

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

888 SEVENTEENTH STREET N. W. WASHINGTON, D. C. 20006

November 16, 1970

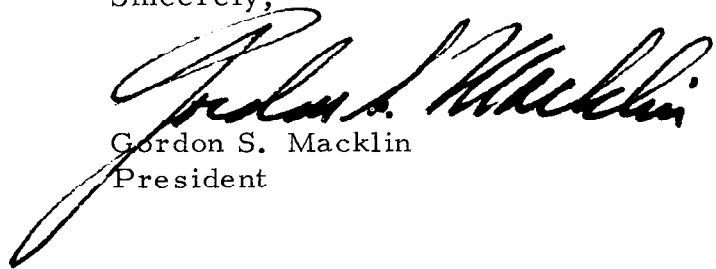
To All NASD Members:

Re: Wanderon & Co., Inc.

In accordance with Section 59(h) of the Association's Uniform Practice Code, all open contracts with the below mentioned member may be closed-out immediately. The procedures outlined in paragraphs (3) and (4) of Section 59(h) shall be used.

Wanderon & Co., Inc.
One Exchange Place
Jersey City, New Jersey 07302

Sincerely,



Gordon S. Macklin
President

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

888 SEVENTEENTH STREET N. W. WASHINGTON, D. C. 20006

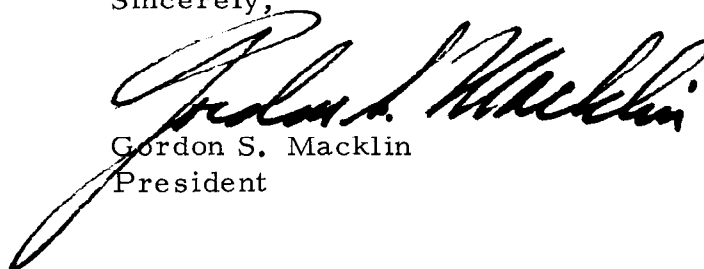
November 16, 1970

To All NASD Members:

Beginning November 30, 1970, the Association will begin moving some of its departments to its new headquarters at 1735 K Street, N. W., Washington, D. C., 20006. The NASD's telephone numbers will be changed and the new numbers for both the present address and the new address will be effective Monday, November 30, 1970. Until you are officially notified of our change of address, all mail should continue to be sent to 888 - 17th Street, N. W., Washington, D. C., 20006. With the new telephone system, it will be possible to dial directly to the various offices and departments listed below:

NASD Executive Office.....	833-7200
Automation.....	833-7230
Corporate Financing.....	833-7240
Data Processing.....	833-7230
Economics.....	833-7260
Examinations.....	833-7180
Executive Vice President.....	833-7341
Financial Reporting.....	833-7260
General Counsel.....	833-7370
Insurance Trust.....	833-7390
Investment Companies, Sales Literature & Ad Review.....	833-7270
Member Services.....	833-7210
Membership.....	833-7190
NASDAQ.....	833-7210
National Clearing Corporation.....	833-7150
Office Manager.....	833-7332
Personnel.....	833-7334
President.....	833-7331
Public Relations.....	833-7290
Quotations.....	833-7210
Registration.....	833-7164
Regulation.....	833-7350
Secretary.....	833-7397
Treasurer.....	833-7380
Variable Contracts.....	833-7270

Sincerely,



Gordon S. Macklin
President

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

888 SEVENTEENTH STREET N. W. WASHINGTON, D. C. 20006

November 30, 1970

To All NASD Members

Re: Statement of Policy of the Board of Governors
With Respect to "Discount Markets"

The Board of Governors of the Association has recently reviewed a practice which has developed in connection with aftermarket transactions in securities of a new issue when a legal stabilization bid is in effect which could in certain circumstances violate the registration and anti-fraud provisions of the Securities Act of 1933, the anti-fraud provisions of the Securities Exchange Act of 1934, various provisions of Article III of the Association's Rules of Fair Practice, including Sections 1, 2, 4, 5 and 18, and certain Interpretations thereof including those with respect to Execution of Retail Transactions in the Over-the-Counter Market (Best Execution Interpretation), Markup Policy and Manipulative and Deceptive Quotations.

The referred to practice is characterized by a member making a market in a new issue of securities with quotations substantially below a bona fide stabilization bid legally in effect pursuant to the provisions of Rule 10b-7 of the General Rules and Regulations under the Securities Exchange Act of 1934. These lower quotations are variously referred to as the "discount market," "going away market" or "guaranteed investment market." In many cases they do not appear to represent bona fide bids and offers for securities.

Members of the underwriting and/or selling groups in several known cases have sold securities for customers, who previously purchased those securities in the distribution from the underwriting or selling group member, to a member making a "discount market" when at the time a stabilization bid at a higher price was being maintained by the managing underwriter. Such conduct is clearly improper and in violation of the Best Execution Interpretation since the customer could have received a better price for his securities. In other cases, a member who was not a participant in the distribution has been solicited directly by the customer to execute such a

sales transaction at the "discount market" bid. These sales also necessarily do not bring the best price to the customer.

Cases have been brought to the attention of the Board wherein customers have directed the member from whom they purchased the new issue securities to sell at the "discount market" notwithstanding knowledge of the existence of a higher stabilization bid and in yet other cases members have apparently sold their selling group participations directly to the "discount market maker." This latter conduct, apparently done so the member's reputation for being able to distribute securities will not be injured in the eyes of the managing underwriter, could possibly render the "discount market maker" a statutory underwriter and involve a violation of the registration provisions of the Securities Act of 1933.

The motivation for selling in the "discount market," though not identical, is parallel regardless of whether the execution is directed by the customer or whether it is initiated by a member with or without the knowledge of the customer. A customer will sometimes so direct and be willing to take the loss which will necessarily result because he is unwilling to sell the shares through the firm from whom he purchased them for fear, justified or not, that if he did so the firm would not be willing to sell him shares in a subsequent issue which may have greater immediate growth potential. He will, in effect, have given away his intent not to buy for bona fide or long term investment and will have, arguably at least, established himself as a short term trader in new issues. This is not considered by underwriters to be conducive to the proper placement of securities which are the subject of a public distribution. The Board is mindful that many times an investor will have a bona fide change of heart and desire to sell shortly after purchasing. There is no intent on the part of the Board to criticize such bona fide transactions.

A member-participant in the distribution, on the other hand, will sell the customer out to the "discount market," sometimes also at the customer's direction, rather than to the stabilization bid because to do the latter would put the managing underwriter on notice that the securities were not properly placed for investment by the member and because, usually, the fact that a penalty of loss of the discount previously earned from the initial sale will result. A member-participant might also fear, rightly or wrongly, that if too many such sales were made he would not be included as part of the underwriting or selling group in a subsequent issue underwritten by the same manager.

The above practices as well as the maintenance of the referred to markets at substantial discounts from the stabilization bid raise other questions under the above cited sections of the Association's Rules of Fair Practice and Interpretations, any one of which could be violated under certain circumstances by the referred to activity. Initially, it should be noted that the Board of Governors does not believe that merely because a customer directs a sale at other than the stabilization bid in and of itself justifies the execution of that order by a member in view of his ethical responsibility to the public and the industry. Since investors do not ordinarily voluntarily elect to lose money, the execution of such an order should be preceded by close scrutiny and inquiry which must take into account the reason for the directed order, whether it will interfere with an orderly market, whether it has the potential to create an impediment to the mechanism of a free and open market, and any other factors which may bear upon the bona fides of the transaction or the entire arrangement which results in a substantial loss to a customer and could have a depressing effect upon and interfere with the continued orderly distribution of the issue.

Consideration must also be given by members in connection with "discount market" executions, in view of the provisions of the Markup Policy adopted pursuant to the provisions of Sections 1 and 4 of Article III of the Rules of Fair Practice whether, because of the markdown from the stabilization bid, that policy has been violated. Also, and possibly more importantly, consideration must be given as to whether, pursuant to the provisions of Article III, Section 5 of the Rules the markets which are quoted away from the stabilization bid "represents a bona fide bid for, or offer of, said security." The question of whether such bids and offers are nominal only must also be considered and inquiry made in that respect. In this connection, Section 5 states that "if nominal quotations are used or given, they shall be clearly stated or indicated to be only nominal quotations." Thus, if the quotations are nominal only and if such is not so indicated, a violation of this rule and perhaps also of Section 18 of Article III would take place. Instances have come to the Association's attention where such "discount markets" have been made on the basis of a 25 or 75-share order. Such is not a bona fide market. A member who participates in the perpetration of a violation as characterized above by causing a customer's order to be executed in such a market could be held to be as much a violator of pertinent rules as the firm making the market especially if one or more of the other factors discussed above are present.

Members should, therefore, in causing an execution of a customer's order to be made at the "discount market," be very mindful of the provisions of the Interpretation with respect to Manipulative and Deceptive Quotations and the Board's Policy with respect to Firmness of Quotations which appear at pages 2071 and 2075 of the Association's Manual, respectively.

The Board has received information that sometimes a prearrangement between the participants is involved and that sometimes securities are actually resold, or more accurately, arrangements are made to resell them, in the "discount market" even before the new issue becomes effective. Such would be done where a member doesn't believe his firm can dispose of his allocation and makes arrangements to have the sale of these shares "guaranteed" at a lower price. There is some indication also that, on occasion, such shares have been resold to an institution also at the lower price, perhaps because of a favor owed. Such conduct may violate the registration, disclosure and anti-fraud provisions of the securities laws. Also, the institution in the example given would get a preferred price in comparison to that which the general public had to pay.

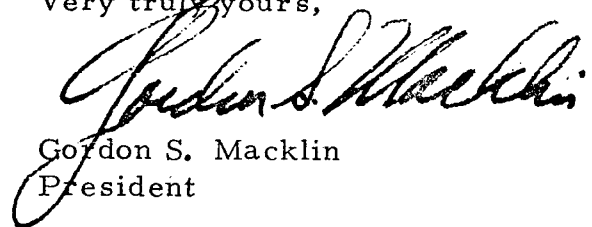
Thus, a member's obligation goes beyond blindly accepting a customer-directed order to execute at a price under the stabilization bid. When such is done the burden for justifying such must be borne by him. The many vices inherent in the situation, some of which have been listed herein, require that further inquiry be made as to all aspects of the situation which shows a customer willing to take what is in some cases a substantial loss. A statement by a member that such was the customer's desire will not be sufficient to meet the burden for justifying the execution and the Board will not be satisfied that the burden has been met unless, at the very least, the customer has executed a written statement attesting to the fact that he was aware that a higher stabilization bid was in effect at the time he placed his order and the price thereof but that he, nevertheless, desired to sell at the lower price. Further, such a written statement will not serve to assist a member where other improper activity or questionable practices exist such as fraud, or misleading quotations, among other things.

In this connection, cases have also been reported to the Board where, in a situation in which the managing underwriter was, for example, short 30,000 shares and established a stabilization bid to purchase such, another broker/dealer demanded that he be given the bid for the purchase of the shares -- thus realizing commissions -- on the threat that if such was not done he would make a "discount market." Such action is not only unethical but clearly fraudulent and a most serious transgression of the Association's rules. Where such conduct is discovered it will be dealt with most severely by the Association.

The Board has also received information that from time to time institutions have directed orders of securities purchased in an offering away from the stabilization bid. It is the Board's opinion that such is a clear violation of at least Article III, Section 1 of the Rules (and possibly other rules in the context discussed above) by any member who participates in such an execution since an institution has a fiduciary obligation to its shareholders to obtain the best price possible. It would, therefore, be a violation for a member of the Association to knowingly participate in a violation of a fiduciary responsibility by an institution.

In summary, it should be emphasized that the Board is not taking the position that a market away from the stabilization bid is per se improper or a violation of the Rules. However, under appropriate circumstances it may be. Thus, the burden of justifying such a market will fall upon the person making it. Further, the burden of justifying the execution of a transaction in that "market," even at the direction of a customer, would also fall upon the person causing the execution.

Very truly yours,



Gordon S. Macklin
President



SPECIAL REPORT

TO NASD MEMBERS

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC., 888 17th ST. N.W., WASHINGTON, D. C.

SR4, DECEMBER 1970

Special Report

To All NASD Members and Branches:

The Board of Governors is considering altering the present NASD Code of Arbitration Procedure to require a mandatory type of arbitration. Realizing that this is an important matter to member firms, the Board would like to have the advice and suggestions of members in this area before discussing any changes in the Code during the January Board Meeting. Because of the legal ramifications of mandatory arbitration, the Association suggests that members discuss the matter with legal counsel or other qualified personnel within their firms.

Currently, there are marked differences in the NASD's Arbitration Code and the arbitration procedures followed by the exchanges. Under exchange procedures, arbitration is mandatory for member firms upon demand by either professional or public customers. This is true whether or not the dispute concerns securities transactions.

The Association, whose arbitration program has been in effect since January, 1969, has confined its arbitration program to voluntary submission by its members or the public of disputes exclusively concerning securities transactions. The voluntary nature of the program was decided on by the NASD because of the need to gain experience in the arbitration area.

After operating the program for almost two years, the Arbitration Committee feels that it has gained the necessary experience to consider a mandatory type program. The NASD has been requested by some of its members to institute such a program because of the attributes of arbitration.

The Board of Governors is studying the Arbitration Committee's proposal for an arbitration program similar to that in use by the exchanges. Under the proposal, matters to be submitted for mandatory arbitration would be limited to securities transactions disputes. NASD members would be required to arbitrate a dispute upon demand by a professional or a member of the public.

One unique feature of the proposed new arbitration program is that it is still possible for both parties to agree to settle the dispute through the courts. However, if one party elects to arbitrate, the other party is bound by that choice.

Because of the difficulties that would be caused by abruptly switching to a mandatory procedure, the Committee has suggested that the NASD's arbitration program operate for three years simultaneously on both a voluntary and mandatory basis. This three-year dual program would be necessary because of the corresponding three-year period of limitations on the institution of claims. Disputes regarding transactions arising on or before a fixed effective date to be established by the Board would be submitted on a voluntary basis, while those controversies regarding transactions on or after that date would be submitted on a mandatory basis.

Briefly, the Committee's reasons for the proposed changes in procedure are:

1. Arbitration provides a more expedient means of settling disputes than litigation. If a mandatory arbitration program exists, a firm can enter into a contract with more confidence, realizing that most disputes can be settled without tying up capital for long periods of time.
2. Mandatory arbitration costs a fraction of the expense needed to settle disputes in the courts.
3. Arbitrators are chosen because of their immediate familiarity with the securities business.
4. Mandatory arbitration under NASD rules would make procedures within the industry more uniform to provide an equal opportunity to settle disputes.

Members should be aware that, under a mandatory type of arbitration program:

1. While a customer can compel a firm to arbitrate, a firm cannot compel a customer to do so.
2. Arbitration is an alternative to litigation. As such, a member would waive his right to seek redress through the court system. Members would be bound by the arbitrators' decision and could only contest a decision on statutory grounds such as fraud, corruption, misconduct, prejudice, or other grounds spelled out in the laws of the various states and the United States Arbitration Act.

The NASD requests all members to submit comments at their earliest convenience and no later than January 15, 1971. These should be addressed to Mr. Donald H. Burns, Secretary, National Association of Securities Dealers, 888—17th Street, N.W., Washington, D.C. 20006.



NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

888 SEVENTEENTH STREET N. W. WASHINGTON, D. C. 20006

December 9, 1970

To All NASD Members and Branch Offices:

Subject: Missing Stocks and Bonds

The following bonds were reported missing on October 16, 1970, from the estate of John Reimers in Spokane, Washington. The bonds were believed to be stolen and have been reported to the Spokane County Police.

The missing bonds and their numbers are:

M 8636	Washington Water Power Co. Trust Mtg. Bond	9/1/94	\$1,000.00
M 8637	" " " " " "	9/1/94	\$1,000.00
M 8638	" " " " " "	9/1/94	\$1,000.00
M 8639	" " " " " "	9/1/94	\$1,000.00
M 8640	" " " " " "	9/1/94	\$1,000.00
M 8641	" " " " " "	9/1/94	\$1,000.00
M 8642	" " " " " "	9/1/94	\$1,000.00
M 8643	" " " " " "	9/1/94	\$1,000.00
M 8644	" " " " " "	9/1/94	\$1,000.00
M 8645	" " " " " "	9/1/94	\$1,000.00
M 127-114	American Telephone & Telegraph Co. -----	2/1/94	\$1,000.00
M 127-115	" " " "	2/1/94	\$1,000.00
M 127-116	" " " "	2/1/94	\$1,000.00
M 127-117	" " " "	2/1/94	\$1,000.00
M 127-118	" " " "	2/1/94	\$1,000.00

If you have any information about these bonds, please notify Harve H. Phipps, Attorney for the Estate of John Reimers at 201 Columbia Building, Spokane, Washington 99204, the Spokane County Police, or the NASD.

On September 9, 1970, the Bernard Pipe Line Company of Barberton, Ohio, reported the following stocks missing and believed to be stolen.

The missing stocks and their certificate numbers are:

500 shares	Consolidated Natural Gas Company	B 2566
500 "	" " " "	B 2567
500 "	" " " "	B 2568
500 "	" " " "	B 2569
100 "	" " " "	116723

(continued)

100 shares	Consolidated Natural Gas Company	116724
100 "	" " " "	116725
100 "	" " " "	116726
100 "	" " " "	116727
100 "	" " " "	117893
100 "	" " " "	117894
50 "	" " " "	0446793
2,750 "	" " " "	5546721
200 shares	American Telephone & Telegraph Co. (certificate numbers unknown at this time)	

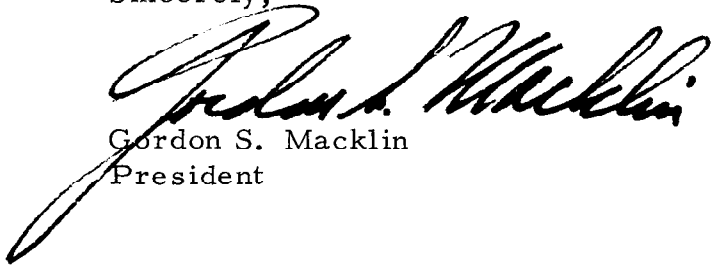
All of the above stocks are in the name of Bernard Pipe Line Company and any information about the above stocks should be directed to Captain John Boyd of the Summit County, Ohio, Sheriff's Office at 53 East Center Street, Akron, Ohio, 44308, to the Bernard Pipe Line Company, P. O. Box 190, Barberton, Ohio, 44203, or the NASD.

On October 16, 1970, the following bonds were reported to the Portland, Maine, Police Department as stolen from the home of Ernest J. Asselyn in Portland:

Cert. no. 1	West Paris Water District	due 8/1/77	\$5,000.00
2	" " " "	" 8/1/77	\$5,000.00
3	" " " "	" 8/1/77	\$5,000.00
4	" " " "	" 8/1/77	\$5,000.00

Any information regarding these bonds should be reported to Mr. Ernest J. Asselyn, 68 Capasic Street, Portland, Maine, the Portland Police, 132 Federal Street, Portland, Maine, or the NASD.

Sincerely,



Gordon S. Macklin
President

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

888 SEVENTEENTH STREET N. W. WASHINGTON, D. C. 20006

December 9, 1970

To All NASD Members:

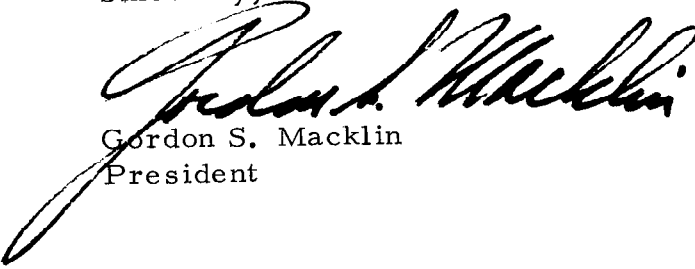
The Joint Industry Committee on Transfer Problems in cooperation with the Stock Transfer Association has developed a set of uniform transfer guidelines designed to help eliminate delays and errors resulting from inconsistencies in present transfer arrangements in New York City.

It is expected that the implementation of these uniform guidelines will reduce the frequency of rejection of "legal transfers" due to failure to submit proper legal documentation, thus enabling brokers and transfer agents to provide better service.

The attached guidelines will become effective January 1, 1971, and will apply only to the ten New York clearing banks listed on the next page.

Simultaneously, the Banking and Securities Industry Committee (BASIC) is seeking acceptance and support of these requirements from other transfer agents throughout the country, and it is hoped that industry-wide implementation will be achieved in the near future, further simplifying the transfer process for brokers and transfer agents.

Sincerely,



Gordon S. Macklin
President

Attachment

UNIFORM TRANSFER REQUIREMENTS

The attached list of uniform transfer requirements has been developed by the Joint Industry Committee to Study Transfer Problems and the Operations Committee of The Stock Transfer Association. The requirements have been ratified by the Joint Industry Control Group in New York, The Executive Committee of The Stock Transfer Association and the New York Clearing House.

These uniform transfer requirements should be complied with in submitting securities for transfer to the 10 Clearing House Banks in New York listed below, effective January 1, 1971.

The Bank of New York
The Chase Manhattan Bank (National Association)
First National City Bank
Chemical Bank
Morgan Guaranty Trust Company of New York
Manufacturers Hanover Trust Company
Irving Trust Company
Bankers Trust Company
Marine Midland Bank of New York
United States Trust Company of New York

TYPE OF TRANSACTION OR QUESTION

REQUIREMENT

I STOCK POWER ASSIGNMENTS

- | | |
|--|--|
| A. Endorsement by registered holder not placed on proper line of assignment. | Requires valid endorsement certification. |
| B. Attorney space of the assignment with name inscribed in error. | Erasure guarantee acceptable. |
| C. Typographical error of name of security on the assignment. | Alteration or erasure guarantee acceptable. |
| D. Insertion of certificate numbers on stock power. | Certificate numbers not required. |
| E. Signature guarantee by a member of Midwest Stock Exchange. | Will accept as long as signature is on file with transfer agent. |

II LETTERS OF INDEMNITY

- | | |
|---|--|
| A. Will agents accept broker's letters of indemnity if correction is made within 60 days of requested transfer? | Will accept broker's letter of indemnity if correction is made within 1 year of requested transfer. However, some situations may require additional documentation. |
| B. Is broker's form of letter of indemnity acceptable? | Broker's standard form of letter of indemnity acceptable. |

III REGISTRATION

- | | |
|---|--|
| A. Will agents request documents evidencing nature of transferee before registering certificate in the name of a fiduciary? | No documentation required if form of registration is acceptable according to rules of The Stock Transfer Association. However, a transfer to executor or administrator requires broker's purchase after death certification. |
|---|--|

IV LEGAL TRANSFERS

1. CORPORATE RESOLUTIONS

- | | |
|---|--|
| A. Will copies of resolutions certified by broker be acceptable? | Will accept copy properly certified by broker. |
| B. What is acceptable time limit of date of resolution to date of transfer? | Resolutions acceptable if dated within six months. |

2. DOMICILE AFFIDAVITS

- A. Are domicile affidavits required? Required in some cases depending on state of incorporation and domicile of decedent.
- B. Will agents accept domicile affidavits executed by broker as agent for an estate? Must be executed by legal representative or attorney for estate of survivor of a joint tenancy.

3. BIRTH & DEATH CERTIFICATES

- A. Are photocopies acceptable? Photocopies are acceptable if properly certified by broker.

4. JOINT OWNERSHIP

- A. Will agents transfer into the name of survivor without endorsement? Endorsement not required for transfer to survivor.

5. WILLS

- A. Will agents accept a plain copy of a will properly certified by a broker? Require court certified copy of will. However, under some circumstances will accept copy properly certified by broker.

6. CUSTODIAN TO MINOR

- A. What endorsement is required for transfer from custodian to minor? Will accept either endorsement by custodian or birth certificate.

7. INTERVIVOS OR TESTAMENTARY TRUST

- A. What endorsement is required on certificates registered in name of trust without names of trustees? Require proper certification by broker that those signing constitute all of presently acting trustees.

8. INVESTMENT CLUBS

- A. What endorsement is required to transfer from name of registered club? Will accept proper certification by broker that person or persons endorsing are authorized to execute assignment on behalf of registered club.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

888 SEVENTEENTH STREET N. W. WASHINGTON, D. C. 20006

December 16, 1970

To: All NASD Members

Re: Amendments to the Interpretation of the Board of Governors
with respect to Review of Corporate Financing

Introduction

The Board of Governors of the Association has recently approved the various proposed amendments to the Interpretation with respect to Review of Corporate Financing which are attached hereto. Some existing provisions of the Interpretation would be expanded by the proposed amendments but most of the proposals are entirely new to it. They are being published by the Board at this time to enable all interested parties an opportunity to comment thereon. Such comments must be in writing and be received by the Association by January 15, 1971, in order to receive consideration. The proposals will not become effective until further action is taken by the Board after receipt of comments and the evaluation thereof. Approval of the Securities and Exchange Commission is also necessary prior to effectiveness.

The Interpretation with respect to Review of Corporate Financing was first published in 1961. It has continuously been reviewed since that time for the purpose of keeping it current with changing conditions. It establishes guidelines to be followed by the membership, the Board of Governors and various committees of the Association in determining fairness and reasonableness of underwriting or other arrangements in connection with the distribution of issues of securities to the public. In essence, it spells out the parameters within which all such arrangements must fall in order for a determination to be made that such are fair and reasonable. Members cannot participate in the distribution of offerings to the public which have unfair or unreasonable arrangements without subjecting themselves to possible disciplinary proceedings. The Interpretation is administered on a day-to-day basis by the Association's Department of Corporate Financing under the supervision of the Committee on Corporate Financing which is charged by the Board with the responsibility of reviewing all proposed public offerings for compliance with the Interpretation. This Committee is composed of 17 registered persons of

members of the Association all of whom are engaged in the investment banking and securities business and who have considerable expertise in the underwriting and distribution of issues of securities. The Committee also makes recommendations to the Board for changes in or additions to the Interpretation when such are believed necessary. The proposals contained herein have been proposed by the Board on the basis of recommendations made by that Committee.

Explanations of Proposed Amendments

The proposed amendment to that section of the Interpretation entitled "Issuer Reserved or Directed Securities," appearing at page 2030 of the NASD Manual, in large part, represents a clarification of existing practice. This proposal which would prescribe that securities can only be reserved for or directed to persons directly related to the conduct of the issuer's business is intended to reflect the original premise behind issuer directed securities which are, partly at least, to stimulate officers, directors or employees of a company to obtain a vested interest in the company with hoped for resulting benefits to both parties. It is perfectly logical, and certainly acceptable, that the premise should be extended to other persons who have an interest in the success of the company, such as, franchisees, wholesalers, distributors and the like. It is in this context that the term "directly related" is used. The overall thrust of the paragraph which the referred to language would amend is to insure a bona fide public distribution, hence the provision that the total number of such directed securities should "bear a reasonable relationship to the total number of shares being offered publicly at the time." If, for instance, 40, 50, 60 or 70% of the total number of shares being offered for distribution purportedly to the public are directed by the issuer for reasons known only to itself, serious questions arise as to whether there has actually been a bona fide public offering. It is believed that the proposed amendment would further carry forward the Board's desire to insure a bona fide distribution to the public since instances have been seen where the obvious intent behind the direction of the securities by the issuer was to "pay off" certain persons, to "buy business" or for other similar type purposes.

The amendment to that paragraph of the "Compensation Factors" section of the Interpretation which appears at page 2032 of the Association's Manual, would prescribe as unfair and unreasonable an arrangement providing for the issuance of options or warrants with an exercise period in excess of five years or with an exercise price below the public offering price to the persons designated in that paragraph.

A monetary value for underwriting compensation purposes is assigned to options and warrants on the basis of a formula applied by the Committee on Corporate Financing following the criteria spelled out in the referred to paragraph. Notwithstanding such, however, unfair and unreasonable arrangements will result where the exercise period is for longer than five years or where the exercise price is below the initial public offering price of an issue pursuant to which the options or warrants were received. The Board believes that a five year period is a generally accepted exercise period for warrants and options. Very few are found with longer terms. Thus, the Board believes that a longer period for options or warrants received by the designated persons as compensation in connection with a public offering would be most inappropriate. Further, if they could be exercised below the price paid by members of the public for their shares, the Board believes the designated persons who receive the shares would gain an unwarranted, unfair and unreasonable advantage and preference over the public and that such should not be permitted. While most of the offerings of securities reviewed by the Committee this year involving the issuance of options or warrants have had exercise prices considerably above the public offering price, a number have been reviewed which provided for exercise below the public offering price. The Board does not believe fair and reasonable arrangements exist where such is present. Needless to say, these provisions apply only in connection with options or warrants received by the designated persons "in connection with or in relation to" a public offering and do not apply to private placements not related to such.

A new section entitled "Venture Capital and Other Investments by Broker/Dealers Prior to Public Offering" (venture capital investments) is proposed to be added to the Interpretation. Such is a revision of that which is presently contained in the Manual after the Interpretation at page 2034 as a "Policy of the Board of Governors" (Policy). It will appear on present page 2031 of the Interpretation after the paragraph entitled "Equity Positions of Underwriter and Others Participating in the Issue" and before the one entitled "Members Underwriting Own Securities."

It differs from the existing Policy in several respects. In some cases it liberalizes the provisions of the existing Policy such as in paragraphs (1) and (4). In others, the provisions are more restrictive such as in paragraph (2). In sum, it represents a more clear statement of the Board's desires in the area of venture capital investments.

In paragraph (1), the proposed language would make clear that after the expiration of the eighteen (18) month holding period which that section prescribes for shares obtained by members as a result of venture capital investments, the value of such shares (as computed under the Interpretation) would not be included as part of underwriting compensation.

in any subsequent public offering and no further restrictions on the disposition of such securities would exist unless, subsequently, pursuant to the provisions of paragraph (2), part but not all of such securities are sold in a public offering. In such a case, a holding period for an additional twelve (12) month period on the shares retained would be required. This differs from the existing Policy which only prescribes an additional three (3) month holding period where such occurs. The twelve (12) month period is considered by the Board to be more realistic since the underlying purpose of both paragraphs (1) and (2) is to reduce the potential to manipulate the price of the subject stock and to prevent a "sell out" shortly after acquisition of venture capital shares at inflated prices to the detriment of the public. The Board believes that with a longer holding period there would be a lesser likelihood of manipulation by those so inclined.

Another situation where an additional holding period could possibly result in a case where the initial 18-month holding period has expired on venture capital securities would arise in a situation where a series of investments were made prior to the filing of a registration statement, i. e., 20 months before, 18 months before, 12 months before and six months before the filing. In such a case the Committee on Corporate Financing under the provisions of the last sentence of the first paragraph of the section entitled "Restrictions on Securities Received or to be Received" (and because the venture capital section would no longer be applicable as discussed below) could look at the overall situation which would include all of the various acquisitions. If it determined that the entire series of acquisitions were in connection with or related to the public offering even those acquired 18 and 20 months prior to the filing of the registration statement could in certain circumstances be the subject of an additional holding period after the effectiveness of the offering. It should be noted that such occurrences are unusual and do not very often occur. Also, the additional holding period could be imposed only where the initial determination is made that the entire series of acquisitions were in connection with or related to the public offering. In no event, however, would the value of the shares acquired beyond the 18-month period be included in underwriter's compensation.

Presently the Policy provides that when prior to the expiration of the eighteen (18) month holding period "an intervening transaction such as a public offering or some other material transaction" occurs, the provisions of the Interpretation rather than the Policy would apply. Because the Policy would be incorporated into the Interpretation by these proposals, this provision would be adjusted to prescribe that where such takes place the other provisions of the Interpretation, that is, those not relating specifically to venture capital investments, would thereafter apply to those shares. The second sentence of paragraph (1) provides for this in language which has been slightly altered from that which presently appears in the Policy as

follows:

If prior to the expiration of the 18-month period a registration statement is filed, other appropriate provisions of this Interpretation shall apply instead of this section.

The concept hasn't changed, however, since the present language has been interpreted to mean that the filing of a registration statement was the event which triggered the application of provisions other than the venture capital sections.

The third sentence of paragraph (1) does not appear in the existing Policy. The principle stated is not new, however. That sentence, relating to the language just discussed which appears in the sentence preceding it, states:

Such could result in a requirement that the shares be held for an additional period of time.

As noted, the Policy presently provides that "in the event of an intervening transaction . . ." the provisions of the Interpretation shall prevail. Those provisions in appropriate cases could -- but would not necessarily -- require the imposition of an additional holding period, e.g., a one year holding period after the effectiveness of the proposed public offering if the shares were deemed to have been acquired in connection with or in relation to the offering (See paragraph in Interpretation entitled "Restrictions on Securities Received or to be Received"). It is proposed that the new sentence be added so the membership will specifically be put on notice of the significance of the preceding sentence and of the possibility of an additional holding period being specified. The existing Policy is deficient in this respect.

The inclusion of the Policy as part of the Interpretation would also require a conforming amendment to that paragraph of the Interpretation entitled "Restrictions on Securities Received or to be Received." That section as now written provides in its first paragraph for close review of circumstances surrounding the acquisition of securities within 12 months of the filing of a registration statement in order to determine whether their acquisition was in connection with or related to the proposed public offering. Because of the 18-month provision of paragraph (1) of the Policy, the Committee is and has been reviewing closely such acquisitions within the previous 18 months. Incorporation of the Policy into the Interpretation would require that the 12-month provision be changed to an 18-month period. Similar conforming amendments are made in other paragraphs of this section.

Paragraph (1) also adds to "members" the categories of "persons associated with a member" and "affiliates thereof" as being included in those who will be subject to the 18-month holding provision. "Persons associated with a member" are actually covered in the existing Policy by virtue of the provision of Article I, Section 5(a) of the Association's Rules of Fair Practice so this addition is as a practical matter in language only. The category of "affiliates" is entirely new. The determination of what constitutes an "affiliate" is a judgmental matter which can be determined only on the basis of all of the facts of a given case. The provisions of the other paragraphs of this section of the Interpretation also apply to "affiliates" by the specific terms thereof.

Paragraph (3) expands existing paragraph (3) of the Policy which places restrictions on a member acting as an underwriter or participating in any way in the stream of distribution of securities which are the subject of the Policy to also prohibiting an affiliate thereof from doing so and preventing the member from so participating in a distribution by an affiliate.

Paragraph (4) is completely new and would permit participation by members, persons associated with a member, or affiliates in the stream of distribution of issues of securities in a company notwithstanding that they own venture capital shares as long as none of the shares being distributed are those owned by such persons providing the eighteen (18) month holding period has expired unless such participation would contravene other provisions of the Interpretation. This provision is based upon the Board's belief that a member should not arbitrarily be eliminated from the stream of distribution merely because he owns such shares. To minimize any potential to manipulate, however, it also believes that shares owned by the participating member should be held for an additional twelve (12) month period. This additional period would apply only if the member participated in the distribution. In connection with the reference to the possibility of contravening other provisions of the Interpretation, reference should be made to the paragraph on page 2031 of the Association's Manual entitled "Members Underwriting Own Securities."

Paragraph (5) is identical to language contained in the present Policy in an unnumbered paragraph except that the word "person" is substituted for the word "member."

Members are invited to pay particular attention to the proposed new sections dealing with real estate syndications and limited partnerships, oil and gas programs and other limited partnership distributions. Distributions of these types have become very popular during the past year and promise to increase further in popularity. All such offerings are presently required to be filed with the Association and, pursuant to a notice to the membership dated October 26, 1970, the provisions of the Interpretation,

to the extent they do not relate to areas covered by the proposals contained herein, have been applied to all such distributions filed on and after December 1, 1970. Principally, such relates to the "Compensation Factors" provisions of the Interpretation.

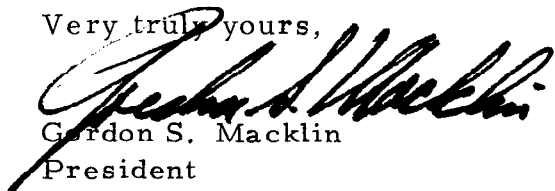
The proposals contained herein relating to such distributions were developed as a result of the work of two subcommittees of the Association's Corporate Financing Committee -- a real estate syndications subcommittee and an oil and gas program subcommittee. Each subcommittee was made up of experts in the respective fields. For ease of presentation herein an "Explanation" is made under each of the paragraphs. It is believed that these proposals will make more orderly and uniform the distribution of these types of issues of securities and will make the rules applicable to these distributions consistent with those which apply to distributions generally. Other similar type offerings are covered in a catchall paragraph and will have guidelines applied to them which are similar to the real estate and oil and gas program guidelines. More specific guidelines may be developed as to them in the future. The proposed changes in these several paragraphs would be appended to the end of the Interpretation immediately prior to the "Conclusion" paragraph.

A new paragraph (8) would also be added to the Filing Requirements section of the Interpretation at page 2027. This paragraph calls for the filing with the Association of documents peculiar to limited partnership type distributions and other documents related thereto when considered necessary.

Responding parties should be mindful that these proposals are intended to serve only as a measure of guidance to the members of the Association and that the provisions thereof should not, if ultimately adopted, be considered to be binding rules nor should they be considered to be exhaustive in scope since each issue of securities must be reviewed individually on the basis of the contents of the underwriting arrangements as a whole.

All interested persons are invited to submit their views and comments to Mr. Donald H. Burns, Secretary, National Association of Securities Dealers, Inc., 888 Seventeenth Street, N. W., Washington, D. C. 20006 on or before January 15, 1971. All communications will be considered available for public inspection.

Very truly yours,


Gordon S. Macklin
President

PROPOSED AMENDMENTS TO INTERPRETATION
WITH RESPECT TO CORPORATE FINANCING

The amended and new sections of the Interpretation with respect to Review of Corporate Financing are as follows with appropriate page numbers reflecting the place in the Interpretation where the section is or will be located. They appear in the order in which they will appear in the existing Interpretation.

(New material is represented by underlining.)
(Deleted material is indicated by lining out.)

Filing Requirements

[To be inserted on page 2027 of the Association's Manual after paragraph (7)]

(8) In connection with the sale of interests in limited partnerships, real estate or other similar type investment trusts, joint ventures, and other offerings of a comparable or similar nature, all management contracts, partnership agreements, and other pertinent documents will be required to be filed in addition to the documents listed above, which shall also be required to the extent appropriate. Likewise, it may be necessary in some instances that a more detailed explanation of the application of the proceeds of the offering be supplied if such is not fully detailed in the prospectus or offering circular.

* * * * *

Arrangement Factors

[This paragraph appears on page 2028-9 of the Association's Manual.]

Restrictions on Securities Received or to be Received:

It shall be the policy of the Committee on Corporate Financing to examine closely the circumstances surrounding the purchase of securities by an underwriter and related persons and other broker/dealers and persons associated with and related to them during the ~~twelve (12)~~ eighteen (18) month period prior to the filing of the registration statement or offering circular. Normally, but not necessarily in all instances, purchases made by such persons within six months prior to such filings will be considered part of the offering package and will be considered to have been acquired in connection with or in relation to the offering. A more flexible policy will be followed, however, in connection with purchases in the six to ~~twelve~~ eighteen month period prior to such filing. Factors to be considered

in determining whether any of such prior acquired securities were acquired in connection with or in relation to the offering shall be pricing, i. e., disparity between the price paid by the recipient and the public offering price; timing, i. e., date of acquisition of the shares by the recipient in relation to the date of filing of the registration statement; number of securities purchased; their relationship to other purchases by other purchasers and to the contemplated offering; relationship of earlier purchases to the proposed financing; the risk factors involved; the presence or absence of arms'-length bargaining and the existence of a potential or actual conflict of interest. Purchases of securities prior to an offering of a public issue of securities is an area of great concern to the Association and, therefore, under appropriate circumstances, purchases made even prior to the previous ~~twelve~~ eighteen month period by the aforementioned persons may be reviewed in accordance with the above criteria particularly, but not only, when questions relating to arms'-length bargaining or conflicts of interest are present.

* * * * *

Issuer Reserved or Directed Securities

[This paragraph appears on page 2030-1 of the Association's Manual.]

While no exact limitations on company reserved or directed securities are used as guidelines by the Association, the number of such shares shall be reasonable in amount under the prevailing circumstances and, shall bear a reasonable relationship to the total number of shares being offered publicly at that time, and shall be reserved only for those persons who are directly related to the conduct of the issuer's business. The contractual purchase commitment for any company directed stock must, however, be made by the designated recipients by the close of business on the business day following the effective date of the offering and payment therefor must be made in accordance with established requirements. Securities directed to persons covered by the Association's Interpretation With Respect To "Free-Riding And Withholding" must be disclosed to the Association at the time of filing the required documents with it. Such disclosure in no way relieves such persons from the provisions of that Interpretation.

* * * * *

Venture Capital and Other Investments by
Broker/Dealers Prior to Public Offerings

[To be inserted on page 2031 of the Association's Manual after the paragraph entitled "Equity Positions of Underwriter and Others Participating in the Issue"]

In a case where a member, person associated therewith, or an affiliate thereof has made a private investment in a company which sometimes can be described, though not necessarily always, as a venture capital investment, the following guidelines shall apply:

- (1) All members, persons associated with a member, and affiliates thereof, making such investments and receiving securities in return therefor shall hold such securities for a period of at least eighteen (18) months from the date of purchase. If prior to the expiration of the eighteen (18) month period a registration statement is filed other appropriate provisions of this Interpretation shall apply instead of this section. Such could result in a requirement that the shares be held for an additional period of time. After the expiration of the referred to eighteen (18) month period without the filing of a registration statement, there shall be no further restriction on those securities, except as provided in paragraph (2) hereof, and the value thereof shall not be included as part of the underwriting compensation of any subsequent public offering.
- (2) If a member, person associated with a member, or an affiliate thereof, upon termination of the holding period specified in paragraph (1) hereof, elects to sell in a public offering part but not all of the securities so acquired, the balance thereof shall be held for an additional period of twelve (12) months beyond the effective date of the offering.
- (3) A member, person associated with a member, or an affiliate thereof, selling its own such securities in a public offering will not be permitted to act as an underwriter or participate in any way in the stream of distribution of that issue nor will such persons be permitted to act as an underwriter or participate in any way in the stream of distribution of an offering of such securities by an affiliate of the member.
- (4) A member or person associated with a member, or an affiliate thereof, will be permitted to participate in the stream of distribution of a public offering of securities of a company in which such securities are held after the expiration of the eighteen (18) month period if none of the securities being offered in

that distribution are owned by the member, a person associated therewith, or an affiliate thereof, and the securities so held are restricted as to transfer for an additional period of twelve (12) months unless such participation would contravene any other provisions of this Interpretation.

- (5) A shorter period than the stated holding period referred to in paragraphs (1) and (2) above may be permitted but only upon a proper showing of good cause by the person advocating such.

* * * * *

Compensation Factors

[This paragraph appears on page 2032 of the Association's Manual.]

Options or warrants acquired or to be acquired by an underwriter and related persons, any other broker/dealer participating in the financing, and persons associated with or related to such broker/dealers, which have been acquired in connection with or in relation to the proposed offering (hence, part of the compensation paid in connection therewith) shall be valued for compensation purposes by taking into account the number and the terms of the warrants; the cost of acquiring such; their lowest exercise price; the date at which they become exercisable, assignable or transferable, and other relevant factors. However, if such options or warrants are for terms in excess of five (5) years or are exercisable below the initial public offering price, such will constitute an unfair and unreasonable underwriting arrangement. In cases where the exercise price is above the public offering price or where the exercise of the options or warrants or the sale, assignment or transfer of the underlying stock are restricted for an extended period of time in excess of the provisions outlined above, a lesser value will generally result.

* * * * *

Oil and Gas Programs

[The following paragraphs will appear immediately prior to the "Conclusion" paragraph of the Interpretation which presently appears on page 2033 of the Association's Manual.]

Because of the substantial difference in the form and method of distribution of interests in limited partnerships and joint ventures of oil and gas programs from that of the normal corporate issue, the guidelines which follow have been adopted by the Board as being more properly applicable to such distributions and shall be utilized by the Committee on Corporate Financing in reviewing such issues of securities in addition to the other

guidelines which are part of this Interpretation to the extent that they are appropriate. Thus, unfair and unreasonable underwriting arrangements, terms or conditions will be deemed to exist if:

- (1) a member or person associated with a member, who is a general partner of, or who acts in a similar capacity in connection with an oil and gas syndication, or who is in any way connected or affiliated with a general partner, or person acting in a similar capacity, or who derives any benefit whatsoever from the general partner or any of the aforementioned persons participates in any way in the stream of distribution of limited partnership interests therein;

Explanation:

The Board believes that unfair or unreasonable underwriting arrangements, terms or conditions will result where a broker/dealer member of the Association participates in the stream of distribution when he is a general partner, or an affiliate thereof, because of the potential self-dealing and inherent conflicts of interest which would exist if dual functions of manager/operator and distributor were permitted. Such could lead to abuses. It believes further that the general partner stands in the shoes of an issuer and, therefore, consistent with other policies of the Association, cannot participate in the distribution of the securities. (See "Members Underwriting Own Securities," page 2031 of the Association's Manual.) The Board, in making this proposal, is especially concerned with and mindful of the rights of the limited partners which in its opinion are somewhat less than those of stockholders in a corporation since, usually, they have no voice whatsoever in the management of the partnership, such usually having been vested entirely in the general partner.

- (2) a member, a person associated with a member or any person who is in any way connected or affiliated with a member or a person associated with a member, who owns, acquires or is entitled to purchase an interest in excess of 10% of the aggregate valuation of all interests in an oil and gas syndication or joint venture participates in any way in the stream of distribution of interests therein;
- (3) a member, a person associated with a member or any person who is in any way connected or affiliated with a member, or a

person associated with a member, who owns, acquires or is entitled to purchase an interest of 10% or less of the aggregate valuation of all interests in an oil and gas syndication or joint venture participates in any way in the stream of distribution of interests therein unless there is a binding obligation on the part of such persons to restrict such interest from transfer and assignment for a period of at least eighteen (18) months from the effective date of the offering, or until such time as the partnership or joint venture is terminated, whichever occurs first;

Explanation:

The Board does not believe a member should be excluded from being an underwriter or from participation in the stream of distribution of interests in a limited partnership or joint venture merely because he is a limited partner. His situation is materially different from that of a general partner since he has no control over the management of the partnership. He does, however, have an interest in the success of the venture and, therefore, to reduce the potential motivation to manipulate, such as could occur through a subsequent exchange offering or in some other manner, the Board believes an eighteen (18) month restriction on the transfer of his interests would be appropriate. Likewise, it is believed there should be no more than 10% interest in the entire fund since when an interest greater than that is obtained questions arise as to whether a bona fide public offering is actually being made. A further purpose for the eighteen (18) month restriction is that usually a limited partner cannot sell his interests without the permission of the general partner. If a general partner wanted to maintain its good relationship with a broker/dealer limited partner, perhaps because of a planned subsequent distribution, he could buy him out thus making him whole without, in the usual case, the knowledge of any of the other limited partners. The profitability or lack thereof of an oil and gas program cannot usually be ascertained until after one year because of the time required for drilling and other operational procedures; thus, the eighteen (18) month period of restriction.

(4) a member, or a person associated with a member or any person who is in any way connected or affiliated with a

member, or a person associated with a member, receives a royalty, mineral or overriding royalty in an oil and gas syndication or joint venture as compensation in connection with the distribution of interests in such, or which could be considered compensation in connection therewith;

Explanation:

The Board considers royalty, mineral and/or an overriding interest entitling the distributor to share in a fraction of production or a portion of the gross income to be a form of a "free-ride" because they are not burdened with the costs of development or operations since they come "off the top." Since an overriding royalty does not share in any of the general expenses along with the investors (the limited partners), it is conceivable that after the distributor is compensated from the gross income, the program may not have enough funds to pay expenses or give a return to the investor. The Board is also concerned with the extent to which the working interest of the public investor, who is generally liable for all expenses, is reduced by these royalties.

- (5) a member, a person associated with a member or any person who is in any way connected or affiliated with a member, or a person associated with a member, receives other forms of compensation in connection with or related to the distribution, such as, but not necessarily limited to, net profit interests, carried interest or reversionary interest after payout, as defined hereafter, which, when calculated on a program or prospect basis, and when added to all other forms of compensation received, is deemed not to be fair and reasonable.

Explanation:

In the examples of compensation mentioned in this paragraph, the distributor would share in the development and operating expenses of the program the same as the public investor. The Board feels, therefore, that for purposes of compensation, these items should be treated differently from royalty and other interests mentioned in paragraph (4) and should not be prohibited. Consideration must still be given, however, to whether total compensation is fair and reasonable. Such items, therefore, must be taken into account in determining such. In this

connection, the guidelines of what constitutes fair and reasonable compensation shall prevail.

(6) Definitions

- (a) Net Profit Interests - An interest in oil and gas in place; a share of the gross portion measured by net profits from the operation of the property. Created out of the working interest; shares in specific development and operating costs only to the extent of its share of the income and is not required to be liable for other costs as is the working interest.
- (b) Carried Interest - An arrangement between an owner and an operator whereby one agrees to advance development costs of the property on behalf of the others and recovers such advance from all future income. Such exists until his costs have been recouped, after which he is entitled to own a portion of the working interest.
- (c) Reversionary Interest After Payout - An entitlement to a certain working interest in a prospect after the recouping of the original investment.

Real Estate Syndications and
Real Estate Investment Trusts

Because of the substantial difference in the form and method of distribution of limited partnership interests in real estate syndications and shares of beneficial interest in real estate investment trusts from that of the normal corporate issue, the guidelines which follow have been adopted by the Board as being more properly applicable to such distributions and are intended to be utilized by the Committee on Corporate Financing in reviewing such issues of securities in addition to the other guidelines which are a part of the Interpretation to the extent they are appropriate. Thus, unfair or unreasonable underwriting arrangements, terms or conditions will be deemed to exist if:

- (1) a member or person associated with a member, who is a general partner of, or who acts in a similar capacity in connection with, a real estate syndication, or who is in any way connected or affiliated with a general partner, or

person acting in a similar capacity, or who derives any benefit whatsoever from the general partner or any of the aforementioned persons, participates in any way in the stream of distribution of limited partnership interest therein;

Explanation:

As in the case of oil and gas programs, the Board believes that potential self-dealing and inherent conflicts of interest exist in partnerships of this nature and can lead to abuses if the dual functions of general partner and distributor were permitted. It believes further that, as in all other offerings of this nature, the general partner stands in the shoes of an issuer and, therefore, consistent with other policies of the Association, cannot participate in the distribution of the securities. (See "Members Underwriting Own Securities," page 2031 of the Association's Manual.) The Board in reaching this conclusion is especially concerned with and mindful of the rights of limited partners which, in its opinion, are somewhat less than those of stockholders in a corporation since, usually, they have no voice whatsoever in the management of the partnership, such usually having been vested entirely in the general partner.

- (2) a member, a person associated with a member, or any person who is in any way connected or affiliated with a member or a person associated with a member, who owns, acquires or is entitled to purchase a limited partnership interest in excess of 10% of the aggregate valuation of all partnership interests in a real estate syndication or of the aggregate valuation of all shares of beneficial interest in a real estate investment trust, participates in any way in the stream of distribution of limited partnership interests or shares of beneficial interest therein;
- (3) a member, a person associated with a member, or any person who is in any way connected or affiliated with a member or a person associated with a member, who owns, acquires or is entitled to purchase a limited partnership interest which is 10% or less of the aggregate valuation of all partnership interests in a real estate syndication, or of the aggregate valuation of all shares of beneficial

interest in a real estate investment trust, participates in any way in the stream of distribution of limited partnership interests in the said real estate syndication or shares of beneficial interest in the said real estate investment trust unless there is a binding obligation on the part of such persons to restrict such interests from transfer and assignment for a period of at least eighteen (18) months from the effective date of the offering, or until such time as the partnership or trust is terminated, whichever occurs first;

Explanation:

The Board does not believe a member should be excluded from being an underwriter or from participation in the stream of distribution of limited partnership interests or shares of a real estate investment trust merely because he is a limited partner or shareholder. His situation is materially different from that of a general partner since he has no control over the management of the partnership. He does, however, have an interest in the success of the venture, and, therefore, to reduce the potential motivation to manipulate, such as could occur in connection with a subsequent exchange offering, the Board believes that a restriction on the transfer and assignment of his interests for a period of eighteen (18) months from the effective date of the offering, or from the date of termination of the partnership, or trust, whichever occurs first, would be appropriate. Likewise, it is believed there should be no more than a 10% interest in the entire fund since when an interest greater than that is obtained, questions arise as to whether a bona fide public offering is actually being made.

- (4) a member, a person associated with a member or any person who is in any way connected or associated with a member or a person associated with a member, who participates in any way in the stream of distribution of the limited partnership interests or shares of beneficial interest in a real estate investment trust owns, acquires or is entitled to purchase in excess of 10% of the management company thereof or has, obtains or is entitled to obtain a beneficial interest in the profits of the management company in excess of 10%. In an exceptional or

unusual case upon good cause shown, a variation from this limitation may be permitted but in all such cases the burden of demonstrating such shall be upon the person seeking such variation;

Explanation:

The Board believes that a conflict of interest would exist where more than a minimum interest, i. e., 10%, in a management company is held by a broker/dealer or other person who participates in the stream of distribution or by one who is entitled to acquire such an interest. Provision is made, however, for unusual situations but the burden for demonstrating justification for a variation would be on the person advocating such.

- (5) a member, a person associated with a member, or any person who is in any way connected or affiliated with a member or a person associated with a member, participating in the distribution of a real estate investment trust is represented on the Board of Trustees of the Trust to the extent that such person or persons would be in a control capacity in relation to the administration of the Trust.

Explanation:

This provision would not prevent representation on a Board of Trustees by a member or any of the other designated persons as long as such persons were not in a control capacity. Where control exists the Board believes there is an obvious conflict of interest.

Other Joint Ventures and for Limited Partnership Interests in Similar Type Programs

While the preceding guidelines specifically relate to oil and gas and real estate interest distributions, they shall also apply to all offerings of a similar nature, such as, but not necessarily limited to, farming, cattle, citrus grove developments, mineral and ore programs or any combinations thereof, and shall be utilized by the Committee on Corporate Financing in reviewing such issues of securities in addition to the other guidelines which are part of this Interpretation to the extent that they are

appropriate. They should not, however, be considered exhaustive in scope since these offerings, because of their nature and diversity, could require considerations in addition to those prescribed above depending upon the circumstances of the particular offering.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

888 SEVENTEENTH STREET N. W. WASHINGTON, D. C. 20006

December 18, 1970

IMPORTANT

To: NASD Members and Branch Offices

From: John H. Hodges, Jr., Vice President-Member Services

Re: New Volume Reporting Procedures Applicable to all NASD Members

In conjunction with the NASDAQ System, volume data will be compiled on NASDAQ System securities for publication in newspapers and for regulatory purposes. While the procedures for reporting volume data will differ upon whether or not a firm is a NASDAQ registered market maker in a given security, the responsibility to report volume under certain circumstances applies to all NASD members. Volume reports may be due on a daily, weekly or monthly basis depending upon the circumstances. Consequently, the procedures set forth below must be studied carefully and communicated to all personnel in your firm that will be involved in the volume reporting process. Copies of this notice are available in quantity from the NASD Executive Office in Washington, D.C. upon request.

Preceding System start-up, there will be a broker/dealer testing phase, which in addition to allowing for NASDAQ System testing will allow members to acquaint themselves with NASDAQ equipment. At some point during this phase, members will be required to institute the volume reporting procedures discussed below. This testing phase will occur in the near future; members will be notified when reporting procedures will begin.

A. Procedures Where Firm is a NASDAQ Registered Market Maker in a Security

NASDAQ registered market makers are subject to daily volume reporting requirements and to monthly block volume reporting requirements.

1. Daily Volume Reporting Procedure

What to Report:

Daily volume reports must be entered through the NASDAQ Level 3 terminals. Purchase volume and sales volume are to be reported separately for each security in which the firm is a NASDAQ registered market maker. Purchase volume reported shall consist of (a) all purchase transactions as principal (both inter-dealer and retail) and (b) agency orders crossed between two public individual or institutional accounts. Sales volume reported shall consist of (a) all sales transactions as principal (both inter-dealer and retail) and (b) agency orders crossed between two public individual or institutional accounts. Note that agency crosses are reported as a purchase and as a sale. The reason is covered later in connection with the method of computing volume data for newspaper release.

Volume should cover reportable transactions effected through 3:30 p.m. on the day entered as well as any transactions effected after 3:30 p.m. on the previous day.

For stocks, enter the exact number of shares. For convertible debentures, enter the face amount of the bonds rounded to the closest thousand.

If you have no volume during the day in a security in which you are a NASDAQ registered market maker, you must report "0" volume for that day or your firm shall appear on a System generated regulatory report.

When to Report:

All daily volume reports must be entered into the System by 4:15 p.m. N. Y. time. Entries after 4:15 p.m. N. Y. time will be rejected by the NASDAQ computer. Failure to report daily volume may result in disciplinary action being taken against your firm.

How to Report:

Refer to NASDAQ User Guide for a description as to the keys that should be depressed for entering daily volume reports. Note that the System will either accumulate volume reports throughout the day or overwrite a previous or erroneous report in accordance with the instructions of the terminal operator.

If Your Terminal Has Broken Down at Daily Volume Reporting Time:

If your Level 3 terminal(s) should malfunction so that you can not enter your daily volume in a NASDAQ security in which you are a registered market maker, contact by telephone NASD, N. Y. (telephone 212-269-6393) or NASD, Washington, D. C. (telephone 202-833-7210) before 4:00 p.m. on that day.

Errors in Previous Day's Report:

If you should discover that a previous daily volume entry is erroneous, this fact should be promptly brought to the attention of the NASD, Washington, D. C. (Telephone 202-833-7210) or NASD, New York, (Telephone 202-269-6363). Note that erroneous entries, irrespective of when they occurred, should be corrected by advising the NASD.

Possible Exclusion of Block Purchase Transactions from Daily Volume Reports:

Schedule D of the NASD By-Laws [Part I, Section C 3c(ii)] provides that, "Where a registered market maker purchases a block of a security and believes that disclosure of the purchase could disrupt the market in that security, the registered market maker may, with the prior approval of the Corporation, exclude the block purchase from its reports and include the volume in its reports only as the shares are sold."

In the event that you believe the inclusion of a block purchase in the published volume could disrupt the market in that security, you may call the NASDAQ Department of the NASD in Washington, D. C., at any time during the day prior to 4:00 p.m. New York time. After giving the particulars of the transaction(s) and the reason permission to exclude the block is requested, the NASD shall either grant or deny the request. No transactions may be excluded without permission of the NASD. (Volume data shall not be released for publication until the above procedures are operating smoothly. As requests for exclusions are submitted during the test period and after start-up, guidelines relating to appropriate circumstances for exclusion shall be developed. It is, therefore, vital that market makers treat the volume procedures as if the volume data were being released.)

2. Monthly Block Volume Reporting Procedure

Monthly block volume data will be used mainly for regulatory and NASD statistical purposes and will not be released for newspaper publication.

What to Report:

Monthly block volume reports must be entered through the NASDAQ Level 3 terminals. The report covers volume only for those stock transactions of 2,000 shares and \$50,000 or more, or those convertible debenture transactions of \$100,000 face amount or more. (For example, a transaction of 1,000 shares and \$100,000 would not be included in the monthly block volume report because the transaction involved less than 2,000 shares.) Transactions of 2,000

shares and \$50,000 are included in this report irrespective of whether or not the transaction was included or excluded in the firm's daily volume report.

(Note: The NASDAQ User Guide Level 2/Level 3 defines a "block transaction" as any single transaction whose value exceeds \$25,000. Subsequent to the printing of the guide, a "block" was redefined as 2,000 shares and \$50,000 or more for common stocks and \$100,000 face amount for convertible debentures.)

For each stock in which the firm is a NASDAQ registered market maker, you must report:

a. Transactions As Principal (Both Inter-Dealer and Retail)

- (1) Number of block purchase transactions;
- (2) Aggregate number of shares involved in purchase transactions of block size;
- (3) Number of block sales transactions;
- (4) Aggregate number of shares involved in sales transactions of block size.

b. Agency Crosses Between Two Public Individuals or Institutional Accounts

- (1) Number of agency crosses of block size (Report as both a purchase and a sale);
- (2) Aggregate number of shares involved in agency crosses of block size (Report as both purchase volume and sales volume).

When to Report:

Monthly block reports must be entered into the System between the 1st and 5th calendar day of each month before 6:30 p.m. New York time and cover the previous month's block transactions. Monthly block reports entered other than between the 1st and 5th of the month will be rejected by the System.

How to Report:

Refer to the NASDAQ User Guide for a description as to the keys that should be depressed for entering monthly block volume reports.

If Your Terminal Has Broken Down at Monthly Block Volume Reporting Time:

If your Level 3 terminal(s) should malfunction so that you can not enter your monthly block volume report in a NASDAQ security in which you are a registered market maker, contact by telephone NASD, N. Y. (212-269-6393) or NASD, Washington, D. C., (202-833-7210).

B. Procedures Where Firm is not a NASDAQ Registered Market Maker In A Security

The following procedures apply to all NASD members where they are not registered as a market maker in a NASDAQ security. Please note that firms must follow the above procedures in those securities where they are registered as NASDAQ market makers and the following procedures in other NASDAQ securities where they are not making a market through the NASDAQ System.

Volume data submitted by non-registered firms will be used only for regulatory and NASD statistical purposes.

What to Report:

Non-registered market makers will only report volume involved in principal or agency transactions of block sizes effected with others who at the time of execution of the transaction were non-registered market makers in securities included in the NASDAQ System. For this purpose, "block" in the case of a stock has been defined as a transaction involving 2,000 shares and \$50,000 or more. (For example, a transaction of 40,000 shares and \$40,000 would be reported because the transaction involved less than \$50,000.)

A "block" in the case of a convertible debenture has been defined as \$100,000 face amount, or more.

For each transaction that meets or exceeds the above definitions of "block", a firm shall report the following information:

- (1) Trade date
- (2) Security name and NASDAQ Symbol
- (3) Either the name of the contra-broker/dealer, or, if with a retail account, the symbol "R A"
- (4) Whether purchase or sale as principal, or agency cross between two retail accounts.

When to Report:

Non-market maker volume reports must be mailed at the close of the last trading day of each week in which a "block" transaction was effected. Reports should be mailed to the NASDAQ Department, NASD 1735 "K" Street, N. W., Washington, D. C., 20006. A report need not be filed if no block transaction was effected during that week.

How to File:

The required information should be filed on the enclosed form entitled "NASDAQ Non-Market Maker Report."

The blank form may be duplicated by the firm or a supply may be obtained from the Executive NASD Office in Washington, D. C.

C. Method of Computing Volume Data For Release to the Press

A discussion of the method to be used for computing volume for release to the press is included here for your information.

The objective of published volume data is to inform the public of the number of shares of an issue that changed ownership throughout the day. The technique described below for computing a security's daily volume was developed in conjunction with the Securities and Exchange Commission with the purpose in mind of keeping to a minimum the distorting or inflating effect that can occur as a result of trades between competing market makers. It will avoid the double counting of shares that pass through market makers' inventories during the day.

The technique involves adding the shares that flow through a market maker's inventory during the day to any net change that occurred between his opening and closing position on that day. For example, if a market maker opened the day with an inventory of 3,000 shares, purchased 2,000 shares and sold 4,000 shares during the day, the closing inventory would be 1,000 shares. In such an event, the system would count 4,000 shares as having changed ownership during the day for that market maker.

The same process will be repeated by the NASDAQ System computers for each market maker so that a single volume number for the security will be released for publication. The process for the computers involves adding together the higher of purchases or sales as reported by each market maker.

If additional information with respect to this procedure is desired, please telephone Mr. Jack Jaakson or Mr. Stanley Kerns at the NASD Executive Office, Washington, D. C. (Telephone 202-833-7210).

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

888 SEVENTEENTH STREET N. W. WASHINGTON, D. C. 20006

NASDAQ NON-MARKET MAKER REPORT

Date: _____

Submitted By: _____
(Firm)

(Telephone & Area Code)

(Address)

(State & Zip Code)

Our firm, not registered as a NASDAQ market maker in the NASDAQ securities listed below, had the following transactions (all above 2,000 shares and \$50,000 in size, or above \$100,000 face amount for convertible debentures) with other broker/dealers not registered as NASDAQ market makers in the given NASDAQ security.

Trade Date	Security Name & NASDAQ Symbol	Name of Contra-Broker/Dealer. If transaction is with a retail account indicate "RA"	Purchase as Principal (PP) Sale as Principal (SP) Agency cross between two retail accounts (AA)	Size (\$ Amount & # of Shares)

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

888 SEVENTEENTH STREET N. W. WASHINGTON, D. C. 20006

To: All NASD Members

December 22, 1970

Subject: Quarterly Financial Reporting

The enclosed packet is being sent to all NASD members in accordance with a Resolution of the NASD Board of Governors adopted in May 1970 requiring quarterly financial reports. The purposes of this report are twofold: (a) to provide the NASD with data to help detect an impending critical financial situation in a given firm or segment of the industry; and (b) to furnish current data relating to the economic stability and growth of the industry.

We regret the necessity for requiring this additional report of members. To minimize the burden the report form is designed to utilize data customarily compiled on a regular basis by most firms.

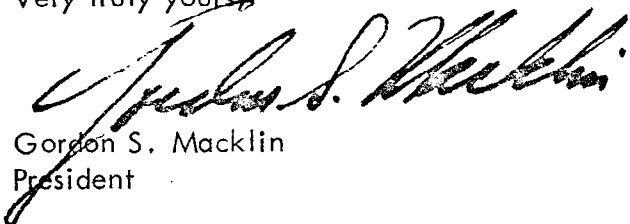
Form Q must be executed and filed with the NASD four times each year by every NASD member firm. The fact that a member files similar data or reports with a national securities exchange or with another regulatory body does not exempt that member from this filing requirement. Neither will a copy of any other report suffice to meet this filing obligation. Copies of forms for subsequent reports will be mailed to members at least 30 days in advance of filing dates.

Note that firms are divided into 3 groups for determination of filing periods and dates, as described in the accompanying instructions combined with the form. The first report for those members in Group A should cover the twelve months ended December 31, 1970. Year-end adjustments are not to be included in the first report since they will not generally be available at that time. These adjustments may be netted in the second report. Members in Groups B (first report due February 20, 1971) and C (first report due March 20, 1971) whose year-end adjustments are not available by the time their first report is due may also follow this rule.

Those members who are insurance companies, and have been exempted from the net capital rule, need not complete items 26, 27 and 28 of the Form Q. Also, these members should include only the income or assets and liabilities related to their securities business. All other activities are to be disregarded. Allocations of expense items incurred by the securities activities of the firm should be made accordingly. Finally, those members who maintain their books in accordance with the Midwest Stock Exchange Service Corporation System may complete the form as of the closing date immediately preceding the ending period covered by the Form Q.

If you have any questions pertaining to the form or its requirements, you should either write or phone Mr. Kenneth L. Marshall or Mr. James Wierzba, Economics Department, (202) 833-7264 prior to completing the report.

Very truly yours



Gordon S. Macklin
President

Enclosure

NASD QUARTERLY FINANCIAL REPORT

FORM Q

For Period Ended ^{vo} _____
(Day/Month/Year)

(PLEASE TYPE)

Name and telephone number of person to contact with respect to this report:

(Name) (Phone number)

┌ └

This respondent is a:

1. Corporation 3. Sole Proprietorship
2. Partnership 4. Other

Dated the _____ day of _____, 19____

(Manual Signature of a Principal Officer, Managing Partner or Sole Proprietor)

Return to:

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 "K" Street, N.W.
Washington, D. C. 20006

┌ └



These are your Firm's Identification Number
and your Filing Group Letter.

WORKING COPY

GENERAL INSTRUCTIONS
for
NASD FORM Q

Content of Form Q

This form consists of: a cover page, a Statement of Financial Condition, a Capital Funds Statement, a Net Capital Summary and a Fails Report. These items are similar in kind to those in the NASD Annual Financial Report (Form 17A-10), with two exceptions. Form Q includes a Fails Report, which does not appear on NASD Form 17A-10, and it requires that unrealized gains or losses in the firm's trading account be broken out separately.

Reporting Periods and Filing Deadlines

The entire membership has been divided into three groups of firms. Each firm will find its reporting "group" (A, B, or C) shown on the mailing label of this form. Each group will file Form Q four times a calendar year, but for each group the reporting periods (i.e., the time period to which the reported data pertain) and the filing deadline dates differ. This has been necessary to make the data processing task feasible. Each report is due within 20 days following the end of the stipulated time period covered by that report.

The following are the stipulated reporting periods for each filing group and the filing deadlines for each of the reports required during the year:

	First Report		Second Report		Third Report		Fourth Report		Fifth Report	
	Period Covered	Due Date	Period Covered	Due Date	Period Covered	Due Date	Period Covered	Due Date	Period Covered	Due Date
Group A	12 Months Ended 12/31/70	1/20/71	3 Months Ended 3/31/71	4/20/71	6 Months Ended 6/30/71	7/20/71	9 Months Ended 9/30/71	10/20/71	12 Months Ended 12/31/71	1/20/72
Group B	One Month Ended 1/31/71	2/20/71	4 Months Ended 4/30/71	5/20/71	7 Months Ended 7/31/71	8/20/71	10 Months Ended 10/31/71	11/20/71	One Month Ended 1/31/72	2/20/72
Group C	2 Months Ended 2/28/71	3/20/71	5 Months Ended 5/31/71	6/20/71	8 Months Ended 8/31/71	9/20/71	11 Months Ended 11/30/71	12/20/71	2 Months Ended 2/29/72	3/20/72

Guidelines for Recording Data

(i) Computation Date: All items in each Form Q Report should be computed as of the end of the reporting period covered by the Report. The "Income" item in the "Statement of Capital Funds" should be computed on a cumulative basis, from January 1 through the end of the reporting period.

(ii) New Members: A firm which joined the NASD after January 1 should report for the period beginning with the effective date of NASD membership through the end of the period to which the Form Q Report pertains.

(iii) Change in Form of Organization: If a member changes its form of organization during the reporting period, a single Form Q Report should be filed for the entity, based on the form of organization at the end of the reporting period. Where a member has changed from a partnership or sole proprietorship to a corporation, the financial statements should be adjusted in the appropriate captions (e.g., employee compensation, employment costs and Federal income taxes) to cover the entire reporting period and "year-to-date" figures.

(iv) Consolidated Reports: If a member acquires another member firm during the reporting period, whether by merger, consolidation or by other means, the business results of the acquired firm since the last Form Q Report filed by the acquired firm should be included in the next Form Q Report submitted by the acquiring firm.

Should the acquired and acquiring firms have different forms of organization, the report should be filed on the basis of the acquiring firm's form of organization.

Only majority-owned subsidiaries which are NASD members may be consolidated in this report. If the report is on a consolidated basis, all general and financial information should be furnished with respect to the consolidated entity as a whole.

Execution of the Form

The filing shall be executed by a manual signature on the cover page of the form. If the firm is a "sole proprietorship," it is to be signed by the sole proprietor. If the firm is a "partnership," it is to be signed by a general partner. A duly authorized principal officer of a corporation should sign on behalf of a corporation. No accounting certification is required.

Please Note: A Form Q Report which has not been prepared and executed in compliance with these instructions may be returned to the firm as unacceptable for filing. NASD acceptance of this form does not constitute evidence that it has been filed as required or that the information submitted is true, correct or complete.

Firm I. D. No.

Each firm will find its own "Firm Identification Number" printed on the mailing label attached to the cover page. Please print this "Firm I.D. No." at the top of each page of Form Q in the spaces marked for this purpose.

"Rounding" and "Debit" Rules

Dollar amounts should be rounded to the nearest dollar, and "cents" omitted. If a debit is entered in a column which is ordinarily a credit, or vice versa, the figure should be enclosed in parentheses.

Extra Copies of Form Q

Additional copies of Form Q may be obtained from the NASD. But each firm should have its Form Q duplicated in some fashion, so that it has a copy for its own records.

Questions Concerning Form Q and its Filing

The completed form is to be filed directly with the National Association of Securities Dealers, Inc., 1735 "K" Street, N.W., Washington, D. C., 20006. Questions should be addressed to Mr. Kenneth L. Marshall, Economics Department.

FORM Q ITEM INSTRUCTIONS

ASSETS

Items 1, 2, 3 and 4: These items are self-explanatory.

Item 5: LONG POSITIONS in Securities and Commodities—at Market Value.

Items 5(a) and 5(c) should be entered in the “Amount” column at market value. But the actual cost to the firm of such accounts should be entered in the column headed “Cost.” Item 5(b) should not be entered in the “Amount” column, and for this reason the space has been blocked.

Item 6: EXCHANGE MEMBERSHIPS—at Market Value.

At items 6(a) and 6(b) please enter both the cost to the firm, under the column headed “Cost,” and the market value at the end of the reporting period to which this Form Q pertains, under “Amount”.

Items 7 and 8: These items are self-explanatory.

Item 9: TOTAL ASSETS.

Please note: the amount entered here must equal the amount entered at item 18, “TOTAL LIABILITIES, SUBORDINATED ACCOUNTS and CAPITAL.”

STATEMENT OF FINANCIAL CONDITION

ASSETS

		Amount
CASH, CLEARING FUNDS and OTHER DEPOSITS:		
(a) Cash not subject to withdrawal restrictions		\$
(b) Cash segregated under Commodity Exchange Act and other commodity deposits		
(c) Clearing funds, deposits and other accounts subject to withdrawal restrictions:		▼1
(1) Securities accounts		
(2) Commodities accounts		
2. RECEIVABLE from other BROKER-DEALERS:		
(a) Securities failed to deliver		
(b) Deposits on account of securities borrowed		
(c) Other securities accounts		
(d) Commodities accounts		
3. RECEIVABLE from CUSTOMERS:		
(a) Securities accounts		
(b) Commodities accounts		▼2
(c) Other receivables		
4. ACCOUNTS of OFFICERS, DIRECTORS and PARTNERS not subject to Equity or Subordination Agreements:		
(a) Securities accounts		
(b) Commodities accounts		
(c) Other		
LONG POSITIONS in Securities and Commodities-- at Market Value:		
(a) Investment accounts	Cost	
(b) State amount of non-marketable securities or restricted securities included in (a) above	\$▼0	
(c) Trading and other accounts in which respondent has an interest		
6. EXCHANGE MEMBERSHIPS--at Market Value:		▼3
(a) Securities exchanges		
(b) Commodities exchanges		
7. PROPERTY, EQUIPMENT and LEASEHOLD IMPROVEMENTS net of Accumulated Depreciation and Amortization		
8. OTHER ASSETS:		
(a) Investment in unconsolidated subsidiaries		
(b) Related to securities business		
(c) Related to commodities business		
(d) Other assets not directly allocable to the securities or commodities business		
9. TOTAL ASSETS		\$▼4

LIABILITIES AND CAPITAL FUNDS—Instructions

Items 10, 11, 12 and 13: These items are self-explanatory.

Item 14: SHORT POSITIONS in Securities and Commodities—at Market Value.

At items 14(a) and 14(b) please enter the market value of short positions in the column headed “Amount.” The proceeds of these short sales at the end of the reporting period should be entered in the column headed “Proceeds.”

Items 15 and 16: These items are self-explanatory.

Item 17: CAPITAL.

Please note: The amount entered at 17(c) should be equal to the amount entered at item 25, “CAPITAL BALANCE at the End of this Report Period.”

Item 18: TOTAL LIABILITIES, SUBORDINATED ACCOUNTS and CAPITAL.

Please note: The amount entered here must equal the amount entered at item 9, “TOTAL ASSETS.”

STATEMENT OF FINANCIAL CONDITION

LIABILITIES AND CAPITAL FUNDS

		Amount
10. MONEY BORROWED:		
(a) Secured by customers' collateral		\$
(b) Secured by firm's collateral		
(c) Unsecured		
11. PAYABLE to OTHER BROKER-DEALERS:		
(a) Securities failed to receive		
(b) Deposits on account of securities loaned		
(c) Other securities accounts		▼1
(d) Commodities accounts		
12. PAYABLE to CUSTOMERS:		
(a) Securities accounts:		
(1) Free credit balances		
(2) Other credit balances		
(b) Commodities accounts:		
(1) Free credit balances		
(2) Other credit balances		
(c) Other liabilities to customers		
13. ACCOUNTS of OFFICERS, DIRECTORS and PARTNERS not subject to Equity or Subordination Agreements:		▼2
(a) Securities accounts		
(b) Commodities accounts		
(c) Other		
14. SHORT POSITIONS in Securities and Commodities-- at Market Value:		Proceeds
(a) Investment accounts		\$▼0
(b) Trading and other accounts in which respondent has an interest		
15. OTHER LIABILITIES:		
(a) Securities business		
(b) Commodities business		
(c) Other liabilities not directly allocable to the securities or commodities business		▼3
16. TOTAL LIABILITIES		\$
17. CAPITAL:		
(a) Borrowings and accounts subordinated or subject to equity agreements		
(b) All other		
(c) TOTAL CAPITAL		\$
18. TOTAL LIABILITIES, SUBORDINATED ACCOUNTS and CAPITAL		\$

CAPITAL FUNDS STATEMENT—InstructionsItem 19: CAPITAL BALANCE as of January 1.

Please enter the firm's capital balance as of January 1 of the same calendar year as covered by this Form Q Report. (For example, a Report covering January 1 through December 31, 1970 uses the capital balance as of January 1, 1970. Or again, a Report filed to cover the two month period ending February 28, 1971 uses the firm's capital balance as of January 1, 1971.

- (i) Those firms that filed either "Part I," "Part II," or "Part III" of the ANNUAL FINANCIAL REPORT (NASD FORM 17A-10) will find the capital balance figure required here in their prior year's Form 17A-10 Report, under the heading, "Balance at End of Period." Refer to:

Page 4 of Part I,

Page 7 of Part II, or

Page 12 of Part III.

- (ii) Those firms required only to submit the "Introduction" to the ANNUAL FINANCIAL REPORT (NASD FORM 17A-10) must refer to their prior year's balance sheet figures, adjusted for closing entries, as of December 31.

Item 20(a): Amount of OPERATING INCOME since January 1.

Please enter the amount of the firm's Operating Income (Loss), computed from January 1 through the end of the period to which this Report pertains.

Notes:

- (i) Federal income taxes should not have been deducted from this figure.
(ii) This figure should include REALIZED GAINS (net of realized losses) in the firm's Investment and Trading Accounts.
(iii) This figure should not include UNREALIZED GAINS (LOSSES) in the firm's Investment or Trading Accounts.
(iv) Please take care to put a NET LOSS in parentheses.

Item 20(b): Amount of FEDERAL INCOME TAXES accrued.

If, and only if, the firm is a CORPORATION, please enter the amount of Federal income taxes accrued for this report period (whether paid or unpaid as yet) on the Operating Income entered above at item 20(a).

If the firm is NOT A CORPORATION, please insert the written word "zero" in the blank opposite item 20(b)

CAPITAL FUNDS STATEMENT—Instructions

Item 21: Net Change in the amount of UNREALIZED GAINS (LOSSES) in the firm's INVESTMENT ACCOUNT since January 1.

Please enter the change in the amount of Unrealized Gains (net of Unrealized Losses) in the firm's Investment Account, from January 1 through the end of the period to which this report pertains.

Notes:

- (i) This amount should not have been included in item 20(a) above.
- (ii) Please take care to put a NET LOSS in parentheses.

Item 22: Net Change in the amount of UNREALIZED GAINS (LOSSES) in the firm's TRADING ACCOUNT since January 1.

Please enter the change in the amount of Unrealized Gains (net of Unrealized Losses) in the firm's Trading Account, from January 1 through the end of the period to which this report pertains.

Notes:

- (i) This amount should not have been included in item 20(a) above.
- (ii) Please do not adjust this figure by subtracting applicable Federal income taxes.
- (iii) Please take care to put a NET LOSS in parentheses.

Item 23: Total Amount of DRAWINGS, INTEREST PAYMENTS, "SALARIES," and OTHER DISTRIBUTIONS not expensed during the reporting period, and DIVIDENDS paid.

Please enter the total amount of Drawings, Dividends, Interest Payments, "Salaries," and other payments or distributions considered to be paid out of Net Income earned in the current year or accumulated in prior years. Compute this figure from January 1 through the end of the period to which this report pertains.

Item 24: Total Amount of OTHER INCREASES (DECREASES) not specifically called for above, since January 1.

Please enter the amount of total increases, net of total decreases, in the value of: (A) Accounts such as Subordinated Loans; (B) Accounts of Partners subject to Equity or Subordination Agreements; (C) the Market Value of Exchange Membership(s); (D) Additional Issuances, Retirements or Repurchases of Capital; (E) Capital Additions; (F) Special Charges to Retained Earnings; (G) Secured Capital Demand Notes; (H) Adjustments for a prior year's Federal income taxes; (I) Other.

Notes:

- (i) Please calculate this net increase (decrease) from January 1 through the end of the period to which this report pertains.
- (ii) Please take care to put a DECREASE in parentheses.

Item 25: CAPITAL BALANCE at the End of this Report Period.

Please Note: This amount must agree with 17(c), "TOTAL CAPITAL."

NET CAPITAL SUMMARY-Instructions

Item 26: (a) NET WORTH.

This amount should be: item 9 less item 16.

(b) CHARGES TO CAPITAL.

This amount should be computed in accordance with SEC Net Capital Rule 15c3-1; or, if the firm is exempt from that Rule under Rule 15c3-1(b)(2), then the amount should be computed in accordance with the capital rules of an exchange of which the firm is a member.

(c) ADJUSTED NET CAPITAL.

This amount should be: item 26(a) less item 26(b).

Item 27: AGGREGATE INDEBTEDNESS.

This amount should be computed in accordance with SEC Net Capital Rule 15c3-1; or, if the firm is exempt from that Rule under Rule 15c3-1(b)(2), then the amount should be computed in accordance with the capital rules of an exchange of which the firm is a member.

Items 28 and 29:

These items are self-explanatory.

CAPITAL FUNDS STATEMENT

<p>19. CAPITAL BALANCE as of January 1 (See Instruction 19):</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>In response to items #20, 21, 22, 23 and 24 below, please supply figures pertaining to the time period <u>January 1 through the end of the present reporting period.</u></p> </div>	<p>▼⁰ \$</p> <div style="background-color: #cccccc; height: 20px; width: 100%;"></div> <p>January 1 to End of Period</p>
<p>20. (a) <u>Add</u> the amount of OPERATING INCOME since January 1:</p>	
<p>(b) <u>Deduct</u> the amount of FEDERAL INCOME TAXES accrued:</p>	
<p>21. <u>Add</u> the Net Change in the amount of UNREALIZED GAINS (LOSSES) in the firm's INVESTMENT ACCOUNT since January 1:</p>	
<p>22. <u>Add</u> the Net Change in the amount of UNREALIZED GAINS (LOSSES) in the firm's TRADING ACCOUNT since January 1:</p>	
<p>23. <u>Deduct</u> the total amount of DRAWINGS, INTEREST PAYMENTS, "SALARIES," and OTHER DISTRIBUTIONS not expensed during the reporting period, and DIVIDENDS paid:</p>	
<p>24. <u>Add</u> the total amount of OTHER INCREASES (DECREASES) not specifically called for above, since January 1:</p>	
<p>25. CAPITAL BALANCE at the End of this Report Period:</p>	<p>▼¹ \$</p>

NET CAPITAL SUMMARY

	Amount
<p>26. (a) NET WORTH:</p>	<p>\$</p>
<p>(b) CHARGES TO CAPITAL:</p>	
<p>(c) ADJUSTED NET CAPITAL:</p>	
<p>27. AGGREGATE INDEBTEDNESS:</p>	
<p>28. NET CAPITAL RATIO (item 27 ÷ 26(c))—stated as a percent:</p>	<p>%</p>
<p>29. This firm is subject to one of the following minimum NET CAPITAL REQUIREMENTS: (please check one)</p>	
<p>(a) \$2,500</p>	<p><input type="checkbox"/></p>
<p>(b) \$5,000</p>	<p><input type="checkbox"/></p>
<p>(c) An exchange requirement</p>	<p><input type="checkbox"/></p>

FAILS REPORT—Instructions

Item 30: FAILS.

Include in item 30 the number of items and amounts involved (ledger balances) for each category of fails to deliver (securities sold to other broker/dealers) and fails to receive (securities purchased from other broker/dealers) in contracts for which settlement had not been made as of the month-end closing date of your firm.

Exclude fails related to mutual fund shares, U. S. Government and municipal obligations.

FAILS REPORT

<p>J. FAILS – Please complete the following:</p>		
<p>A. FAILS TO DELIVER (debits)</p>		
(1) Outstanding 30 days or longer	No. of Items	Amount (dollars)
(a) OTC Securities	▼ ⁰	\$
(b) Listed Securities		
(c) Total Over 30 Days		\$
(2) Outstanding Less Than 30 Days		
(3) Total All Fails to Deliver		\$ ▼ ²
<p>B. FAILS TO RECEIVE (credits)</p>		
(1) Outstanding 30 days or longer		
(a) OTC Securities		\$
(b) Listed Securities		
(c) Total Over 30 Days	▼ ¹	\$
(2) Outstanding Less Than 30 Days		
(3) Total All Fails to Receive		\$