functions) specified in subparagraph a. or other persons specified in subsection b., in the aggregate beneficially own or have the right to acquire 10% or more of the equity interest or have the power to vote 10% or more of the voting interest.
 - d. any person an officer of which is also a person specified in subparagraph a. or b. and any person a majority of the board of directors of which is comprised of persons specified in subparagraph a. or b.; or
 - e. any person controlled by a person or persons specified in subparagraphs a., b., c. or d.
- (2) DIRECT PARTICIPATION PROGRAM (PROGRAM) - a program which provides for flow-through tax consequences regardless of the structure of the legal entity or vehicle for distribution including, but not limited to, oil and gas programs, real estate programs, agricultural programs, cattle programs, condominium securities, Subchapter S corporate offerings and all other programs of a similar nature, regardless of the industry represented by the program, or any combination thereof. A program may be composed of one or more legal entities or programs but when used herein and in any rules or regulations adopted

pursuant hereto the term shall mean each of the separate entities or programs making up the overall program and/or the overall program itself. Excluded from this definition are real estate investment trusts, tax qualified pension and profit sharing plans pursuant to Sections 401 and 403(a) of the Internal Revenue Code and individual retirement plans under Section 408 of that Code, tax sheltered annuities pursuant to the provisions of Section 403(b) of the Internal Revenue Code, and any company, including separate accounts, registered pursuant to the Investment Company Act of 1940.

- (3) EQUITY INTEREST - when used with respect to a corporation means common stock and any security convertible into, exchangeable or exercisable for common stock, and, when used with respect to a partnership, means an interest in the capital or profits or losses of the partnership.
- (4) SPONSOR - a person who directly or indirectly provides management services for a direct participation program whether as general partner, pursuant to contract or otherwise.

PROPOSED APPENDIX F TO
ARTICLE III, SECTION 35
OF THE RULES OF FAIR PRACTICE

Section 1 - Definitions

The following words shall have the stated meanings whenever used in this Appendix or in a prospectus utilized for the purpose of offering a direct participation program to the public:

- (a) ACQUISITION FEE - the total of all fees and commissions paid by any party in connection with the acquisition of property by a program. Included in the computation of such fees or commissions shall be any real estate commission, acquisition fee, development fee, selection fee, construction fee, guaranteed payment, nonrecurring management fee, or any fee of a similar nature. Excluded from the computation of such fees and commissions shall be such items as legal expenses, independent appraisals, settlement costs, title insurance and a development fee paid to a person not affiliated with a sponsor, in connection with the actual development of a project after acquisition of the land by the program.
- (b) ADJACENT ACREAGE - producing or nonproducing leases located within four spacing units of any well site or located within the boundaries of the same prospect, whichever is larger.
- (c) AFFILIATE - when used with respect to a member or sponsor, shall mean any person which controls, is controlled by, or is under common control with, such member or sponsor, and includes:
 - (1) any partner, officer or director (or person performing similar functions) of (a) such member or sponsor or (b) a person which beneficially owns 50% or more of the equity interest in, or has the power to vote 50% or more of the voting interest in, such member or sponsor.
 - (2) any person which beneficially owns or has the right to acquire 10% or more of the equity interest in or has the power to vote 10% or more of the voting interest in (a) such member or sponsor or (b) a person which beneficially owns 50% or more of the equity interest in, or

has the power to vote 50% or more of the voting interest in, such member or sponsor.

- (3) any person with respect to which such member or sponsor, the persons specified in paragraphs (1) or (2), and the immediate families of partners, officers or directors (or persons performing similar functions) specified in paragraph (1) or other persons specified in paragraph (2), in the aggregate beneficially own or have the right to acquire, 10% or more of the equity interest or have the power to vote 10% or more of the voting interest.
 - (4) any person an officer of which is also a person specified in paragraphs (1) or (2) and any person a majority of the board of directors of which is comprised of persons specified in paragraphs (1) or (2); or
 - (5) any person controlled by a person or persons specified in paragraphs (1), (2), (3) or (4).
- (d) APPRAISAL - a written opinion of the value of property prepared by a qualified independent appraiser of the type of property which is the subject of the appraisal.
 - (e) ASSESSMENTS - additional amounts of capital which a participant may be called upon to furnish beyond his subscription amount. Assessments may be mandatory or optional.
 - (f) AUDITED FINANCIAL STATEMENTS - financial statements of a program including the balance sheet, the profit and loss statement, and cash flow and source and application of revenues statement which have been attested to by an independent certified public accountant.
 - (g) CAPITAL CONTRIBUTION - the gross amount of investment in a program by a participant, or all participants, as the case may be.
 - (h) CASH LIQUIDATION VALUE - the amount, based upon an evaluation made by a qualified independent appraiser and computed in accordance with a formula or in accordance with terms contained in the prospectus, which will be paid for an interest in a program upon exercise by the participant of his right to receive such value.
 - (i) CASH AVAILABLE FOR DISTRIBUTION - cash flow less that amount set aside for restoration or creation of reserves.

- (j) CASH FLOW - program cash funds provided from operations, including lease payments on net leases from builders and sellers, without deduction for depreciation, but after deducting cash funds used to pay all other expenses, debt payments, capital improvements and replacements.
- (k) DEVELOPMENT FEE - a fee for the packaging of a program's property, including negotiating and approving plans, and undertaking to assist in obtaining zoning and necessary variances and financing for the specific property, either initially or at a later date.
- (l) DIRECT PARTICIPATION PROGRAM (PROGRAM) - a program which provides for flow-through tax consequences regardless of the structure of the legal entity or vehicle for distribution including, but not limited to, oil and gas programs, real estate programs, agricultural programs, cattle programs, condominium securities, Subchapter S corporate offerings and all other programs of a similar nature, regardless of the industry represented by the program, or any combination thereof. A program may be composed of one or more legal entities or programs but when used throughout this Appendix the term shall mean each of the separate entities or programs making up the overall program and/or the overall program itself. Excluded from this definition are real estate investment trusts, tax qualified pension and profit sharing plans pursuant to Sections 401 and 403(a) of the Internal Revenue Code and individual retirement plans under Section 408 of that Code, tax sheltered annuities pursuant to the provisions of Section 403(b) of the Internal Revenue Code, and any company, including separate accounts, registered pursuant to the Investment Company Act of 1940.
- (m) EQUITY INTEREST - when used with respect to a corporation, means common stock and any security convertible into, exchangeable or exercisable for common stock, and, when used with respect to a partnership, means an interest in the capital or profits or losses of the partnership.
- (n) FAIR MARKET NET WORTH - the difference between total fair market value of assets and total liabilities including, in the case of an oil and gas program sponsor, the present value of proven reserves of oil, gas and other minerals as determined by an appraisal by a qualified independent appraiser.
- (o) GENERAL AND ADMINISTRATIVE EXPENSE - all costs and expenses incurred by the sponsor in connection with

administering a program, including salaries paid by the sponsor, which costs and expenses are not directly allocable to the operations of the program.

- (p) GUARANTEED LEASE - an arrangement whereby the leasee of a property makes an agreement or has the right to lease the property from the buyer pursuant to terms and conditions which are non-renegotiable for a reasonable length of time.
- (q) IMMEDIATE FAMILY - parent, mother-in-law or father-in-law, husband or wife, brother or sister, brother-in-law or sister-in-law, children, or any relative to whose support the sponsor, the member, or person associated with the member contributes directly or indirectly.
- (r) INTANGIBLE DRILLING COSTS - any expenditures incurred by an oil and gas program in drilling and completing wells which are generally allowed as current expense items pursuant to the appropriate provisions of the Internal Revenue Code.
- (s) MANAGEMENT FEE - a fee paid to a sponsor of a program for management and administration of the program.
- (t) MINIMUM SUBSCRIPTION AMOUNT - the minimum amount to which a person must initially subscribe in order to be a participant in a program.
- (u) NET PROCEEDS - the total gross proceeds received from an offering less organization and offering expenses incident thereto.
- (v) NET PROFITS INTEREST - that interest measured by net profits from a property or program, without any liability for losses, which becomes payable after receipt by the participants in a program of net profits equal to certain specified expenditures as detailed in the prospectus for the program.
- (w) NET OPERATING PROFITS INTEREST - a special class of net profits interest which means an interest in net profits from the commencement of production without regard for expenditures for leasehold, exploration or development.
- (x) OIL AND GAS PROGRAM - a direct participation program which has for its primary purpose oil and gas exploration, development or production.
- (y) OPERATING EXPENSES - production and/or leasehold expenses of an oil and gas program incurred in the operation of a producing lease, including general and

administrative expenses, field and district expenses, direct out-of-pocket expenses for labor, materials and supplies, and that share of taxes and transportation charges not borne by overriding royalty interests.

- (z) OPERATOR - a person designated to supervise and manage the exploration, drilling, production and leasehold operations of an oil and gas program or a portion thereof.
- (aa) ORGANIZATION AND OFFERING EXPENSES - those expenses which are incurred in preparing a direct participation program for registration and subsequently offering and distributing it to the public, including sales commissions paid to broker-dealers in connection with the distribution of the program.
- (bb) ORIGINAL COST - the sum of the price paid by the seller for property plus all costs and expenses, if any, reasonably and properly allocable to the property in accordance with generally accepted accounting principles, except, in the case of oil and gas programs, the costs of drilling wells which are not commercial producers.
- (cc) OVERRIDING ROYALTY INTEREST - an interest in oil and gas produced or in the proceeds from the sale of oil and gas, free of operating expenses but subject in some cases to production taxes and transportation charges.
- (dd) PARTICIPANT - the purchaser of an interest in a direct participation program.
- (ee) PAYOUT - that point at which the gross revenues from production attributable to a program equal the sum of all costs. As used herein, costs shall include expenditures for leasehold, exploration, development, operation and overhead but do not include depletion, depreciation or income taxes.
- (ff) PERSON - any natural person, partnership, corporation, association or other legal entity.
- (gg) PERSON ASSOCIATED WITH A SPONSOR - any person or member of the immediate family of any person who is employed in any capacity by a sponsor, who is contractually obligated to the sponsor or to whom the sponsor is contractually obligated, or who is, directly or indirectly, controlling or controlled by such sponsor; provided, however, that independent contractors such as attorneys and accountants shall not be deemed to be persons associated with a sponsor.

- (hh) PRINCIPAL OR PRIME TENANT - a person, or group of related persons, who is the largest single occupant of a piece of real property and who occupies more than 25 percent of the aggregate square footage thereof.
- (ii) PROPERTY MANAGEMENT FEE - the fee paid to a sponsor or others for day-to-day professional property management services in connection with a real estate program's real property project.
- (jj) PROSPECT - an area geographically defined by the sponsor of an oil and gas program in which the program owns an interest in one or more oil and gas leases and which is reasonably anticipated by the sponsor to have possibilities for the production of oil and gas.
- (kk) PROSPECTUS - shall have the meaning given to that term by Section 2(10) of the Securities Act of 1933, including a preliminary prospectus; provided, however, that such term as used herein shall also include an offering circular as described in Rule 256 of the General Rules and Regulations under the Securities Act of 1933 or, in the case of an intrastate offering, any document by whatever name known, utilized for the purpose of announcing the offering and selling securities to the public.
- (ll) QUALIFIED INDEPENDENT APPRAISER - a person, including a qualified independent petroleum engineer and a qualified independent real estate appraiser, who holds himself out as an appraiser of a particular type of property and who:
 - (1) is licensed or registered to practice his profession with the appropriate professional and/or regulatory body, if any, within the state of his business activity, if such is required, and can demonstrate himself to be qualified to appraise the type of property in respect to which he holds himself out; and,
 - (2) is totally independent in that:
 - a. he has no present interest or contemplated future interest, either legal or beneficial, in the property appraised;
 - b. he has no interest in the proposed transaction for acquisition of the property by the program or in the parties to such transaction;
 - c. his employment and compensation are not

contingent upon any value found by him or upon anything other than the delivery of his report for a predetermined fee; and,

d. he is not an affiliate of a sponsor.

(mm) QUALIFIED INDEPENDENT PETROLEUM ENGINEER - a person who holds himself out as an evaluator of producing petroleum properties and who:

(1) is licensed to practice petroleum engineering in the state of his professional activity, if such is required, and can demonstrate himself to be qualified to appraise oil and gas properties and petroleum reserves; and

(2) is totally independent in that:

a. he has no present interest or contemplated future interest, either legal or beneficial, in the property appraised;

b. he has no interest in the proposed transaction for acquisition of the property by the program or in the parties to such transaction;

c. his employment and compensation are not contingent upon any value found by him or upon anything other than the delivery of his report for a predetermined fee; and,

d. he is not an affiliate of a sponsor.

(nn) QUALIFIED INDEPENDENT REAL ESTATE APPRAISER - a person who holds himself out as an appraiser of real property and who:

(1) is registered with a recognized national real estate appraisal board within the state of his professional activity, if such is required, and can demonstrate himself to be qualified to appraise the type of real property at issue; and

(2) is totally independent in that:

a. he has no present interest or contemplated future interest, either legal or beneficial, in the property appraised;

- b. he has no interest in the proposed transaction for acquisition of the property by the program or in the parties to such transaction;
 - c. his employment and compensation are not contingent upon any value found by him or upon anything other than the delivery of his report for a predetermined fee; and,
 - d. he is not an affiliate of a sponsor.
- (oo) REAL ESTATE PROGRAM - a direct participation program which has for its purpose the expenditure of a determinable sum of money for the acquisition of an interest in real property.
- (pp) REGISTRATION STATEMENT - shall have the meaning given to that term by Section 2(8) of the Securities Act of 1933; provided, however, that such term as used herein shall also include a notification on Form 1-A filed with the Securities and Exchange Commission pursuant to the provisions of Rule 255 of the General Rules and Regulations under the Securities Act of 1933 and, in the case of an intrastate offering, any document, by whatever name known, initiating the registration or similar process by whatever name known for an issue of securities which is required to be filed by the laws or regulations of any state.
- (qq) REVERSIONARY INTEREST - an interest in a program the benefits of which accrue in the future upon the occurrence of some event.
- (rr) SALES LITERATURE - any communication (including radio, television and slide presentations, photographs, recordings and illustrations) used to supplement a prospectus; provided, however, such shall not mean:
- (1) letters of transmittal which do no more than refer to the enclosed prospectus and sales literature; and,
 - (2) periodic reports required by Section 9 hereof supplied by issuers to members and current participants in the program, provided that said reports are used in no way as sales literature and do not contain an expressed or implied offer to sell a security.

- (ss) SALES MEMORANDA - any communication used as a supplement to the prospectus or selling agreement and intended solely for use by broker-dealers distributing the program.
- (tt) SHARING ARRANGEMENT - an interest in a program granted to the sponsor for his services at a lower cost than that charged participants.
- (uu) SPACING UNIT - that area or distance between wells specified in an order of a regulatory body which establishes the number and location of wells over an oil and gas reservoir as a conservation measure.
- (vv) SPONSOR - a person who directly or indirectly provides management services for a direct participation program whether as general partner, pursuant to contract or otherwise.
- (ww) SUBORDINATED INTEREST - one which is junior to the rights of participants until such time as they have received cumulative distributed cash in an amount at least equal to their capital contribution.
- (xx) SUBSCRIPTION AMOUNT - the total dollar amount for which a participant in a direct participation program has subscribed for his participation in the program.
- (yy) TANGIBLE DRILLING COSTS - costs of lease acquisitions and drilling and completing wells which are generally accepted as capital expenditures pursuant to the provisions of the Internal Revenue Code.
- (zz) TAXABLE INCOME - shall have the meaning given that term in Section 63 of the Internal Revenue Code of 1951, as amended, without taking into consideration investment in the program.
- (aaa) TAX BRACKET - the maximum rate at which a portion of a person's taxable income would be taxed.
- (bbb) UNSPECIFIED PROPERTY PROGRAM - a program which, at the time the registration statement becomes effective, does not have 75 percent or more of the net proceeds of the total dollar amount of the offering allocable to specific purposes or, in the case of a real estate program, allocable to the purchase or construction of specific properties. Reserves shall be included in the unspecified 25 percent.
- (ccc) WORKING INTEREST - an operating interest entitling the holder to a share of production under an oil and gas lease which carries with it the obligation to bear a

NASD

NOTICE TO MEMBERS: 77-4
Notices to Members should be
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

January 27, 1977

TO: All NASD Members

RE: A. H. Speer Co.
150 Page Ct.
220 W. Douglas
Wichita, Kansas 67202

ATTN: Operations Officer, Cashier, Fail-Control Department

On Tuesday, January 25, 1977, a Temporary Receiver was appointed for the above captioned firm. Members may use the "immediate close-out" procedures as provided in Section 59 (i) of the NASD's Uniform Practice Code to close-out open OTC contracts.

Accordingly, questions regarding the firm should be directed to:

Temporary Receiver
Mr. Thomas R. Brunner
530 R. H. Garvey Building
300 West Douglas Avenue
Wichita, Kansas 67202

Telephone (316) 263-8991

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

January 28, 1977

TO: All NASD Members and Interested Persons

RE: NASDAQ Options Program

On January 13, 1977, in Release No. 34-13162, the Securities and Exchange Commission announced its approval of the Association's new Rule of Fair Practice, Article III, Section 33. Previously approved by a mail vote of the membership (Notice to Members No. 76-24, dated July 22, 1976), Section 33 grants the Association's Board of Governors the authority to adopt rules, regulations and procedures for the governance of options trading as may be deemed by the Board to be necessary for the protection of investors in the public interest. Pursuant to such authority, the Board, at its meeting of January 17-19, 1977, approved and adopted a package of rules and regulations in connection with the development of an options program which would provide for the quotation display of standardized options on the NASDAQ System and which would provide for the regulation of members' transactions in options. This rules package, consisting of an Appendix E to Section 33 and amendments to Schedule C of Article I, Section 2(d) and to Schedule D of Article XVI, Section 3 of the By-Laws, has been filed with the SEC for approval pursuant to SEC Rule 19b-4 (File No. SR-NASD-77-2). Pending SEC approval, the Association anticipates commencing its options program on July 5, 1977.

The rules package filed with the SEC consisted, for the most part, of proposals which had been circulated previously for membership comment in both Notice to Members No. 76-8, dated February 10, 1976, and Notice to Members No. 76-31, dated September 28, 1976. However, certain provisions of Appendix E and Schedule D were amended as a result of membership comment on Notice to Members No. 76-31. Further, new provisions were added to Schedule D in order for the Association's options program to conform with SEC requirements and newly established industry standards

with respect to options trading. These amendments and additions, recommended by the Options Committee, were approved and adopted by the Board.

Although, as adopted, Section 33 to Article III of the Rules of Fair Practice and the authorizing provisions to Schedule C and Schedule D of the By-Laws permit the Board to adopt, alter, amend, supplement or modify Appendix E to Section 33 and said Schedules without recourse to the membership for approval, the Board has determined to solicit membership comment on those sections of the rules package which have been amended or added since the circulation of Notice to Members No. 76-31. The Board believes that membership comment on the revised provisions of the NASD's options program as contained herein would be beneficial and should be taken into consideration, even though such rules have already been filed for SEC approval. Depending upon membership comment, appropriate amendments will be made and filed with the SEC prior to its approval, which usually takes more than a month.

In reviewing and commenting on the enclosed package of rules, reference should be made to Notice to Members No. 76-31. The analysis of the enclosed rules which follows indicates where the sections and subsections differ from those which appeared in that notice.

Commentators should also be mindful of the manner in which these rules were formulated. The Board's intent was to have an options program comparable in most respects to those of the exchanges presently trading options and to have a program which would also satisfy SEC requirements governing options trading. Particular attention should be given to the new provision in Schedule D which would require all members to report all sale transactions in those over-the-counter securities underlying NASDAQ options, executed during the course of a trading day.

In addition to requesting membership comment on rules which have been amended or added to the options program subsequent to the submission of Notice to Members No. 76-31, the Board is publishing the adopted amendments to Schedule C of the By-Laws. These amendments are unchanged from those circulated in that September 1976 notice. In so doing, the Board wishes to alert the membership to the fact that any Association member engaged in any put or call options activities, whether for its own account or for the account of a public customer, would be required to have a person associated with it registered with the Association as a Registered Options Principal (ROP). As it is presently anticipated that the NASDAQ options program will be implemented in July 1977, members should begin making arrangements to comply with the Schedule C requirements for options activity. In this respect, the Association will shortly submit to the membership a separate Notice to Members detailing the examination and registration

procedures for ROPs. It should be noted that the Board has determined that ROPs already admitted to the various exchanges will be exempted from the Association's options principal examination.

The amended and new rule provisions, as well as an analysis of each, commences on the following page.

All comments should be addressed to Mr. Thomas D. Walsh, Secretary, National Association of Securities Dealers, Inc., and received no later than February 28, 1977, in order to receive consideration. All comments will be available for inspection. Questions should be addressed to Messrs. S. William Broka (202) 833-7356 or David P. Parina (202) 833-7247.

Sincerely,

A handwritten signature in cursive script, appearing to read "Frank J. Wilson".

Frank J. Wilson
Senior Vice President
Regulatory Policy and
General Counsel

EXPLANATION OF AMENDMENTS

Appendix E of Article III, Section 33 of the Rules of Fair Practice

Explanations provided herein relate solely to those provisions which have been amended or added since publication of Notice to Members No. 76-31.

Section 3 - Position Limits

Section 3 establishes position limits which prohibit any member, associated person of such member or public customer from creating positions in any series or class of options through opening transactions (purchase or writing) in excess of limits established from time to time by the Association. Initially these limits are 1,000 option contracts of the same class of options and 500 option contracts of the same class and the same expiration date. The limits established are comparable to the limitations imposed by the options exchanges.

As originally proposed in Notice to Members No. 76-31, a separate position limit would have been established for the trading accounts of dual market makers, that is, members who are registered and act simultaneously as market makers in both an underlying security and its NASDAQ option. The Options Committee in viewing that proposal, recognized that certain inequities would exist in establishing differing standards for a market maker's position. Therefore, the Committee and the Board concurred that dual market makers should be subject to the same position limits as market makers, members and customers. Accordingly, subsection (b) of Section 3 has been deleted from the rule.

The regulatory objective of Section 3 is to prevent any person or group of persons from achieving a position in options which would create the potential for manipulation in a particular class or series of options, or in the underlying security. Further, due to the increased interest in standardized options and the presence of secondary markets for them, it is believed that without these regulatory safeguards the possibility for manipulation in a particular class or series of options would be greater.

Section 11 - Transactions With Issuers

Section 11 prohibits a member from entering into the sale (writing) of an option contract with an issuer, control person or affiliate of an issuer, if the option transaction of that issuer involves the underlying security of the issuer. The conflict created by such a situation is apparent and, hence,

has been prohibited. As originally proposed, both purchase and sale (writing) transactions would have been prohibited. Section 11, as amended, will permit purchase transactions; this modification reflects membership comment received on Notice to Members No. 76-31. As a result of the amendment, Section 11 parallels comparable rule provisions of various exchange options programs.

Part XI to Schedule D of
Article XVI of the By-Laws

Section 2 - NASDAQ Options Services Available

Section 2 establishes the level of NASDAQ options services available for options displayed on the NASDAQ System. Subsection (a) provides that a Level 1 subscriber will have access to representative bid and ask quotations for each NASDAQ option on which a minimum of two registered NASDAQ options market makers are currently quoting the option. Therefore, in the event only one market is entering quotations for a specific option, the NASDAQ System will not release quotations for that option to Level 1 subscribers.

Subsection (b) provides that a Level 2 NASDAQ options service subscriber will have access to quotations currently entered by all registered NASDAQ options market makers, irrespective of the number of market makers.

Subsection (c) provides that a Level 3 NASDAQ options service subscriber will be able to enter quotations into the NASDAQ System for NASDAQ options upon approval and authorization by the Association. Level 3 NASDAQ options service subscribers will also have access to all option quotations entered into the NASDAQ System.

The provisions of Section 2 are consistent with comparable provisions presently contained in Schedule D relative to general securities quotations.

Technical modifications have been made to this Section to state more clearly that a subscriber to the NASDAQ options service will be approved and authorized by the Association solely as an options subscriber and will not be entitled to receive data, unrelated to options, which is offered through NASDAQ unless or until such subscriber is authorized and approved by the Association to receive such data as well.

Section 3(f) - Character of Quotations Entered into the System

Section 3(f) relates to the character of option quotations to be displayed on the NASDAQ System. Subsection (f)(1) requires all bids or

offers for options issued by the Clearing Corporation displayed on the NASDAQ System to be for at least one NASDAQ option contract representing the minimum unit of trading, i. e. , one option contract covering 100 shares of the underlying security.

Subsection (f)(2) requires all bids or offers for options issued by the Options Clearing Corporation displayed on the NASDAQ System to be expressed in terms of dollars per share of the underlying security. Subsection (f)(2) further provides bids and offers for a NASDAQ option contract subject to an adjusted unit of trading to be expressed in terms of dollars per the appropriate fractional part of the total securities constituting the adjusted unit of trading.

Subsection (f)(3) requires a registered NASDAQ options market maker who receives a buy or sell order to execute a trade for at least one option contract at the quotation he has displayed on NASDAQ at the time of receipt of the order. He would, therefore, be committed to the quotation he has displayed on the screen to the extent of at least one contract at the quoted price.

Subsection (f)(4) permits a registered NASDAQ options market maker to enter a nominal quotation (0-1/16) on the NASDAQ System with respect to those options having no present value. This subsection is new and has been added to enable market makers to accommodate customers, holding option contracts with no present market value, who wish to liquidate their holdings prior to such options' expiration date. Members should note that this subsection permits but does not require market makers to enter such a nominal quotation.

Section 3(g) - Transaction Reporting

Section 3(g) establishes a real time trade reporting requirement for transactions in NASDAQ displayed options executed by a registered NASDAQ options market maker and other members.

Subsection (g)(1)a. requires a member to transmit reports of writing (sale) transactions in NASDAQ options executed during the operating hours of the Options Price Reporting Authority (OPRA) within one and one-half minutes after execution. Failure to comply with this requirement will result in the report being designated as late. Reports of writing (sale) transactions executed outside of OPRA's operating hours must be reported weekly in writing to the NASDAQ supervisory office in New York City.

Subsection (g)(1)b. requires each reported writing (sale) transaction to reflect the recorded price on the trade ticket exclusive of commissions, taxes or other charges.

Subsection (g)(1)c. exempts a member from reporting option transactions executed on an exchange.

Subsection (g)(1)d. requires that, except as otherwise provided in subsection (g)(1)h., a member must transmit to the Association reports of sale transactions in over-the-counter securities underlying NASDAQ options, listed in subsection (g)(1)e. executed during the course of a trading day, by 6:30 p.m. Eastern Time. All such reports must be transmitted through the NASDAQ System, or, if the System is unavailable, via Telex, TWX or telephone to the NASDAQ supervisory office in New York City.

Subsection (g)(1)e. contains the list of those over-the-counter securities subject to the reporting provisions of subsection (g)(1)d. The list contains only those over-the-counter securities displayed on the NASDAQ System that are eligible and authorized by the Association to be subject to NASDAQ options. The list will be amended from time to time as determined by the Association.

Subsection (g)(1)f. requires each reported sale transaction for underlying over-the-counter securities to reflect the recorded price on the trade ticket exclusive of commissions, taxes, or other charges.

Subsection (g)(1)g. requires a member to time stamp all trade tickets on transactions in underlying over-the-counter securities at the time of execution.

Subsection (g)(1)h. permits members to report in writing, on a weekly basis, transactions in those underlying over-the-counter securities listed in subsection (g)(1)e. which do not exceed 500 shares in any single trading day provided, however, that transactions in such underlying securities have not exceeded 500 shares in any five (5) of the previous ten (10) trading days.

Subsections (g)(1)d. through (g)(1)h. are new and should be reviewed carefully by commentators. These provisions, governing last sale trade reporting by all members of transactions in securities underlying NASDAQ options, have been added to enhance the Association's regulatory program and are a product of the recommendations of a Joint Options/NASDAQ Subcommittee. Members should pay particular attention to these new provisions since they apply to all members' transactions in securities underlying NASDAQ options regardless of whether such members are themselves engaged in any options activities.

Subsection (g)(2) provides that a member shall report weekly and/or monthly such data on NASDAQ options quoted in the system as the Board of Governors may require. Subsection (g)(3) requires that trade tickets on transactions in NASDAQ options be time stamped at the time of execution.

Section 6 - Qualifications for Authorized Underlying Securities

Section 6 establishes the qualifications for authorized underlying securities that would be eligible to be subject to NASDAQ options. Subsection (a) provides that only the Association will determine the authorized underlying securities for NASDAQ options. This determination will be done in accordance with the Association's agreement with the Options Clearing Corporation, and in conjunction with the specific criteria set forth in this Section. The criteria set forth in subsections (a)(1) through (a)(5) and (b)(1) through (b)(4) of Section 6 are self-explanatory. Changes from the Association's criteria which appeared in Notice to Members No. 76-31 have been made to conform with the SEC approved criteria for the selection of underlying securities presently being used by the various exchanges trading options.

Subsection (c) enables flexibility for those occasions which may arise from time to time that justify an exception to one or more of the criteria. Thus, in an exceptional situation, an underlying security which did not meet in detail each and every one of the listing criteria could still become an authorized underlying security.

Subsection (d) is new and provides that the authorized underlying securities for NASDAQ options shall be representative of issuers engaged in a wide variety of business activities. This subsection was also added to model a provision of the SEC approved selection criteria presently used by exchanges trading options.

Subsection (e) establishes the criteria which must be met in order for a security to continue to qualify as an authorized underlying security for NASDAQ options. These criteria, set forth in subsections (e)(1) through (e)(8), are self-explanatory. At the time Notice to Members No. 76-31 was circulated to the membership these maintenance criteria had not been developed. They are therefore appearing for the first time for membership comment. As is the case with the selection criteria set forth in subsections (a) and (b), these maintenance criteria conform to those approved by the SEC and presently used by exchanges trading options.

Subsections (f) through (h) also did not appear in Notice to Members No. 76-31. Subsection (f) provides that in the event the Association withdraws approval of an underlying security, no additional series of option contracts of the same class covering that underlying security shall be opened.

Subsection (g) provides that when the Association has withdrawn approval of an underlying security, each member shall inform a customer of such fact prior to effecting any transaction in option contracts in respect of such underlying security for such customer.

Subsection (h) provides that once approval of an underlying security has been withdrawn, no class of options covering that underlying security shall be open until such security is able to comply with the provisions of subsections (a) and (b) of Section 6.

Schedule C of Article I,
Section 2(d) of the By-Laws

Part I, Section 4

Section 4 of Part I requires any member engaged in put or call options activities, whether for the account of a public customer or for the account of the firm, to have a person associated with such member registered with the Association as a "Registered Options Principal." Section 4 also requires that all persons who are actively engaged in the management, direction or supervision of the day-to-day options activities of any member shall be registered as Registered Options Principals. It should be noted that this provision is not restricted to members engaging only in NASDAQ options activities. It embraces firms and persons engaged in conventional or traditional over-the-counter option transactions as well as non-exchange firms (access firms) engaged in exchange listed option transactions through exchange members.

Part II, Section 2(f)

Section 2(f) of Part II requires that as a condition to becoming a Registered Options Principal, a person associated with a member must pass an appropriate qualification examination for Registered Options Principals, or an equivalent acceptable to the Association. The latter provision gives the Association the authority to determine whether an examination given by one or the other of the options exchanges is acceptable for purposes of qualifying as a Registered Options Principal with the Association. In this connection, the Board has determined that the Registered Options Principals already admitted to the various exchanges are exempted from the Association's options principal examination. Section 2(f) also specifies that a person shall not qualify as a Registered Options Principal for both put and call options unless he has passed an examination testing him with respect to both put and call options. This is consistent with exchange requirements.

Both of the above amendments to Schedule C are consistent with the entry standard programs undertaken by the Association in recent years. These programs are aimed at ensuring that a member has competent and experienced persons engaged in the management of specialized areas of activity, such as options trading. Accordingly, the Association believes the Registered Options Principal requirement is necessary and appropriate for an open and orderly market and in the best interest of investors and the public.

Appendix E of Article III, Section 33
of the Rules of Fair Practice

Changes are from the proposals contained in Notice to Members No. 76-31.
New Material is Indicated by Underlining
Deleted Material is Indicated by Striking Out

Section 1 - General (unchanged)

Section 2 - Definitions (unchanged)

Section 3 - Position Limits

(a) Except with the prior written approval of the Corporation ~~or as provided in subsection (b) hereof~~, no member shall effect for any account in which such member has an interest, including investment and trading accounts of a registered NASDAQ options market maker, or for the account of any partner, officer, director or employee thereof, or for the account of any customer, an opening transaction in any class of options if the member has reason to believe that as a result of such transaction the member or partner, officer, director or employee thereof, or customer, would, acting alone or in concert with others, directly or indirectly hold or control or be obligated in respect of an aggregate position (whether long or short) in excess of either:

- (1) 1,000 option contracts of the same class of options;
- (2) 500 option contracts of the same class and the same expiration date (provided, however, that the limit imposed by this paragraph (2) shall not be applicable either (i) to covered short positions or (ii) to short positions to the extent long positions for the same number of option contracts of the same class of options are maintained in the same account where the exercise prices of the option contracts in such long positions are equal to or less than the exercise prices of the option contracts in such short positions); or
- (3) such other number of option contracts as may be fixed from time to time by the Corporation as the position limit for one or more classes or series of options. Reasonable notice shall be given of each new position limit fixed by the Corporation.

~~(b) - Except with the prior written approval of the Corporation, no member who is a dual market maker shall effect for its trading account, an opening transaction in any series of option contracts if the member has reason to believe that as a result of such transaction it would hold or control, or be obligated in respect of, an aggregate position (whether long or short) in any series of options, or an aggregate uncovered short position in any series of options in excess of -- percent of the outstanding option (open interest) contracts for that series reported as of the previous day.~~

Section 4 - Exercise Limits (unchanged)

Section 5 - Reporting of Options Positions (unchanged)

Section 6 - Liquidation of Positions (unchanged)

Section 7 - Limit on Uncovered Short Positions (unchanged)

Section 8 - Restrictions on Option Transactions and Exercises (unchanged)

Section 9 - Confirmations (unchanged)

Section 10 - Delivery of Current Prospectus (unchanged)

Section 11 - Transactions with Issuers

No member under any circumstances shall enter a transaction for the sale (writing) of an option contract for the account of any corporation which is the issuer of the underlying security thereof, or for the account of any person, corporation, partnership or other entity which controls, or is controlled by or under common control with such corporation; or for a partner or joint venturer or other affiliate of such corporation.

Section 12 - Restricted Stock (unchanged)

Section 13 - Statements of Account (unchanged)

Section 14 - Opening of Accounts (unchanged)

Section 15 - Discretionary Accounts (unchanged)

Section 16 - Suitability (unchanged)

Section 17 - Supervision of Accounts (unchanged)

Section 18 - Violation of By-Laws and Rules of the Options Clearing Corporation
(unchanged)

Section 19 - Rules of General Applicability (unchanged)

Part XI to Schedule D of
Article XVI of the By-Laws

Section 1 - Definitions (unchanged)

Section 2 - NASDAQ Options Services Available

(a) Level 1 ~~Service~~ NASDAQ Options Service

(1) Nature of Service - This service will provide the subscriber with data in the form of representative bid and ask quotations for each NASDAQ option on which a minimum of two registered NASDAQ options market makers are entering quotes during the day.

(2) Availability - The service is available only through independent firms authorized by the Corporation to obtain access to the data from the NASDAQ System for distribution to others. The subscriber must agree with the Corporation that the quotations data received through such service will not be used for illegal purposes nor will access thereto be granted on a continuous basis to any person not approved by the Corporation, and the independent distributor must obtain authorization in writing from the Corporation to serve the subscriber.

(b) Level 2 ~~Service~~ NASDAQ Options Service

(1) Nature of Service - This service will provide the subscriber with access to the quotations of all of the registered NASDAQ options market makers entering quotes on each of the NASDAQ options.

(2) Availability - ~~The~~ Level 2 NASDAQ options service is available only to a persons approved and authorized by the Corporation for retrieval of NASDAQ options quotations data.

(c) Level 3 ~~Service~~ NASDAQ Options Service

(1) Nature of Service - This service will enable the registered NASDAQ options market maker to enter quotations into the System only on the NASDAQ options as to which the Corporation has authorized it to enter quotes. Subscribers to Level 3 NASDAQ options service shall also receive Level 2 NASDAQ options service.

(2) Availability - Level 3 NASDAQ options service is available to any member which, upon application, is approved and authorized by the Corporation to participate in the NASDAQ System as a registered NASDAQ options market maker.

Section 3 - Registration, Qualification and Other Requirements of
Market Makers and Others

(a) - (unchanged)

(b) - (unchanged)

(c) - (unchanged)

(d) - (unchanged)

(e) - (unchanged)

(f) Character of Quotations Entered into the System

(1) All bids or offers for NASDAQ options shall be for at least one option contract for the minimum unit of trading.

(2) All bids or offers for NASDAQ options shall be expressed in terms of dollars per share of the underlying security; provided, however, all such bids or offers for a NASDAQ option contract for which the Options Clearing Corporation has established an adjusted unit of trading in accordance with paragraphs (c) and (d) of Section 11 of Article VI of the By-Laws of the Options Clearing Corporation shall be expressed in terms of dollars per the appropriate fractional part of the total securities and/or other property constituting such adjusted unit of trading.

(3) A registered NASDAQ options market maker which receives a buy or sell order must execute a trade for at least one NASDAQ option contract at his quotations as displayed on NASDAQ at the time of receipt of any such buy or sell order. Each quotation entered and displayed by a registered NASDAQ options market maker shall be reasonably related to the then prevailing market.

(4) A registered NASDAQ options market maker will be permitted to enter a nominal quotation (0-1/16) with respect to those options which have no present market value.

(g) Transaction Reporting

(1) Real Time

a. Every member shall transmit to the Association reports of writing (sale) transactions in NASDAQ options executed during the trading hours of the Options Price Reporting Authority (OPRA), within one and one-half minutes after execution of the transaction. The trading hours of OPRA are currently 10:00 a.m. to 4:00 p.m. Eastern Time.

If such report is not transmitted within one and one-half minutes after execution, such report shall be designated as late. All reports of transactions executed during the trading hours of OPRA shall be transmitted through the NASDAQ System. Last sale reports of transactions executed outside of OPRA's trading hours shall be reported weekly in writing to the NASDAQ supervisory office in New York City.

b. A member shall transmit a report for NASDAQ options for writing (sale) transactions in such options at the price recorded on the trade ticket exclusive of commissions, taxes or other charges.

c. A member shall not transmit to NASDAQ a report for transactions executed on an exchange.

d. Except as otherwise provided in subsection (g)(1)h., every member shall transmit to the Association reports of sale transactions in the underlying over-the-counter securities listed in subsection (g)(1)e. executed during the course of a trading day, by 6:30 p.m. Eastern Time. All sale transaction reports shall be transmitted through the NASDAQ System, or, if the System is unavailable, via Telex, TWX or telephone to the NASDAQ supervisory office in New York City.

e. The list of underlying over-the-counter securities, subject to the reporting provisions of subsection (g)(1)d. and appearing below, shall include over-the-counter securities displayed on the NASDAQ System that are eligible and authorized by the Association to be subject to NASDAQ options. Such list shall be amended from time to time as determined by the Association.

1. American Express Company
2. Anheuser-Busch, Inc.
3. Combined Insurance Company of America
4. Connecticut General Insurance Corporation
5. First Bank System, Inc.
6. Franklin Life Insurance Company
7. Hoover, Inc.
8. Liberty National Life Insurance
9. Pennzoil Offshore Gas Operators
10. Security Pacific Corporation
11. Tampax, Inc.

f. Every member shall transmit sale transaction reports for underlying over-the-counter securities for all sales in such securities at the price recorded on the trade ticket exclusive of commissions, taxes, or other charges.

g. All trade tickets on transactions in underlying over-the-counter securities must be time stamped at the time of execution.

h. Members may report in writing, on a weekly basis, transactions in underlying over-the-counter securities listed in subsection (g)(1)e. which do not exceed 500 shares in any single trading day; provided, however, that transactions in such underlying securities have not exceeded 500 shares for any five (5) of the previous ten (10) trading days.

(2) Weekly and/or Monthly - A member shall report weekly and/or monthly to the System such data on NASDAQ options quoted in the System as the Board of Governors shall require. Such report shall be on a form prescribed by the Corporation.

(3) All trade tickets on transactions in NASDAQ options must be time stamped at the time of execution.

(h) - Normal Business Hours (unchanged)

(i) - Initiation of Service (unchanged)

(j) - Withdrawal Procedure (unchanged)

(k) - Voluntary Termination (unchanged)

(l) - Suspension and Termination of a Registered NASDAQ Options Market Maker's Authority to Enter Quotations by Action of the Corporation (unchanged)

Section 4 - Option Contracts Authorized for Trading (unchanged)

Section 5 - Series of Options Opened for Trading (unchanged)

Section 6 - Qualifications for Authorized Underlying Securities

(a) The authorized underlying securities eligible to be subject to NASDAQ options shall be determined solely by the Corporation. Said determination shall be in accordance with the criteria established pursuant to the Participant Agreement entered into by the Corporation with the Options Clearing Corporation and this Section. The criteria specified in the Participant Agreement are as follows:

(1) Such security is registered under Section 12(g)(1) of the Securities Exchange Act of 1934, as amended, and displayed on the NASDAQ System; or is registered on a national securities exchange in accordance with the requirements of Section 12(b) of the Securities Exchange Act of 1934,

as amended; or it is issued by an insurance company meeting the conditions of Section 12(g)(2)(G) of the Securities Exchange Act of 1934, as amended;

(2) The issuer thereof has complied with the reporting and disclosure requirements of Sections 13 and 14 of the Securities Exchange Act of 1934, as amended, unless exempted therefrom, for a period of at least the last three fiscal years;

~~(3) - A majority of the existing board of directors of the issuer thereof have been directors of the issuer, or a predecessor of the issuer, from the beginning of the issuer's last three fiscal years;~~

(3) The issuer and its consolidated subsidiaries have not had more than one annual deficit, before extraordinary items, during the last four fiscal years, and have had no such deficit in the most recent fiscal year;

(4) The issuer thereof and any of its subsidiaries have not during the past three fiscal years defaulted in the payment of any dividend or sinking fund installment on preferred stock, or on any indebtedness for borrowed money or in the payment of rentals under long term leases; and

(5) The issuer thereof (including its consolidated subsidiaries) had a net income, after taxes but before extraordinary items net of tax effect, of at least \$250,000 \$1,000,000 in each fiscal year in three out of the last four fiscal years including the most recent fiscal year.

(b) The following additional criteria must be met in order for a security to qualify to be an authorized underlying security for NASDAQ options:

(1) The issuer thereof has a minimum of 10 8 million outstanding shares in each class of security on which options are to be authorized at least 8 million of which are beneficially owned by persons other than officers or directors of the issuer or 10% stockholders those required to report their stock holdings under Section 16(a) of the Securities Exchange Act of 1934, as amended;

(2) There are a minimum of 10,000 beneficial owners of such security;

(3) There was aggregate trading volume reported to the NASDAQ System and/or the securities exchanges on which the security is listed of at least one two million shares per year in each of the two previous calendar years; and

(4) There ~~is~~ was a representative bid of at least \$10 per share each business day of the six calendar months preceding the date of

selection as measured by the lowest closing representative bid recorded on the NASDAQ System and/or the securities exchanges on which the security is listed.

(c) Notwithstanding the criteria set forth in subsection (b) above, the Corporation may from time to time change or make exceptions to one or more of such criteria in particular cases.

~~(d) - Once qualified, the following criteria must be met in order to a security to continue to be an authorized underlying security for NASDAQ options:~~

(d) The list of approved underlying securities shall be representative of issuers engaged in a wide variety of business activities.

(e) Once qualified, the occurrence of any one of the following shall cause the Association to withdraw its approval of a security to continue as an authorized underlying security for NASDAQ options:

(1) The issuer and its consolidated subsidiaries have incurred a net deficit after taxes, but before extraordinary items net of tax effect, in more than one of the preceding four fiscal years;

(2) The issuer and its consolidated subsidiaries have a net income after taxes, but before extraordinary items net of tax effect, of less than \$250,000 in more than one of the preceding four fiscal years;

(3) The issuer and its significant subsidiaries have defaulted in the payment of any dividend or sinking fund installment on preferred stock, or in the payment of any principal, interest or sinking fund installment on any indebtedness for borrowed money, or in the payment of rentals under long-term leases, and such default has not been cured within six months of the date on which the default occurred;

(4) The issuer has failed to make timely reports as required by Sections 13 and 14 of the Securities Exchange Act of 1934, and such failure has not been corrected within 30 days after the date the report was due to be filed;

(5) There is a failure to have a minimum of 7,200,000 shares of the underlying security held by persons other than those who are subject to the requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended;

(6) There is a failure to have a minimum of 9,000 beneficial owners of such security;

(7) The volume of trading in the underlying security is less than 1,800,000 shares in the preceding calendar year; and

(8) The representative bid of an underlying security closes below \$10.00 on a majority of the business days in any six month period as measured by the highest closing representative bid recorded on the NASDAQ System and/or the securities exchanges on which the underlying security trades.

(f) In the event the Corporation withdraws approval of an underlying security, no additional series of option contracts of the class covering that underlying security shall be opened.

(g) Whenever the Corporation shall announce that approval of an underlying security has been withdrawn for any reason, each member shall, prior to effecting any transaction in option contracts in respect of such underlying security for a customer, inform such customer of such fact.

(h) Whenever the Corporation withdraws the approval of an underlying security, it shall not open a class of option contracts covering that underlying security until such security is able to comply with the provisions of subsections (a) and (b) of Section 6.

Section 7 - Units of Trading (unchanged)

Section 8 - Suspension of an Authorized Underlying Security and/or its Option (unchanged)

Section 9 - Trade Comparison Procedures for NASDAQ Options (unchanged)

Section 10 - Clearance and Settlement Procedures for NASDAQ Options (unchanged)

Section 11 - Tendering Procedures for Exercise of NASDAQ Options (unchanged)

Section 12 - Rules of General Applicability (unchanged)

Amendments to Schedule C of
Article I, Section 2(d) of the By-Laws

Part I,
Section 4

Every member of the Corporation which is engaged in, or which intends to engage in transactions in put or call options with the public, or for its own account, shall have at least one Registered Options Principal who shall have satisfied the requirements of Part II, Section 2(f) hereof. A member which has a Registered Options Principal qualified in either put or call options shall not engage in both put and call option transactions until such time as it has a Registered Options Principal qualified in both such options. Every person actively engaged in the management, direction or supervision of the day-to-day options activities of a member shall also be registered as a Registered Options Principal.

Part II,
Section 2

(f)(1) Each person required by Part I, Section 4 hereof to be a Registered Options Principal shall pass the appropriate qualification examination for Registered Options Principal, or an equivalent acceptable to the Corporation, and be registered as such before engaging in the duties or accepting the responsibilities of a Registered Options Principal.

(f)(2) A person shall not qualify as a Registered Options Principal for both put and call options unless he has passed an examination testing him with respect to both put and call options.