

# SECURITIES ALERT



2001

## MAJOR TRADING MARKETS IN THE UNITED STATES

This memo and its companion summarize some of the key features of the major stock exchanges and the NASDAQ Stock Market in the United States. Although some companies will list their stock in one of these markets without an offering to raise capital, in most cases the listing is done at the same time as an offering. Debt securities can be listed in these markets but listings of stock (often in the form of DRs, ADRs or GDRs) is the more common.

### The Major Trading Markets

- NASDAQ Smallcap
- NASDAQ/NMS
- The New York Stock Exchange (“NYSE”)
- The American Stock Exchange (“AMEX”)

### NASDAQ Smallcap

- NASDAQ has no physical location or single trading but rather is a market created by electronic linkages.
- Securities firms, known as market makers, identify themselves as willing to buy or sell the stock of a particular company and will specify the prices at which they will trade.
- this information is distributed over a computer network, price quotations can change throughout the day.

- some newspapers will carry information about these price quotations for some of the companies quoted in NASDAQ.

### NASDAQ/NMS

- This market is similar to NASDAQ except that the prices and volumes of actual trades, not just quotations, are reported on the computer screens.
- all major newspapers generally publish more extensive information about the companies on NASDAQ/NMS.
- these stocks are “margin stock” which means that investors can borrow money to pay for part of the purchase price.
- This market is far more active than NASDAQ Smallcap.

### Stock Exchanges

- the major stock exchanges are the NYSE and the AMEX, there are also a number of smaller regional exchanges.
- trades in the listed stocks occur on the physical floor of the exchange.
- instead of market makers, there are specialists for trading on the exchanges, all trading is done in front of the specialist for a particular stock.
- the specialist is obligated to make an orderly market in a stock which generally means buying and selling stock for its own account.

- newspapers generally carry price and trading volume information about stocks listed on the NYSE and AMEX.
- listed stocks are margin stocks and short sales are allowed in listed stocks.
- in many cases the spread between the bid and asked prices can be narrower for listed stocks.

### Regulations

- all companies whose stocks are listed on NASDAQ Smallcap, NASDAQ/NMS or an exchange become subject to the periodic reporting requirements of the SEC.

- these requirements mean that the company must file an annual report with the SEC and certain periodic reports as described in a companion memo.
- although non-United States companies are exempt from the SEC's proxy solicitation rules, companies on NASDAQ/NMS and the exchanges are encouraged to hold shareholder meetings and solicit the votes of their shareholders.
- information about the eligibility requirements for each of these markets is attached.

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## NASDAQ Smallcap Eligibility Requirements

- at least \$5 million of stockholders' equity, or market capitalization of \$50 million or net income of \$750,000 for the last fiscal year or in 2 of the last 3 fiscal years
- either an operating history of at least one year or market capitalization of at least \$50 million
- at least 300 shareholders
- at least 1 million publicly held shares
- at least \$5 million value of publicly held shares
- at least three market makers
- minimum bid price of \$4.00

## NASDAQ/NMS Eligibility Requirements

### Alternative 1

- stockholders equity of at least \$15 million
- no requirements for market capitalization, total assets or total revenue
- pre-tax income of at least \$1 million for the last fiscal year or for 2 of the last 3 fiscal years
- at least 1.1 million publicly held shares
- no requirement for operating history
- market value of publicly held shares of at least \$8 million
- per share price of at least \$5
- at least 400 shareholders
- at least three market makers

### Alternative 2

- stockholders equity of at least \$30 million
- no requirements for market capitalization, total assets or total revenue
- no requirements for pre-tax income
- at least 1.1 million publicly held shares

- operating history of 2 years
- market value of publicly held shares of at least \$18 million
- per share price of at least \$5
- at least 400 shareholders
- at least three market makers

### Alternative 3

- no requirement for minimum stockholders equity
- market capitalization of at least \$75 million or total assets and total revenue of at least \$75 million each
- no requirements for pre-tax income
- at least 1.1 million publicly held shares
- no requirement for operating history
- market value of publicly held shares of at least \$20 million
- per share price of at least \$5
- at least 400 shareholders
- at least four market makers

## Corporate Governance Standards

These standards apply under to all Alternatives and to the Small Cap. These standards may be waived if the practice in the company's home country differs.

- annual and interim reports should be distributed to shareholders
- at least two members of the board of directors must be independent of the company
- there must be an audit committee composed mainly of independent directors
- the company must hold a shareholders meeting annually
- the quorum requirement for the annual meeting must be at least one third of the shareholders entitled to vote

- for meetings of shareholders, proxies must be solicited from shareholders
- the audit committee or a similar committee must review all transactions the company has with related parties
- shareholders must generally the stock option plans, issuances of stock resulting in a change of control, issuances of stock resulting in a 20% increase of outstanding stock in connection with the acquisition of stock or assets of another company as a result of certain private transactions

## AMEX Eligibility Requirements

### Regular Financial Requirements

- pre-tax income of at least \$750,000 in the last fiscal year or in at least two of the last three years
- Market value of public float of at least \$3,000,000
- Price pe share at least \$3
- No operating history requirement
- Stockholders equity of at least \$4 million

### Alternative Financial Requirements

- No pre-tax income requirement
- Market value of public float of at least \$15,000,000
- Price pe share at least \$3
- Operating history of at least 3 years
- Stockholders equity of at least \$4 million

### Distribution Alternative 1

Public float of at least 500,000 shares

At least 800 public shareholders

No average daily trading volume

### Distribution Alternative 2

Public float of at least 1,000,000 shares

At least 400 public shareholders

- No average daily trading volume

### Distribution Alternative 3

Public float of at least 500,000 shares

At least 400 public shareholders

Average daily trading volume of at least 2,000 shares

### Distribution Alternative 4

Public float of at least 1,000,000 shares worldwide

At least 800 public shareholders worldwide

No average daily trading volume

### Corporate Governance Standards

Standards may be waived if the practice in the company's home country differs.

- annual and interim reports should be distributed to shareholders
- at least two members of the board of directors must be independent of the company
- there must be an audit committee composed mainly of independent directors
- the company must hold a shareholders meeting annually
- the quorum requirement for the annual meeting must be at least one third of the shareholders entitled to vote
- for meetings of shareholders, proxies must be solicited from shareholders
- certain transactions require the approval of shareholders

### NYSE Eligibility Requirements

- at least 5,000 shareholders worldwide each holding 100 or more shares
- at least 2.5 million shares publicly held worldwide
- market value of publicly held shares at least \$100 million

- at least \$100 million of net tangible assets
- pre-tax income of at least \$100 million cumulative for latest three years with at least \$25 million for any one of those three years

## Corporate Governance Standards

Standards may be waived if the practice in the company's home country differs.

- annual and interim reports should be distributed to shareholders
- at least two members of the board of directors must be independent of the company
- there must be an audit committee composed solely of independent directors
- the company must hold a shareholders meeting annually
- the quorum requirement for the annual meeting must be at least a majority of the shareholders entitled to vote
- for meetings of shareholders, proxies must be solicited from shareholders
- appropriate oversight and review must be given to related party transactions
- there are restrictions on transactions in the company's stock by officers and directors of the company
- certain transactions must be approved by the shareholders