

The new, higher standards proposed by the CHX will constitute requirements for a new Tier I listing. The Tier I requirements for a CHX listing will be identical in all material respects with the requirements of the NASAA MOUs. The current standards of the CHX will constitute the listing requirements for the new CHX Tier II listing. The NASAA MOUs do not address Tier II standards.

Tier I issuers and issues will have to meet the corporate governance and disclosure standards endorsed by NASAA MOUs. These include newly specific requirements for disclosure of reports filed with federal regulatory bodies; specific requirements for shareholder approval for certain corporate actions involving the sale or issuance of stock; and specific voting rights provisions forbidding corporate actions that have a disparate impact on holders of stock. The CHX currently has strict corporate governance and disclosure requirements, which will remain in place for Tier II issuers and issues.

The CHX will identify and distinguish at all times which securities are listed pursuant to Tier I and Tier II standards. If a Tier I listed security fails to satisfy Tier I maintenance standards for continued listing, the issue will be removed from Tier I listing. If it meets Tier II standards, it will thereupon be listed on Tier II. If it does not meet Tier II standards, it will be delisted. Moreover, if a Tier II listed security matures to the point that it could meet the Tier I standards, the issuer must apply and receive approval to list the security pursuant to the Tier I standards before the CHX will recognize that security as a Tier I issue. The CHX believes that adopting two tiers of listing standards will provide flexibility for the CHX in pursuing various listing objectives beneficial to CHX members and the public.

The CHX has chosen to adopt NASAA's MOU standards as criteria for its new Tier I because the CHX views those standards as carefully crafted to provide an extremely high level of investor and shareholder protection. For the same reason, the CHX proposes for Tier I to adopt also NASAA's substantial corporate governance standards, including requirements for independent directors, audit committees, shareholder quorums, common stock voting rights, and conflict of interest provisions. The CHX's current rules already address many of these same issues, but for Tier I the CHX proposes to adopt all of NASAA's suggested standards.

Tier I standards must be satisfied by all issuers on a continuing basis.

Moreover, CHX standards for Tier I initial and maintenance listing are both mandatory and non-waivable.

#### Tier I Standards

With regard to common stock, Rule 8(a) replicates the NASAA MOUs' numerical criteria applicable to original listing determinations in every aspect including net tangible assets, numbers of shareholders and shares publicly held, pre-tax and net earnings, and stock price.

In Rule 8(b), the CHX proposes to also offer alternate listing standards for common stock issues. The proposed standards are identical to those endorsed by NASAA. The CHX offers the alternate standards because there are certain smaller companies that either due to the nature of their business or the amount of resources committed by the company to research and development, would not meet the standards in Rule 8(a) but nevertheless deserve Tier I status. Thus, those types of companies may be approved for listing under Tier I if they satisfy the alternate listing criteria.

Rule 8(c), in conformance with the NASAA MOUs, provides standards for initial public offerings approved for listing on the CHX. Such offerings must be underwritten on a "firm commitment" basis and must meet the CHX's listing standards within a 30-day grace period after completion of the offering.

With regard to preferred stock, Rule 9 provides the Tier I original listing criteria. Preferred stock issuers must satisfy the same net tangible assets and net earnings criteria applicable to issuers of common stock. The ability of the issuers to service the dividend requirements for preferred stock will also be evaluated. The requirements will differ for number of shares publicly held and aggregate market value depending on whether the issuer has common stock listed. Where the common stock is listed on the CHX, New York Stock Exchange ("NYSE"), or American Stock Exchange ("Amex"), at least 100,000 shares of preferred stock must be publicly held with an aggregate market value of at least \$2 million dollars. Where the common stock is not so listed, at least 400,000 shares of preferred stock must be publicly held with an aggregate market value of at least \$4 million. Differentiating on this basis reflects the CHX's belief that companies whose securities are publicly traded have a more significant investor following and a greater demonstrated ability to raise necessary capital while meeting the contingent payment obligations associated with preferred

stock and, as described below, bond and debentures. In either case, a share of preferred stock must have a minimum closing bid price of \$10 to be eligible for listing.

Listing of bonds and debentures under Tier I will be governed by Rule 10. In addition to evaluating issuers according to the same net tangible assets and earnings standards applicable to equity issuers, the CHX will also evaluate the ability of these issuers to satisfy the interest and principal payments of bonds and debentures as they become due. As above, the required aggregate market value and number of public beneficial holders varies depending on whether the issuer's common stock is listed and traded on either the CHX, Amex or NYSE. Additionally, the CHX will require municipal bonds to meet higher standards than other bonds.

Issuers seeking listing of warrants under Tier I must satisfy the criteria of Rule 11. The CHX will set standards with regard to public distribution, and it will not list warrants unless the security underlying the warrant is already listed or will be listed concurrently with the warrants on Tier I.

Rule 12 provides criteria for contingent value rights ("CVRs"). The CHX will set standards for CVRs with regard to aggregate market value, public distribution, net tangible assets, and maturity date. CVR issuers must meet the net tangible assets and earnings requirements for issuers of stock listed on the Exchange, and the CVRs to be listed must have been approved for listed on another national securities exchange. Finally, Rule 13 contains criteria applicable to new and innovative products that do not fall within Rules 8-12 but otherwise have the financial qualifications to be listed and are suitable for auction market trading.

The CHX's maintenance requirements for Tier I securities duplicate those found in the NASAA MOU with the PSE. Rules 14-17 set forth those maintenance requirements for each type of issue. The CHX will initiate delisting procedures against any issue that fails to meet the maintenance requirements on a continuing basis.

#### Tier II Standards

Rule 18 sets forth the CHX's proposed Tier II standards. Tier II standards will allow companies that may not be large enough to list under Tier I the opportunity to have their securities traded in an auction market, thereby increasing liquidity and issuer access to the investment community.