THE NASDAQ STOCK MARKET, INC. **NASDAQ**

November 16, 1994

Mr. Martin E. Winter
Secretary and Treasurer
Corporate Renaissance Group, Inc.
1185 Avenue of the Americas
18th Floor
New York, NY 10036

Dear Mr. Winter,

Sometimes a situation arises that, while difficult, does provide a forum for your issues and special differences to be broadcast and heard. The inquiry to be conducted by the Antitrust Division of the United States Justice Department has given Nasdaq just this opportunity.

That's why we've put together this package -- and entitled it: Knowing Nasdaq. We believe there couldn't be a better time to get the facts out.

Enclosed you'll find:

- A Question and Answer series that will help you respond quickly and thoroughly to issues from your shareholders.
- Reprints of several articles that report the story in an objective, balanced manner so you can get a clearer understanding of what is actually going on.
- A Fax-In Form for you to ask any questions we haven't answered for you. We'll respond just as quickly as possible. Plus, if you like, you may use this form to request additional copies of the Questions and Answers to send to your shareholders. We'll be happy to send as many copies as you need, free of charge.

Please take a moment to read the information we've gathered here for you. We're sure that once you do, you'll come away with a greater understanding of the differences between Nasdaq and the other markets. Most importantly, we believe you'll appreciate the great success story Nasdaq has been -- for the benefit of investors throughout the world and the growth of many of America's leading corporations.

If you have any questions, please don't hesitate to call me directly, at your convenience.

Sincerely,

Donald Johnson

Donald L. Johnson
Director
Nasdaq Market Services

1735 K STREET, NW WASHINGTON, DC 20006-1500 202-728-8333 FAX 202-728-8147

Knowing Nasdaq

The Answers To Questions From Your Shareholders.

Q: Why is the Department of Justice Antitrust Division conducting an inquiry of The Nasdaq Stock Market?

A: It began with a study by two academics who hypothesized the possibility that some Nasdaq Market Makers had "colluded" to maintain trading margins, or spreads, at a level unfair to some investors.

This in turn led to a number of lawyers filing suit against some Nasdaq Market-Making firms. These suits have since been consolidated into a class action.

Q: What is the focus of the Justice Department inquiry?

A: At present, the Antitrust Division is concentrating on familiarizing itself with how The Nasdaq Stock Market works, and better understanding Nasdaq's procedures and operations. Nasdaq's market structure is fundamentally different from that of traditional auction markets.

Q: How will the inquiry affect The Nasdaq Stock Market?

A: Eventually, very positively. The more clearly investors and the financial and academic communities understand how Nasdaq works, and how it benefits the capital formation process in America, the better for everybody. Nasdaq welcomes this inquiry as an opportunity to get the word out.

We believe the allegations in the lawsuits are completely baseless and we are confident that the Justice Department with its sophisticated understanding of marketplace competition will find The Nasdaq Stock Market to be extremely competitive.

Q: How does The Nasdaq Stock Market differ from a traditional stock exchange?

A: In the traditional stock exchange, a single specialist is charged with making the market for a security. The specialist works the floor of the exchange, bidding and offering, from which comes the phrase "auction market." The specialist's role is to match buy and sell orders.

In The Nasdaq Stock Market, instead of a single Market Maker in a single location, there are Market Makers for each security in many locations, all linked by computers, all competing against each other for order flow. It is market forces of supply and demand that set the price for a stock.

Nasdaq's competitive structure offers several advantages over order-matching systems, including:

- Cost of capital is lower on Nasdaq, which is attributed to Market Makers providing increased visibility of Nasdaq-listed companies.
- Nasdaq Market Makers have the ability to execute large orders at a single price. On auction markets, price quotes may only be good for a fraction of a large order, not its entirety.
- Market Makers have an obligation to maintain a continuous two-sided market throughout the trading day. Nasdaq does not permit trading halts for order imbalances.

Q: I have placed limit orders for Nasdaq stocks, and don't understand why I sometimes see trades go through at my price and my limit order is not executed?

A: There is no way to tell from a trade report whether the price you see represents a buy or sell transaction. If the "inside" quote (the best bid and ask quotes across all Market Makers in a security) matches the price level of your limit order it should be executed by your broker/dealer.

If you feel your broker/dealer is not treating you fairly, you do have recourse through the National Association of Securities Dealers (NASD), the regulatory body for the brokerage industry. You may contact the NASD at (202) 728-8000 for more information.

Q: Why doesn't Nasdaq have a central limit order file?

A: A central computer posting of limit orders – order matching – is being tried in other markets around the world in places like Hong Kong, Paris and Singapore. Evidence of market activity in some of these markets suggests that when orders are simply posted and crossed in this manner, with Market Makers merely conveying price information, the market liquidity can be reduced.

Specifically, a centralized computer posting of limit orders would negatively impact Market Maker participation in The Nasdaq Stock Market. The following points are important in this regard:

- Healthy markets need the real dollar commitment of Market Makers actively taking positions in stocks. This creates continuity in, and an obligation to provide, market liquidity by committing capital to each stock they trade.
- The central file system of limit order listings tends to erode the commitment of Market Makers who are the heart of negotiated quote-driven markets like Nasdaq.
- If Market Makers lose motivation and leave the market in significant numbers it would create major liquidity problems for issuing companies and reduced investment opportunities for all investors.
- Automated limit order matching systems can be efficient when markets are relatively quiet, but they tend to get overwhelmed in vigorous and volatile market conditions.
- No order-matching systems can replace the fluidity, intuition, and seasoned judgment of significant numbers of motivated Market Makers. Their active participation creates the best liquidity and price competitive environment.

Nasdaq continues to enhance its limit order capacity without negatively impacting the unique competitive structure of its market.

Q: Isn't it true that the Market Makers routinely report trades after the close of the market?

A: This is inaccurate — 96% of all Nasdaq trades are reported within a 90 second window.

The other 4% of trades reflect queuing delays in broker/dealer reporting mechanisms, standard error correction, congestion around the market close, or other accepted business practices. These include average price reporting (when an investor's order is executed at an average of the day's high and low, and reported at the day's end) and Stop protection (where a Market Maker accepts a large order at a specific price).

Q: Why list on The Nasdaq Stock Market?

A: Nasdaq's structure provides an environment that stimulates long-term growth, and increases the possibility of favorable returns to large and small investors alike. Listing on Nasdaq offers a lower cost of capital — enabling the company to finance company expansion.

Nasdaq's record is also important. Over the last 16 years, the Nasdaq composite index has outperformed the composite indices of both the S&P 500 and the New York Stock Exchange. For the investor, this translates to $100 invested 12/31/89 would be worth $179 on Nasdaq, $154 on the S&P 500 and $152 on the New York Stock Exchange as of 9/30/94.

What is in the best interest of the company is in the best interest of the investor. Unique features of The Nasdaq Stock Market include:

- Nasdaq Market Makers play an expanded role versus an auction market specialist, giving companies greater visibility before investors and the marketplace in general. Market Makers' research departments typically distribute research reports on the stocks the firm trades.
- Nasdaq's structure provides continuous trading activity even under the most challenging market conditions, without the trading halts and bottlenecks common to the single-specialist markets.
- Nasdaq's market structure offers greater depth of market (the amount of capital committed to a stock) because each of the Market Makers registered for a security commits capital – and as noted above, Nasdaq encourages numerous Market Makers to trade each stock.
- Market depth and continuous trading provide liquidity – measured by the dollar volume of trading required to move the price of a stock by one percent.

Q: Should I have concerns about investing in The Nasdaq Stock Market?

A: Absolutely not. The Nasdaq Stock Market will continue to be as stable and robust a market as ever, long after these suits and studies have been conclusively dismissed as misguided. Both the NASD and The Nasdaq Stock Market work closely with the SEC to maintain the historically high integrity level of its regulatory and enforcement practices and procedures.

In fact, you should know that:

- Nasdaq operations and rules are under continual review by the SEC, General Accounting Office (GAO) and State Securities Commissions.
- Acting in the best interests of the investor, the NASD – the largest self-regulatory organization in the world – brings and completes approximately 1,000 disciplinary actions a year.
- In 1993 alone, NASD Market Surveillance handled 7,829 price and volume alerts, conducted 122 formal investigations and referred an additional 71 cases to the SEC. The NASD has closed down over 200 Market Makers and other financial firms.
- The Nasdaq Stock Market vigilantly enforces its stringent rules and regulations concerning listed companies, and has twice raised its standards over the past five years.

Q: How important is The Nasdaq Stock Market compared to other equities markets?

A: Nasdaq initiated trading in February 1971, and has since experienced the greatest period of growth ever achieved by a stock market.

Over the last 7 years, Nasdaq's market share of dollar volume has virtually doubled. Daily transaction volume regularly tops 300 million shares...twice what it was in 1990. Nasdaq share volume over the first half of 1994 exceeded that of the New York Stock Exchange.

The Nasdaq Stock Market is a market that works well for both listed companies and investors alike.

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1735 K STREET NW WASHINGTON, DC 20006-1500 202-728-8000

Q: What is the "spread"?

A: The spread is the difference between the price at which a Market Maker will buy stock ("Bid") and the price at which a Market Maker will sell stock ("Ask" or "Offer").

The spread compensates Market Makers for the risk of holding, trading, and guaranteeing immediate and continuous access to the best available prices for Nasdaq-listed stocks. (On an auction market, the specialist's role is to match orders; the specialist will only commit capital to holding inventory as a last resort.)

The spread on Nasdaq also includes the cost of research and market technology – Nasdaq Market Makers know Nasdaq stocks and provide information on stocks they trade through research reports, a service auction market specialists are prohibited from providing. Market Makers' profits and losses are also reflected in the spread.

Q: Are spreads wider on The Nasdaq Stock Market?

A: Keep in mind the term "spread" can be used two ways; to describe quotes (which only open the negotiation of a trade), or to describe prices of executed trades.

Recent negative publicity has focused on quoted spreads as being "wide." These arguments don't recognize the key issue of the price at which the trade actually executes – how much investors pay or receive. Trade executions occur within the spread during trading negotiation all the time. In fact, 95.5% of Nasdaq trades actually execute at or within the spread.

The academic study mentioned above, together with some recent media reports, have focused on quoted spreads, which demonstrates a lack of understanding of how The Nasdaq Stock Market works. Nasdaq challenges both the conclusion of this study and the methodology. Here is an explanation of some key points:

- The year selected for the study, 1991, was a period of investor uncertainty in the marketplace with the country involved in the Persian Gulf War, and the economy in a period of recession.
- The focus of the study was the lack of odd-eighth quotes by Market Makers, not executed trades. During the period under consideration, actual trades were executed at both odd-eighth and even-eighths throughout the trading day.
- Substantial changes in the Nasdaq market structure have taken place since the time of the study, including a new short sale rule, changes in the system for small order execution, and passive Market-Making for secondary offerings – all of which have led to a significant reduction in spreads.
- The study ignores fundamental differences in the operations of Nasdaq and a traditional exchange, and overlooks the fact that quotes on exchanges may be good for only a small fraction of a large order, not its entirety. For the investor, this means you can trade more shares at one quoted price than you can on an auction market. Numerous independent academic studies have found liquidity (the dollar volume required to move a stock price by one percent) greater for Nasdaq-listed securities than for comparable exchange-listed issues.