AMERICAN STOCK EXCHANGE®
Equities Options ETFs

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Executive Summary

As part of our participation in the Penny Pilot Program ("Pilot"), the American Stock Exchange ("Exchange") has committed to the Securities and Exchange Commission ("Commission" or "SEC") that it would produce several reports analyzing the impact of the Pilot. Specifically the reports should assess spreads, quoted size, volumes, quote traffic and any other factors the Exchange feels are relevant. The reports are designed to better understand the impact of reducing the minimum price variations ("MPVs") for quoting and trading options and should serve as the basis for determining how to proceed in expanding the Pilot. This will be the second report on the Pilot to date and will cover the period May 1, 2007 to September 27, 2007.

Throughout this report reference will be made to different time periods defined as follows:

- Pre-Pilot: November 1, 2006 to January 31, 2007 – data captured during this time period forms the baseline statistics for the Pilot securities
- Phase I: February 9, 2007 to April, 30, 2007
- Phase II: May 1, 2007 to September 27, 2007

As described in our first report dated June 8, 2007 (the "First Report"), there has been and continues to be a reduction in the quoted spread width. When considering the effects of the reduced MPVs, we see that the quoted NBBO spread (for all 13 Pilot securities weighted by open interest) declined from $.09 in the Pre-Pilot period to $.04 in Phase I. Phase II saw a slight widening of the spread to $.05 and further reduction in quoted size as a result of the increased volatility that we have seen in the markets, particularly in August. The spread contraction of approximately $.04 to $.05 was fairly consistent irrespective of whether the series was quoted with a $.01 MPV or $.05 MPV. Phase II further confirmed our previous findings that the most meaningful reductions occurred in the lowest priced series, particularly those series trading under $1.00. For series where the bid price was between $.01 and $1.00 we saw an average NBBO spread of $.02 in Phase II, compared to $.02 and $.07 in Phase I and the Pre-Pilot periods respectively. The $.05 spread reduction represents a savings of 10% when compared to the midpoint of the premium range – in this case $.50. For series in the premium range $1.00 to $2.00, the spread reduction of $.04 represents a savings of 2.6% as compared to the $1.50 midpoint of the premium range. The next range of premiums, $2.00 to $3.00, continues to see the same $.05 spread reduction in Phase II as seen in Phase I for a savings of 2% versus the $2.50 midpoint of the premium range. The final band of premiums considered in the analysis was for series that were bid between $3.00 and $5.00. Here too, the spread reduction in Phase I and Phase II was a consistent $.05, representing a savings of 1.25% when compared to the $4.00 midpoint of the premium range. Clearly the majority of the economic benefit to investors is found in the lowest priced series. While there is some narrowing of the spread in premiums greater than $1.00, the benefit should be weighed against the reduction in quoted size at the NBBO and the increased costs to the industry to process, disseminate and store the additional

quotes that result from the reduced MPV. It is the Exchange's view that strong consideration should be given to retaining $.01 MPVs for only series quoted under $1.00 and resetting the MPV to $.05 for series over $1.00 for the securities that are now in the Pilot. The reduction from $3.00 to $1.00 as the breakpoint for $.01 and $.05 MPVs for Pilot securities has already been suggested by other exchanges in their reports on Phase I of the Pilot. It should also be noted that series trading at less than $1.00 tend to be options with relatively low deltas. Lower delta options do not change much in value given a 1 unit change in the price of the underlying. As such, option series trading under $1.00 tend to experience fewer quote changes than higher priced options given a 1 unit change in the price of the underlying. By reducing the breakpoint from $3.00 to $1.00 the Exchange would expect a reduction in quote traffic while retaining the greatest savings in spread reduction.

As previously mentioned there continues to be a substantial drop in total size available at the NBBO. The total NBBO size for all series dropped 81% from 53,805 contracts to 10,280 contracts from the Pre-Pilot period to Phase I. Phase II saw a further drop to 8,548 contracts at the NBBO or a reduction of 84% from the Pre-Pilot period. The total NBBO size for series quoted in $.01 MPVs declined on average 87% versus a 74% decline in size for those series quoted in $.05 MPVs in Phase II relative to the Pre-Pilot period. The continuing decline in posted size raises concerns about the potential for driving institutional investors to alternative markets and instruments. Institutions play an important role in the listed options market, not the least of which is a generally excellent understanding of pricing theory which leads to better price discovery and ultimately better prices for retail investors as well. The impact of institutions in creating more efficient markets should not be underestimated and feedback from that user group should be sought out by the Commission in determining the best way forward with respect to further expansion of the Pilot.

Once again in Phase II overall volume numbers for the 13 Pilot securities as a whole are fairly robust. The Average Daily Volume ("ADV") for the 13 Pilot securities increased 61% to 721,621 contracts per day in Phase II compared to a 20% increase in all other options versus the Pre-Pilot period. A closer look however, reveals a confirmation of a trend seen in Phase I where the majority of the volume gains are attributable to 2 "index like" securities, specifically options on the ETF's, IWM and QQQQ. In fact, if you were to remove the effects of all the "index like" securities IWM, QQQQ, and SMH, the remainder of the Pilot securities experienced a 8% decline in ADV in Phase II as compared to the Pre-Pilot period. This is even more disconcerting when compared to overall Industry "ex penny" volume over the same time period. From the Pre-Pilot to Phase II, Industry options volume excluding the 13 Pilot securities increased 20%. This means that over the same time period, the ADV in the Pilot securities, excluding QQQQ, IWM and SMH, declined 28% on a relative basis. The declines in volume in the Pilot securities, excepting QQQQ, IWM, and SMH, are even more disconcerting when activity by participant category (Customer, Firm, and Market Maker) is examined. Customer ADV declined 47%, Firm ADV declined 22%, and Market Maker ADV declined 15% on a relative basis compared to Industry "ex penny" ADV. Based on this data alone, the Exchange respectfully submits to the Commission that expanding the Pilot beyond the 35 securities that currently comprise the Pilot would be premature. Further analysis of why some of the most actively traded options are now apparently falling out of favor needs to be done. The Exchange recommends that the 35 securities that currently comprise the Pilot remain the only securities in the Pilot pending further

study. The Exchange would utilize this time to develop criteria for removing securities from the Pilot as presently not enough data exists to make a sound recommendation.

Another area of great concern to the industry is the exploding growth of quote traffic, despite quote mitigation programs that have been in place at each of the options exchanges since participation in the Pilot began. For the Pilot securities, there was an increase of 146% in average daily quote rates as compared to the Pre-Pilot period. To be fair, instead of looking at quotes by underlying security it is better to look at average daily quotes per series. This mitigates the effect of different numbers of series that exist in one time period and not another. On this basis we still see an increase of 89% in average daily quotes per series in Phase II versus the Pre-Pilot period. As noted in our prior report, a significant opportunity for mitigating quotes has gone untapped, specifically the notion of series mitigation. The SEC has left it to the options exchanges to determine what series are added in accordance with their own rules. The competitive nature of the industry is such that getting the options exchanges to voluntarily agree to mitigate series is unlikely. The Exchange believes the Commission should take a leadership role in establishing uniform rules under which new series are added, particularly at expiration. The quintessential example of the need for uniform rules is Rambus Inc. (RMBS). As of October 22, 2007 the stock is trading @ $19.90. A look at an options chain reveals strike prices from $2.50 to $100 for this $20 stock that has a 5 year range from $6.50 to $44.00. Month after month one exchange lists the full gamut of strike prices simply because they existed in the expiring month. Month after month the other exchanges are compelled for competitive reasons to follow suit. It makes no logical sense but it takes place each and every month. If done correctly, series mitigation should serve to better mitigate quote traffic than existing quote mitigation programs. The benefit will be seen in the industry's ability to offer investors additional trade-able series via an expansion of the $1 Strike Price Pilot. Eliminating the 5 delta far out-of-the-money options and the correspondingly deep 95 delta in-the-money options in favor of additional strikes at-the-money is something that the Exchange feels is a very worthwhile endeavor that would be beneficial to all constituencies involved in the options marketplace.

In Summary:

1. Spreads remain narrower in Phase II relative to the Pre-Pilot period. The greatest savings is realized in lower priced options series, specifically those trading under $1. It is the Exchange's recommendation that the new breakpoint for quoting be established at $1 versus $3 such that those securities participating in the Pilot are quoted in $.01 MPVs under $1 and $.05 MPVs over $1.
2. Total quoted size at the top of the book decreased sharply in all series and the most in series quoted in $.01 MPVs. This reduction in the top of book liquidity has quite possibly manifested itself in the form of reduced investor activity in the majority of the 13 Pilot securities. The Exchange feels that the impact on institutional investors can not yet be quantified and that feedback directly from that user group should specifically be sought out.
3. Volume growth once again has been limited to largely 2 of the 13 Pilot securities. In fact, excluding the 3 "index like" securities shows a 28% decline in ADV relative to overall Industry ADV net of Penny Pilot volume. For this reason and the need for more time to

develop sound criteria for the removal of securities from the Pilot, the Exchange recommends limiting the Pilot to the existing 35 securities pending further study.

4. Quote traffic continues to grow at significant rates despite quote mitigation strategies. Series mitigation may ultimately prove to be a better means of controlling quote traffic. With or without series mitigation, the Exchange feels that reducing the breakpoint from $3.00 to $1.00 for $.05 vs $.01 MPVs will help alleviate quote traffic while retaining the majority of the savings to investors in quoted spread costs.

Methodology Overview

The Exchange was concerned with getting the most accurate and meaningful data possible out of the Pilot. To that end, we developed a fairly robust methodology for capturing and subsequently analyzing various metrics. OPRA data was used in compiling all of the quote-related statistics. Volume related statistics were derived from OCC volume files.

Summary Statistics Described

Each series associated with an underlying security in the Pilot was categorized based on the NBBO bid price throughout the trading day. The data was then analyzed each day with the following summary statistics produced at days end

NBBO Quotes
Count Of Series Priced $.00
Count Of Series Priced Above $.00
Count Of Series Priced $.01 to $1.00
Count Of Series Priced $1.00 to $2.00
Count Of Series Priced $2.00 to $3.00
Count Of Series Priced $3.00 to $5.00
Count Of Series Priced Above $5.00
Count Of Option Series

Open Interest Total For Series Priced $.00
Open Interest Total For Series Priced Above $.00
Open Interest Total For Series Priced $.01 to $1.00
Open Interest Total For Series Priced $1.00 to $2.00
Open Interest Total For Series Priced $2.00 to $3.00
Open Interest Total For Series Priced $3.00 to $5.00
Open Interest Total For Series Priced Above $5.00
Open Interest Total For All Series

Average Bid Size For All Series Priced $.00
Average Bid Size For All Series Priced Above $.00
Average Bid Size For Series Priced $.01 to $1.00
Average Bid Size For Series Priced $1.00 to $2.00
Average Bid Size For Series Priced $2.00 to $3.00
Average Bid Size For Series Priced $3.00 to $5.00
Average Bid Size For Series Priced Above $5.00
Average Bid Size For All Series

Average Ask Size For All Series Priced $.00
Average Ask Size For All Series Priced Above $.00
Average Ask Size For Series Priced $.01 to $1.00
Average Ask Size For Series Priced $1.00 to $2.00
Average Ask Size For Series Priced $2.00 to $3.00
Average Ask Size For Series Priced $3.00 to $5.00
Average Ask Size For Series Priced Above $5.00
Average Ask Size For All Series

Open Interest Weighted Bid Size For All Series Priced $.00
Open Interest Weighted Bid Size For All Series Priced Above $.00
Open Interest Weighted Bid Size For Series Priced $.01 to $1.00
Open Interest Weighted Bid Size For Series Priced $1.00 to $2.00
Open Interest Weighted Bid Size For Series Priced $2.00 to $3.00
Open Interest Weighted Bid Size For Series Priced $3.00 to $5.00
Open Interest Weighted Bid Size For Series Priced Above $5.00

Open Interest Weighted Ask Size For All Series Priced $.00
Open Interest Weighted Ask Size For All Series Priced Above $.00
Open Interest Weighted Ask Size For Series Priced $.01 to $1.00
Open Interest Weighted Ask Size For Series Priced $1.00 to $2.00
Open Interest Weighted Ask Size For Series Priced $2.00 to $3.00
Open Interest Weighted Ask Size For Series Priced $3.00 to $5.00
Open Interest Weighted Ask Size For Series Priced Above $5.00

Open Interest Weighted Bid Size For All Series

Average Spread For All Series Priced $.00
Average Spread For All Series Priced Above $.00
Average Spread For Series Priced $.01 to $1.00
Average Spread For Series Priced $1.00 to $2.00
Average Spread For Series Priced $2.00 to $3.00
Average Spread For Series Priced $3.00 to $5.00
Average Spread For Series Priced Above $5.00
Average Spread For All Series

Daily Quotes Per Series
Number Of Quotes Per Day All Series

Open Interest Weighted Ask Size For All Series

Open Interest Weighted Spread For All Series Priced $.00
Open Interest Weighted Spread For All Series Priced Above $.00
Open Interest Weighted Spread For Series Priced $.01 to $1.00
Open Interest Weighted Spread For Series Priced $1.00 to $2.00
Open Interest Weighted Spread For Series Priced $2.00 to $3.00
Open Interest Weighted Spread For Series Priced $3.00 to $5.00
Open Interest Weighted Spread For Series Priced Above $5.00
Open Interest Weighted Spread For All Series

It is important to note that while utilizing a simple average across all series associated with an underlying security yields important information, it does not take into account the fact that some series are more actively traded than others. For that reason we decided to utilize open interest as a measure of investor activity and to weight important metrics such as size at the NBBO and the quoted spread width by open interest as well as calculating a simple average. One of the ancillary benefits of weighting by open interest rather than volume is that open interest is generally somewhat insulated from the effects of "strategy trades" whereas volume is not. For example, it is common to see hundreds of thousands and sometimes millions of contracts trade as part of a "strategy trade" against open interest of 50,000 contracts. The seemingly outsized volume as compared to the available open interest is a result of the random nature of exercises and assignments and an attempt by people entering into these "strategy trades" to capture as much of the open interest as possible. This is done by trading what is typically a spread involving deep in the money options and immediately exercising the long side of the spread so that the volume of 1,000,000 contracts will almost never show up in the open interest figures the next day despite seeing only 50,000 contracts of open interest the day the "strategy trade" took place. Additionally, any analysis which considers trades as part of the analysis is subject to distortion as a result of these strategy trades. For example, on June 19, 2007 we observed what appeared to be a short stock interest strategy trade, take place in AMD. Specifically, 10,004 Jan '08 30 Puts were either bought or sold for $16.40 at the same time 10,004 Jan '08 25 Puts were either sold or bought for $11.40 around 3:30 pm EST. The quoted market on the exchange where these trades took place immediately before the trades was $16.30 bid offered at $16.60 and $11.30 bid offered at $11.60 for the 30 strike and 25 strike puts respectively. Calculating an effective spread based on the above trading activity yields a result of $.10 (traded price vs spread midpoint times 2). The Exchange would argue that the riskless nature of "strategy trades" and the very low capped costs (as little as $100 per day regardless of volume executed) has increased the prevalence of these types of trades rendering any trade weighted measure such as effective spread of little or no use. Additional discussion relating to volumes resulting from "strategy trades" will follow in the section containing the Exchanges' observations on volume.

Once the daily summary statistics were compiled they were then aggregated for the pertinent time periods for each underlying security and averaged accordingly. Each day in the evaluation period was given equal weight in the averaging process.

Observations About The NBBO Quoted Spread Width

Classifying option series on the basis of where the bid price was observed to be allows for a better understanding of which series benefit the most from the reduction in the MPVs. The universe of the 13 Pilot securities when weighted by open interest, reveals that the quoted spread for all series regardless of price, declined from $.09 to $.05 in Phase II as compared to the Pre-Pilot period. This is slightly wider that what was observed in Phase I where the reduction in spread width was $.01 greater.

ALL 13 PILOT SECURITIES WEIGHTED BY OPEN INTEREST	Pre-Pilot Open Interest Weighted Spread	Phase I Open Interest Weighted Spread	Phase II Open Interest Weighted Spread	Premium Range Midpoint Value	Pre-Pilot Spread As A Percentage Of the Midpoint In Premium Range	Phase I Spread As A Percentage Of the Midpoint In Premium Range	Phase II Spread As A Percentage Of the Midpoint In Premium Range
Spread For All Series Priced $.00	$ 0.06	$ 0.02	$ 0.02	N/A			
Spread For All Series Priced Above $.00	$ 0.09	$ 0.04	$ 0.05	N/A			
Spread For Series Priced $.01 to $1.00	**$ 0.07**	**$ 0.02**	**$ 0.02**	**$ 0.50**	**13%**	**4%**	**5%**
Spread For Series Priced $1.00 to $2.00	**$ 0.08**	**$ 0.03**	**$ 0.04**	**$ 1.50**	**5%**	**2%**	**2%**
Spread For Series Priced $2.00 to $3.00	**$ 0.09**	**$ 0.05**	**$ 0.05**	**$ 2.50**	**4%**	**2%**	**2%**
Spread For Series Priced $3.00 to $5.00	**$ 0.15**	**$ 0.09**	**$ 0.10**	**$ 4.00**	**4%**	**2%**	**2%**
Spread For Series Priced Above $5.00	$ 0.17	$ 0.11	$ 0.14	N/A			
Spread For All Series	**$ 0.09**	**$ 0.04**	**$ 0.05**	N/A			

As seen in Phase I, the majority of the economic benefit accrues to buyers and seller of lower priced options when the spread is viewed as a percentage of the premium paid. Specifically, those buying and selling options priced under $1.00 saw a reduction from $.07 to $.02. The $.02 spread width compared to the midpoint of the premium range ($.50) is 5% as compared to 13% in the Pre-Pilot period. For other premium ranges such as the $1.00 to $2.00 range, the $2.00 to $3.00 range and the $3.00 to $5.00 range, the spread cost experiences a nominal reduction of approximately 2%. These observations form the basis for the Exchanges earlier recommendation that the breakpoint be reduced from $3.00 to $1.00 such that options in the Pilot are quoted in $.01 MPVs under $1.00 and $.05 MPVs above. Exhibit A contains detailed information on each of the 13 Pilot securities with respect to the quoted spread width.

Observations About Total Size At The NBBO

The total size at the NBBO (bid size plus ask size) further declined in Phase II as compared to Phase I and the Pre-Pilot period. As measured across the 13 Pilot securities for all series the total size declined 84%. For those series with $.01 MPVs the declines averaged approximately 87% while those series quoted in $.05 MPVs experienced declines of approximately 74% on average.

ALL 13 PILOT SECURITIES WEIGHTED BY OPEN INTEREST	Pre-Pilot NBBO Size	Phase I NBBO Size	Phase II NBBO Size	Phase I vs Pre-Pilot Difference In NBBO Size	Phase I vs Pre-Pilot Percentage Difference	Phase II vs Pre-Pilot Difference In NBBO Size	Phase II vs Pre-Pilot Percentage Difference
Total NBBO Size For All Series Priced $.00	24,267	7,328	4,808	(16,939)	-70%	(19,459)	-80%
Total NBBO Size For All Series Priced Above $.00	59,976	10,408	8,661	(49,568)	-83%	(51,315)	-86%
Total NBBO Size For Series Priced $.01 to $1.00	**83,704**	**12,382**	**11,585**	**(71,322)**	**-85%**	**(72,119)**	**-86%**
Total NBBO Size For Series Priced $1.00 to $2.00	**59,197**	**9,982**	**6,513**	**(49,215)**	**-83%**	**(52,684)**	**-89%**
Total NBBO Size For Series Priced $2.00 to $3.00	**33,728**	**6,334**	**4,791**	**(27,394)**	**-81%**	**(28,937)**	**-86%**
Total NBBO Size For Series Priced $3.00 to $5.00	**29,622**	**9,083**	**7,990**	**(20,539)**	**-69%**	**(21,633)**	**-73%**
Total NBBO Size For Series Priced Above $5.00	20,569	5,871	5,180	(14,698)	-71%	(15,389)	-75%
Total NBBO Size For All Series	**53,805**	**10,280**	**8,548**	**(43,526)**	**-81%**	**(45,257)**	**-84%**

The declines in individual names are detailed in Exhibit B. The reduction in quoted size or "screen liquidity" remains a significant risk in the Exchanges' opinion. The poor relative volume in all but the "index like" securities has us justifiably concerned that this reduction on size at the top of the book has driven many option investors into alternative products, which in our view is net negative relative to the aforementioned savings in spread costs, particularly in options priced over $1.00.

Observations About Volume

As noted earlier, volume resulting from dividend spreads, short stock interest and other "strategy trades" makes difficult the process of assessing the impact of the reduced MPVs on volumes in the Pilot securities. Without attempting to adjust for volume attributable to strategy trades, we still find the trend exhibited by trading volumes in the majority of Pilot securities not at all promising. Excluding the "index like" securities QQQQ, IWM and SMH, we found that the remaining 10 Pilot securities experienced a decline of 8% in ADV Phase II versus the Pre-Pilot period. It is important to note that the 20% growth in Industry ADV is net of the growth in the 13 Pilot securities which means that on a relative basis the 10 "non-index like" securities in the Pilot declined 28% on a relative basis compared to industry volume growth.

	Relative Percentage Change Vs Industry Ex Penny Volume Phase I vs Pre-Pilot				Relative Percentage Change Vs Industry Ex Penny Volume Phase II vs Pre-Pilot			
	Customer	Firm	Market Maker	Total	Customer	Firm	Market Maker	Total
WFMI	2%	-82%	-26%	-35%	-26%	-81%	-44%	-52%
GE	8%	-7%	-16%	-8%	7%	68%	13%	19%
MSFT	-37%	-29%	3%	-19%	-74%	-46%	-34%	-53%
A	3%	21%	40%	23%	-45%	-3%	0%	-18%
AMD	-8%	184%	65%	54%	-30%	49%	-4%	-5%
CAT	-19%	-37%	-13%	-19%	-40%	-58%	-24%	-35%
FLEX	-35%	75%	-24%	-20%	-52%	39%	-25%	-29%
INTC	-20%	-17%	7%	-8%	-53%	-36%	-24%	-38%
IWM	42%	48%	90%	64%	109%	81%	179%	133%
QQQQ	15%	-4%	58%	30%	13%	63%	92%	52%
SMH	38%	-14%	27%	20%	3%	-35%	0%	-9%
SUNW	-12%	-51%	42%	0%	9%	-32%	74%	24%
TXN	-9%	-52%	3%	-15%	-55%	-64%	-42%	-53%

	Relative Percentage Change Vs Industry Ex Penny Volume Phase I vs Pre-Pilot				Relative Percentage Change Vs Industry Ex Penny Volume Phase II vs Pre-Pilot			
	Customer	Firm	Market Maker	Total	Customer	Firm	Market Maker	Total
Penny Subtotal	10%	9%	46%	25%	14%	31%	71%	41%
ETF & HOLDRs Subtotal	21%	18%	65%	39%	21%	48%	62%	44%
Penny Ex ETF & HOLDRs Subtotal	**-18%**	**-7%**	**7%**	**-5%**	**-46%**	**-22%**	**-15%**	**-28%**
Industry Volume	1%	1%	5%	3%	2%	4%	8%	5%
Industry Ex Pennies Subtotal	0%	0%	0%	0%	0%	0%	0%	0%

Shaded cells denote declines

Of particular concern is the 46% relative decline in Customer volume in Phase II versus the Pre-Pilot period. The very people the Pilot is designed to benefit seem to be finding reasons to engage in options trading outside of the great bulk of the securities within the Pilot. Again, it would appear as if the reduction in quoted size seems to be having a detrimental impact on trading volumes. Investors are voting with their feet and taking their business elsewhere. Should enough of the business migrate to alternative, less transparent venues such as the OTC market, the long term impact on the listed options market will be negative.

A further discussion of volumes resulting from strategy trades is warranted. Particularly given the impact trades of this nature will have on a volume weighted analysis that might be performed. A particularly glaring example of the potential distortion from this trading activity can be seen in what appear to be an ongoing series of short interest trades involving deep in-the-money AMD puts expiring in January 2008. Specifically, in Phase II there have been in excess of 720,000 contracts that were traded as a result of apparent short stock interest trades. These 2 series alone, the Jan 2008 25 Puts and the Jan 2008 30 Puts account for more than 6,800 contracts ADV out of a total of 60,999 contracts ADV for all AMD series, or slightly more than 11% of AMD's daily option volume.

AMD Jan '08 25 & 30 Put Volume During Phase II

	AMEX	BOX	CBOE	ISE	NYSE ARCA	PHLX
AMD Jan '08 25 Puts	-	21	2,601	36	227,252	121,793
AMD Jan '08 30 Puts	-	39	16,008	4	247,178	125,981
Subtotals	-	60	18,609	40	474,430	247,774
ADV	-	1	176	0	4,476	2,337

These 2 series are fairly deep in-the-money given AMD's stock price of $13.10 as of 10-30-07. It is extremely unusual to see much if any retail investor activity in such deep in-the-money options – therefore making assertions about the benefit to retail investors about reductions in effective spreads when this type of trading activity occurs is flawed and potentially misleading. With some effort an attempt could be made to identify other volume resulting from such "strategy trades", though the accuracy of the results would be less than perfect. For this reason the Exchange feels that the Commission should seek to require that all options exchanges that offer fee caps, rebates or other economic incentives for executing "strategy trades" fully disclose any volume of this type. Then and only then can an effort be made to look at any volume weighted measures being used to judge the efficacy of the Pilot, whether those measures are effective spreads, quote to trade ratios, or a simple volume analysis. Exhibit C contains additional detail relating to trading activity in the AMD Jan'08 25 and 30 puts. Exhibit D looks at changes in ADV's both absolute and relative in the 13 Pilot securities.

Observations On Quote Traffic

The rate at which quote traffic continues to grow, despite quote mitigation programs, should be of concern to all industry participants. In Phase II we saw an increase of 89% in average daily quotes per series for the 13 Pilot securities as compared to the Pre-Pilot period. 5 of the Pilot securities experienced increases of more than 100% in average daily quotes per series. It is clear for volatile securities, that the ability for a human being to react to quote changes has been exceeded at times. At what point does the economic savings in spread costs become offset by the cost to create, process, mitigate, react to, and store the additional quotes associated with reduced MPVs? The Exchange is not suggesting a return to $.05 and $.10 MPVs but rather a more measured approach which attempts to strike a balance between the need to reduce spread costs while constraining the growth in quote traffic. As noted earlier the Exchange recommends a reduction in the breakpoint at which options are quoted in $.01 and $.05 MPVs from $3.00 to $1.00. At the same time, the Exchange recommends that the Commission form a committee comprised of the options exchanges, the OCC, members of the market making community, members of the institutional community, and members representing retail options investors. This committee would meet to attempt to determine a definitive rule set upon which new series are introduced for trading, particularly at expiration. By mitigating series, the Exchange believes that the industry will achieve a much greater rate of quote mitigation rather than trying to address the problem after the fact via quote mitigation. Once the effectiveness of series mitigation has been demonstrated, the same committee can then explore offering investors additional tradeable product with an expansion of the $1 Strike Price Pilot. Once the $1 Strike Price Pilot has had a chance to expand and co-exist with the existing Pilot then further

consideration can be given to expanding both Pilots. Exhibit “E” contains details on quote traffic for the 13 Pilot securities.

Observations On Trade Throughs

During the Pilot, the Exchange did not see any meaningful change in the amount or magnitude of trade throughs for orders executed on our Exchange. An examination of Linkage Orders from data provided by the Options Linkage Authority shows that the Exchange sent 0 Satisfaction Orders in the Pilot securities during the Pilot. At the same time the Exchange received 1 Satisfaction Order which was cancelled.