

Special Notice to Members

SEPTEMBER 2002

SUGGESTED ROUTING

Executive Representatives
Senior Management

INFORMATIONAL

Board of Governors Nominees Nominees for NASD Board of Governors

KEY TOPICS

NASD Board of Governors

The Annual Meeting of members of NASD will be held on December 5, 2002. The formal notice of the meeting, including the precise date, time, and location of the Annual Meeting, will be mailed on or about November 4, 2002.

The individuals nominated by the NASD National Nominating Committee (NNC) for election to the NASD Board of Governors are identified in this *Special Notice*. Pursuant to Section 10 of Article VII of the NASD By-Laws, a person who has not been so nominated for election to the Board of Governors may be included on the ballot for the election of Governors if:

- (a) within 45 days of the date of this *Special Notice* such person presents to the Secretary of NASD petitions in support of such nomination duly executed by at least 3 percent of the members of NASD. As of the date of this *Special Notice*, NASD has 5469 voting members; therefore, the applicable 3 percent threshold is 164 members. If, however, a candidate's name appears on a slate of nominees, the slate must be endorsed by 10 percent of NASD's voting members. The applicable 10 percent threshold is 546 members; and
- (b) the Secretary certifies that such petitions have been duly executed by the Executive Representatives of the requisite number of members of NASD, and the person being nominated satisfies the classification of the governorship to be filled based on the information provided by the person as is reasonably necessary for the Secretary to make the certification.

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Pursuant to Article VII, Section 4, of the NASD By-Laws, the NASD Board must consist of no fewer than 17 and no more than 27 Governors. The By-Laws also provide that the number of Governors within the range is set by the Board. In recent years, the Board has operated at its maximum size of 27. However, on August 13, the Board determined to set the size of the Board at 24, effective with the December 5, 2002 Annual Meeting. As a result, on December 5, the members will elect eight Governors.

Article VII, Section 5(d), of the NASD By-Laws requires the Board to fix the term of persons being nominated. Recently, the NASD Board determined that the current NASD Board members who simultaneously serve on the NASDAQ Board of Directors and who are eligible to serve an additional term on the NASD Board would, if re-elected, serve one additional year on the NASD Board or until NASDAQ is able to operate other than as a facility of NASD, whichever occurs first. Of the eight Governors whose terms are expiring, three are presently members of the NASDAQ Board and are eligible to serve an additional term on the NASD Board.

The three are H. Furlong Baldwin, Richard C. Romano, and Hardwick Simmons,¹ and they have been nominated by the NNC to serve an additional term on the Board. The Board also determined that the other five positions will serve for the traditional three-year term.

Questions regarding this *Special Notice* may be directed to:

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NASD Board of Governors Nominees

The following three persons (see attached profiles) have been nominated by the NNC to serve on the Board of Governors of NASD for a term of **one year**, or until NASDAQ is able to operate other than as a facility of NASD, whichever occurs first. These individuals currently serve simultaneously on the NASDAQ Board. Terms of office for all nominees who simultaneously serve on the NASDAQ Board run from December 5, 2002 to December 2003.

Terms of Office 2002-2003

INDUSTRY

Richard C. Romano	President, Romano Brothers & Co.
Hardwick Simmons	Chairman and CEO, The NASDAQ Stock Market, Inc.

NON-INDUSTRY

H. Furlong Baldwin	Chairman, Mercantile Bankshares Corporation
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The following five persons (see attached profiles) have been nominated by the NNC to serve on the Board of Governors of NASD for a term of three years or until their successors are duly elected or qualified. Terms of office run from December 5, 2002 to December 2005.

Terms of Office 2002-2005

INDUSTRY

M. LaRae Bakerink	Chief Executive Officer, Westfield Bakerink Brozak, LLC
David A. DeMuro ²	Managing Director, Director of Global Compliance and Regulation, Lehman Brothers, Inc. (Representative of a National Retail Firm)

NON-INDUSTRY

John J. Brennan	Chairman and CEO, The Vanguard Group, Inc. (Representative of an Issuer of Investment Company Shares)
Eugene M. Isenberg	Chairman and CEO, Nabors Industries, Inc.

PUBLIC

Kenneth M. Duberstein	Chairman and CEO, The Duberstein Group, Inc.
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NASD Profiles of Board Nominees for Industry Governors

Industry

M. LaRae Bakerink is Chief Executive Officer of Westfield Bakerink Brozak, LLC. Ms. Bakerink currently serves on the Board of Directors and serves as President for the National Association of Independent Broker Dealers. Ms. Bakerink holds a B.S. and an M.B.A. from San Diego State University.

David A. DeMuro currently serves as Chair of the National Adjudicatory Council (2001-2002). He is Managing Director, Director of Global Compliance and Regulation at Lehman Brothers. Mr. DeMuro joined Lehman Brothers in 1984. Prior to that, he held various positions with the Securities and Exchange Commission in Detroit, Chicago, Los Angeles, and Washington, DC. Mr. DeMuro is a current member of the NASD Membership Committee and the NASD Licensing and Registration Council. He has been a member of the Executive Committee of the Securities Industry Association's Compliance and Legal Division and Chairman of the Securities Industry/Regulatory Council on Continuing Education. He currently serves on the NYSE's content committee for the Continuing Education Regulatory Element supervisor's program and the advisory board of *The Journal of Investment Compliance*, a publication of Institutional Investor, Inc. Mr. DeMuro is also a member of the Board of Trustees of the Theta Xi Fraternity Foundation. He holds a B.A. from the University of Michigan and a J.D. from the University of Notre Dame.

Richard C. Romano is President of Romano Brothers & Company, having joined the firm in 1964. Mr. Romano has served on the Industry/Regulatory Council for Continuing Education, the NASD District Committee, and the NASD Board of Governors (1985-1988). Mr. Romano has also served on the NASD National Nominating Committee and the NASD Small Firm Advisory Board. He holds a B.S. from the University of Illinois and an M.S. and Ph.D. from the University of Delaware.

Hardwick Simmons is Chairman and Chief Executive Officer of The NASDAQ Stock Market, Inc. Mr. Simmons joined NASDAQ in February 2001 as Chief Executive Officer, and was elected Chairman of the Board on September 26, 2001, succeeding Frank G. Zarb. Prior to joining the company, Mr. Simmons served from May 1991 to December 2000 as President and Chief Executive Officer of Prudential Securities, Incorporated, the investment and brokerage firm. Prior to joining Prudential Securities in 1991, Mr. Simmons was President of the Private Client Group at Shearson Lehman Brothers, Inc. Mr. Simmons is a member and former Chairman of the Securities Industry Association, a former Director of the Chicago Board Options Exchange, and former President and current member of The Bond Club of New York, Inc. He is a Director and executive committee member of the New York City Partnership and serves on the Board of the National Academy Foundation. Mr. Simmons is President of the Board of Trustees of the Groton School and a trustee of the Rippowam Cisqua School in Mt. Kisco, New York. He has an A.B. from Harvard University, a M.B.A. from Harvard Business School, and served in the U.S. Marine Corps Reserve.

NASD Profiles of Board Nominees for Non-Industry Governors

Non-Industry

H. Furlong Baldwin is Chairman of the Mercantile Bankshares Corporation. Mr. Baldwin joined Mercantile-Safe Deposit & Trust Company in 1956 and was elected President in 1970 of Mercantile-Safe Deposit & Trust Company and Mercantile Bankshares Corporation, and served as CEO from 1976 - 2001. Mr. Baldwin serves on the Boards of W. R. Grace & Company, Wills Group, and NASDAQ. Mr. Baldwin graduated from Princeton University and served on active duty with the U.S. Marine Corps.

John J. Brennan is Chairman and Chief Executive Officer and a member of the Board of Directors of each of the mutual funds in the Vanguard Group. Mr. Brennan joined Vanguard in July 1982. He was elected President in 1989, Chief Executive Officer in 1996, and Chairman of the Board in 1998. Prior to his career at Vanguard, Mr. Brennan had been employed at S.C. Johnson & Son in Racine, Wisconsin and the New York Bank of Savings. Mr. Brennan is the past Chairman of the Investment Company Institute and is a Trustee of the Financial Accounting Foundation. He graduated from Dartmouth College in 1976 with an A.B. degree, and received an M.B.A. from the Harvard Business School in 1980.

Eugene M. Isenberg is Chairman and Chief Executive Officer of Nabors Industries, Inc., a position he has held since 1987. He serves as a Director of the American Stock Exchange and also Danielson Holding Corporation, an insurance holding company. Mr. Isenberg is also a member of the National Petroleum Council, which is an advisory panel to the United States Department of Energy. From 1969 to 1982, Mr. Isenberg was Chairman of the Board and principal shareholder of Genimar, Inc., a steel trading and building products manufacturing company, which was sold in 1982. From 1955 to 1968, Mr. Isenberg was employed in various management capacities with the Exxon Corporation. Mr. Isenberg is the founder and principal sponsor of the Parkside School for children with learning disabilities and has established the Eugene M. Isenberg Scholarships at the University of Massachusetts where the School of Management is named after him. He was an instructor at Princeton University from 1951 to 1952 and served as an officer in the U.S. Navy from 1952 to 1955. Mr. Isenberg holds a B.A. from the University of Massachusetts and an M.A. from Princeton University in 1952. Mr. Isenberg completed the program for Senior Executives at M.I.T.

NASD Profile of Board Nominee for Public Governor

Public

Kenneth M. Duberstein is Chairman and Chief Executive Officer of The Duberstein Group. Prior to this, Mr. Duberstein served as Chief of Staff to President Ronald Reagan from 1988 to 1989. During President Reagan's two terms in office, Mr. Duberstein also served in the White House as Deputy Chief of Staff (1987), as well as both the Assistant and the Deputy Assistant to the President for Legislative Affairs (1981 to 1983). Mr. Duberstein currently serves on the Board of Governors of the American Stock Exchange and on the Board of Directors of Boeing Company, Conoco, Fannie Mae, Fleming, and The St. Paul Companies, Inc. He is Vice Chairman of the Kennedy Center for the Performing Arts. Mr. Duberstein holds an A.B. from Franklin and Marshall College and an M.A. from American University.

Governors with Terms Expiring in 2002

Industry

M. LaRae Bakerink	Chief Executive Officer, Westfield Bakerink Brozak, LLC
David A. DeMuro	Managing Director and Director of Global Compliance Regulation, Lehman Brothers, Inc.
Richard C. Romano	President, Romano Brothers & Co.
Hardwick Simmons	Chairman and CEO, The NASDAQ Stock Market, Inc.

Non-Industry

H. Furlong Baldwin	Chairman, Mercantile Bankshares Corporation
Eugene M. Isenberg	Chairman and CEO, Nabors Industries, Inc.
James F. Rothenberg*	President, Capital Research and Management Company

Public

Kenneth M. Duberstein	Chairman and CEO, The Duberstein Group, Inc.
Donald J. Kirk*	
John D. Markese*	President, American Association of Individual Investors

* Not eligible for re-election

Governors with Terms Expiring in 2003

Industry

William C. Alsover, Jr. Chairman, Centennial Securities Company, Inc.

Non-Industry

Arvind Sodhani* Vice President and Treasurer, Intel Corporation

Public

Brian T. Borders, Esq. Mayer, Brown, Rowe & Maw

Sharon P. Smith Dean, College of Business Administration, Fordham University

Governors with Terms Expiring in 2004

Industry

John W. Bachmann Managing Partner, Edward D. Jones & Company

Richard F. Brueckner Chief Operating Officer, Pershing Division of Credit Suisse First Boston

Raymond A. Mason Chairman & CEO, Legg Mason Wood Walker, Inc.

Non-Industry

Harry P. Kamen* Retired Chairman and Chief Executive Officer, Metropolitan Life Insurance Company

Public

James E. Burton Chief Executive Officer, California Public Employees' Retirement System

Sir Brian Corby Chairman (retired), Prudential Assurance Company

James R. Rutherford, Jr. President and CEO, Moody's Corporation

* Not eligible for re-election

Endnotes

- 1 Hardwick Simmons was appointed to the NASD Board in 2001 to replace Arthur Rock who resigned.
- 2 Governor DeMuro currently serves on the NASD Board as Chair of the National Adjudicatory Council (NAC). His term as Chair of the NAC expires in 2002. In accordance with Article VII, Section 5(b) of the NASD By-Laws, after serving as Chair of the NAC, an individual is eligible to serve as a Governor elected by the members of NASD.

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