

MEMORANDUM

TO: Options Members and Member Organizations

FROM: William N. Briggs, Jr., Executive Vice President
Strategic Financial Management & Administration

DATE: January 25, 2007

SUBJECT: Payment for Order Flow Fee Change

The Exchange is filing, for immediate effectiveness, a proposed rule change with the Securities and Exchange Commission to decrease its payment for order flow fee from \$0.70 per contract to \$0.25 per contract only for the equity options listed below in connection with the implementation of a pilot program to quote and trade options in penny increments:

<u>Symbol</u>	<u>Underlying Security</u>	<u>Anticipated Effective Date (For Trades Settling on or After the Dates Set Forth Below):</u>
IWM	Ishares Russell 2000 Index Fund	February 12, 2007
SMH	SemiConductor Holders Trust	February 12, 2007
GE	General Electric Company	February 5, 2007
AMD	Advanced Micro Devices, Inc.	February 12, 2007
MSFT	Microsoft Corporation	February 5, 2007
INTC	Intel Corporation	February 12, 2007
CAT	Caterpillar, Inc.	February 12, 2007
WFMI	Whole Foods Market, Inc.	January 29, 2007
TXN	Texas Instruments Incorporated	February 12, 2007
A	Agilent Tech Inc.	February 12, 2007
FLEX	Flextronics International Ltd.	February 12, 2007
SUNW	Sun Microsystems, Inc.	February 12, 2007

For the Nasdaq-100 Index Tracking StockSM traded under the symbol QQQQ (“QQQQ”),¹ the payment for order flow fee will be decreased from \$0.75 to \$0.25, anticipated to be effective for trades settling on or after February 12, 2007.

Other than the rate changes described above, no other changes to the Exchange’s current payment for order flow program are being made at this time.

This proposal is to become effective for trades settling on or after the rollout date for each option listed above and will remain in effect until May 27, 2007.²

The Exchange determined to decrease the payment for order flow fees in the options listed above as the Exchange will be implementing a six-month pilot period beginning on January 26, 2007 during which certain options will be quoted and traded on the Exchange in minimum increments of \$0.01 for all series in such options with a price of less than \$3.00, and in minimum increments of \$0.05 for all series in such options with a price of \$3.00 or higher, except that options overlying the QQQQ will be quoted and traded in minimum increments of \$0.01 for all series regardless of the price.

If you have any questions, please contact me at (215) 496-5199.

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² The Exchange’s payment for order flow program is currently in effect until May 27, 2007.