



**The American
Stock Exchange**
An NASD Company

Salvatore F. Sodano
Chairman and Chief Executive Officer

October 20, 2000

The Honorable John D. Dingell
Ranking Member
Committee on Commerce
U.S. House of Representatives
Room 2125, Rayburn House Office Building
Washington, DC 20515-6115

Dear Representative Dingell:

This letter is in response to your September 18th letter addressed to me on your concern with the listing qualification process that we employ at The American Stock Exchange. I can assure you that in anything we do here at the Amex, monitoring the integrity of our markets and protecting investors are our top priorities. I can also assure you that the new team in charge of the Amex is well aware of the problems with the emerging company marketplace and the fact that the program was terminated five years ago during the previous administration in charge of the Amex.

In recent years, the Amex has substantially improved its listing and regulatory screening procedures. These improved procedures, together with several enhancements we adopted after the NASD acquired the Amex, comprise the Amex listing qualifications procedures today. Moreover, the Amex listing criteria are significantly higher than the relaxed criteria that emerging company marketplace applicants qualified under in the early 1990s. Further, the Amex Board of Governors recently approved changes to our listing review process to include non-industry public professionals to serve on our listing review committee. This improvement mirrors the Nasdaq's system and will add greater objectivity to the listing review process.

Some stocks that listed on the Amex this year have not performed very well. But this is also consistent with the performance of some stocks listed on Nasdaq and the New York Stock Exchange. I would further note that many Amex-listed stocks have performed quite well this year. Both the disappointing and highly encouraging performances are typical outcomes of investing in the stock market.

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The Amex, like all other self-regulatory organizations, together with our federal regulators, diligently and continuously work to improve upon our methods for preventing manipulation in the marketplace. We do this first through effective guidelines for initial listing and continued listing eligibility which, at the Amex, are firmly in place. The Amex regulatory screening procedures are substantially similar to those applied by Nasdaq and we take our duties to assess initial and continued listing eligibility very seriously. As outlined in the attached overview of listing procedures, the Amex thoroughly reviews each company's application for listing according to Amex's quantitative and qualitative listing standards, including procedures to identify people with questionable backgrounds. Equally important, on a continuing basis we review every filing an Amex-listed company files with the SEC to ensure the company continues to remain in compliance with the Amex's listing standards.

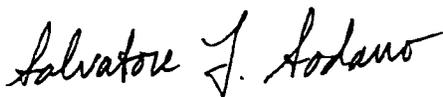
On the regulatory side, we continue to enhance our surveillance systems, including improvements in our internal procedures and substantial increases in technology that allow us to detect irregularities more quickly. The Amex floor-based auction market structure also benefits our regulatory program by providing a substantial consolidation of order flow that allows us to detect problems early and take immediate action, such as instituting trading halts where appropriate.

Since our acquisition by the NASD nearly two years ago under the leadership and guidance of Frank Zarb, we have taken many steps to improve the quality, integrity and reliability of our marketplace. While we have more work to do and are always looking for ways to improve upon our procedures, we have made tremendous progress.

It would be my pleasure to host a visit by you or anyone from your staff to show you personally what we have accomplished at the Amex and discuss further some of the other significant improvements we are putting in place.

If you have any further questions, please feel free to contact me or Amex President, Peter Quick, at (212) 306-1600.

Sincerely,



cc: The Honorable Tom Bliley, Chairman
Committee on Commerce
The Honorable Michael G. Oxley, Chairman
Subcommittee on Finance and Hazardous Materials
The Honorable Edolphus Towns, Ranking Member
Subcommittee on Finance and Hazardous Materials
The Honorable Arthur Levitt, Chairman
U.S. Securities and Exchange Commission
The Honorable David M. Walker, Comptroller General
U.S. General Accounting Office



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Synopsis—Amex Listing Qualification Review Process

October 20, 2000

In recent years, the Amex has substantially improved its regulatory screening procedures. These improved procedures, together with several enhancements which were adopted approximately a year ago, comprise the Amex Listing Qualifications procedures today. The Amex's initial and continued listing qualifications program, including our regulatory screening process, is outlined below.

I. Initial Listing Review Process

Companies which apply to become listed are required to satisfy a variety of quantitative and qualitative listing standards which are set forth in the Amex's Company Guide. The quantitative listing standards address various requirements including income, shareholders' equity, public float and number of public shareholders. The qualitative standards address other requirements including independent directors, audit committee, voting rights and quorum. To evaluate compliance with these requirements, each listing application is assigned to a listing qualifications analyst in the Amex Listings Qualifications Department who is responsible for reviewing the company's most recent filings with the Securities and Exchange Commission ("SEC", including Proxy Statements and Forms 10-K, 10-Q and 8-K). Based upon this review, we typically send one or more comment letters to applicant companies seeking additional or clarifying information. These comment letters also incorporate certain standard questions eliciting information on, for example, prior regulatory proceedings affecting the company, its officers and directors and certain other individuals (see regulatory screening discussion below). The fact that an applicant fully satisfies the listing requirements does not assure that it will be listed. For example, the Amex can and has denied listing to an otherwise qualified company solely because of public interest concerns with respect to the company or its principals. Similarly, a company can be approved for listing even if it fails to satisfy all of the Amex's listing requirements. Presently, such companies are presented by the staff to a Board-appointed Committee composed of industry professionals which can authorize such listings. Needless to say, the staff will not present to the Committee any company which raises public interest concerns.

Consistent with the Amex's commitment to continually improve upon the listing process, the following additional changes are taking place. First, the SEC has just approved an Amex rule filing modeled on the Nasdaq initial listing review process. Under the new rules, the staff does not play a role in determining when the Committee reviews listing applications. The staff will advise companies in writing that their applications are being denied and the companies will determine whether to appeal the staff's decision to the Committee. Further, subject to SEC approval of a pending rule filing, the membership of the Committee will be expanded, and one third of its members will be drawn from the public, *i.e.*, they will not be from the securities industry.

II. Regulatory Screening Process

The Amex believes that it has effective procedures in place to identify persons with questionable backgrounds. These procedures were substantially expanded after the initial difficulties with the ECM were detected and were expanded again after the Amex qualifications process was merged with Nasdaq's, as a result of the merger between the NASD and Amex.¹

When a prospective listed company is assigned for review, the staff prepares a list with the company name, as well as those of its officers, directors, substantial shareholders and certain affiliated parties, such as underwriters and private placement agents. These names are submitted to the SEC's Market Surveillance unit which searches the SEC's database to determine whether any of those individuals or entities were or are involved in any past or present SEC investigations. At the same time, the names are searched through the CRD database to find any securities-related disciplinary proceedings. In addition, the listing qualifications analyst reviews, among other things, the issuer's SEC filings and other public disclosures to determine whether any such matters have otherwise been disclosed by the company. As part of our standard review we also require every applicant to respond in writing to a question seeking information concerning any pending or completed investigation or disciplinary action affecting the company or any of its officers, directors or substantial shareholders initiated by any civil or criminal regulatory authority, including the SEC, the NASD and State or foreign regulators. Listing Qualifications also maintains an internal "public interest" database which contains, among other things, information from delisting proceedings, listing investigations and selected information concerning individuals or entities with questionable backgrounds. In the case of companies which are already public, we consult with the NASD's Market Surveillance Department to determine whether they are conducting any reviews of unusual trading in the company's securities. If the staff is reviewing a proposed listing which would result from an initial public offering, we consult with the appropriate offices of the NASD to obtain information concerning any underwriter with which we are not familiar. All of the names noted above are also circulated among a list of Amex employees with long experience in regulatory matters. If, as a result of any of these steps we discover, for example, that the SEC has an ongoing investigation we contact the appropriate office of the SEC in an effort to determine the status of such matter. If a regulatory "hit" is discovered, we also run the name of the company or individual through Lexis/Nexis to find published news stories which may be relevant to our analysis.

The listing qualifications analyst discusses pending or concluded investigations or other disciplinary actions with the head of the department as well as counsel in the Listing

¹ It should be noted that the Amex is in the process of reestablishing its own qualifications program for initial and continued listing. However, this will not result in any changes to our regulatory screening procedures.

Qualifications Department. To the extent that significant issues are identified, they are brought to the attention of the Vice President/Department head.

Finally, we note that you referenced the recent hearings concerning organized crime. The Amex shares your concerns and will not list, or continue the listing, of companies which are believed to have such connections. If such concerns are uncovered, we contact appropriate federal or state authorities seeking further corroborative information. On certain occasions we have also engaged the services of a private investigative group to provide such assistance.

III. Continued Listing Review Process

Once listed, Amex companies are required to demonstrate compliance with a variety of quantitative and qualitative continued listing standards. The staff in the Amex's Retention Department reviews every SEC filing made by each listed company to monitor their compliance with these requirements. The Amex also utilizes an internal, on-line database which is programmed to search through the issuer's financial statements and flag any deficiencies with respect to the quantitative continued listing requirements as well as any filing delinquencies. The Amex will halt trading in the securities of companies which are delinquent in filing and such companies are subject to delisting if they are unable to cure their filing delinquency within a reasonable period of time. Companies which are identified as falling below the continued listing requirements are required to meet with, or furnish specific business plans to, the Amex staff which, based upon the information provided, determines either to delist the company or to afford the company additional time in which to achieve compliance.

If, in the course of the Amex's ongoing compliance monitoring process, we become aware that an individual or individuals with questionable backgrounds have become associated with a company we promptly place the company in our continued listing review process. While such occurrences are infrequent, some companies have been delisted because of this. Information with respect to such issues is discovered through monitoring of issuer filings and published news stories, through the screening of the names of new officers or directors or substantial shareholders and through our review of company applications seeking to list additional shares of stock. In these situations, we follow the regulatory review process described above.

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