

MEMORANDUM

TO: Members and Member Organizations

FROM: John Dayton

DATE: March 21, 2007

RE: MDY – MidCap SPDR to Trade Pursuant to UTP on XLE

On Thursday, March 22, 2007, the Philadelphia Stock Exchange ("Exchange" or "Phlx") will commence trading on XLE in the exchange-traded fund listed below on an unlisted trading privileges ("UTP") basis. This memo reviews the various rules and policies that apply to trading in this fund, the MidCap SPDR Trust, Series 1 ("Fund" or "Trust") pursuant to UTP.

<u>Fund Name</u>	<u>Symbol</u>	<u>CUSIP</u>	<u>Index Name</u>
MidCap SPDR Trust, Series 1	MDY	595635103	Standard & Poor's MidCap 400 Index

Background Information on the Funds

As more fully explained in the Prospectuses for the Trust, the Trust is an investment company registered under the Investment Company Act of 1940, as amended ("1940 Act"). The investment objective of the Fund is to replicate, as closely as possible, before fees and expenses, the price and yield performance of the index, specified above. The Fund will generally invest in all, or in as many as practicable, of the securities comprising the index in the same proportion as in the index. PDR Services LLC is the sponsor for the Funds. ALPS Distributors, Inc. is the distributor for the Fund ("Distributor"). The Bank of New York is the trustee of the Fund ("Trustee").

As described more fully in the Trust's Prospectuses, the Fund offers and issues shares ("Shares") at their net asset value ("NAV") only in aggregations of 25,000 Shares (each, a "Creation Unit Aggregation"), generally in exchange for a basket of equity securities included in the underlying index, together with the deposit of a specified cash payment. The Shares are redeemable only in Creation Unit Aggregations, and, generally, in exchange for portfolio securities and a specified cash payment. Except when in Creation Units Aggregations, the Shares may not be redeemed with the Funds.

Other Information about the Fund

The Depository Trust Company ("DTC") serves as securities depository for the Shares, which may be held only in book-entry form; stock certificates will not be issued.

DTC, or its nominee, is the record or registered owner of all outstanding Shares of the Fund.

The Custodian calculates the Fund's NAV at the close of the regular trading (normally, 4:00 p.m. Eastern Time) every day that the New York Stock Exchange ("NYSE") is open for business (a "Business Day").

The value of the Index is disseminated to data vendors every 15 seconds. The Fund's Shares will trade on the Phlx from 8:00 a.m. until 6:00 p.m. (Eastern Time). The Core Session for the Fund's Shares will end at 4:15 p.m. The trading increment for the Fund's Shares set is in Phlx Rule 125 and currently is \$0.01 for orders priced at \$1.00 or greater and \$0.0001 for orders priced at less than \$1.00.

Creation and Redemption Process

Creation Units are issued by the Trust to anyone who, after placing a creation order with the Distributor, deposits with the Trustee, a specified portfolio of securities in the index ("Index Securities") and a cash payment generally equal to dividends (net of expenses) accumulated up to the time of deposit. Creation Units are redeemable in kind only and are not redeemable for cash. Upon receipt of one or more Creation Units, the Trust delivers to the redeeming holder a portfolio of Index Securities (based on NAV of the Trust), together with a cash payment. Each redemption has to be accompanied by a Cash Redemption Payment that on any given Business Day is an amount identical to the cash component of a portfolio deposit.

The Trust's Prospectus describes additional procedures and requirements that apply to creations and redemptions of Shares. Fund transaction fees apply to creations and redemptions and are set forth in the Prospectus.

Investment Risks

Members and member organizations are referred to the Trusts' Prospectuses for a description of risks associated with an investment in the Shares. These risks include the risk that the Fund's return may not match the return of the applicable index for a number of reasons. For example, certain operating expenses and costs incurred by the Fund do not apply to the index. Returns for the Fund may therefore deviate from those of the index. In addition, as noted in the Prospectus, the Shares may trade at market prices that differ from the Shares' NAV. The NAV of the Shares will fluctuate with changes in the market value of the Fund's securities holdings. The market prices of the Shares will fluctuate in accordance with changes in the Fund's NAV as well as the supply and demand for the Shares.

Suitability

Members and member organizations are reminded of the requirements of Phlx Rule 746 (Diligence as to Accounts), which requires every member, either personally or

through a general partner or an officer who is a holder of voting stock in his organization to use due diligence to learn the essential facts relative to every customer and to every order or account accepted by his organization. Members and member organizations recommending transactions in the Shares to customers should make a determination that such transactions are not unsuitable for such customers.

Members and member organizations are reminded of the requirements of Phlx Rule 747 (Approval of Accounts), which says no member organization shall make any brokerage transactions for the account of a customer unless, prior to the completion thereof, a general partner or an officer who is a holder of voting stock in such organization shall have specifically approved the opening of such account, provided, however, that in the case of branch offices the opening of an account for a customer may be approved by the manager of such branch office but the action of such branch office manager shall within a reasonable time be approved by a general partner or an officer who is a holder of voting stock in such organization. The member, general partner or officer approving the opening of an account shall, prior to giving his approval, be personally informed as to the essential facts relative to the customer and to the nature of the proposed account and shall indicate his approval in writing on a document which will become part of the records of his office or organization.

Trading Halts

Trading in the Shares will be halted if the circuit breaker parameters of Phlx Rule 133 have been reached. In addition, trading in the Shares may be halted when such a halt would be in the public interest, pursuant to Phlx Rule 164(a).

Delivery of Product Description and Prospectuses

Phlx Rule 803(i)(3) requires that members and member organizations provide to all purchasers of a series of the Trust a written description of the terms and characteristics of such securities, in a form prepared by the open-end management investment company issuing such securities, not later than the time a confirmation of the first transaction in the shares is delivered to such purchaser. In addition, members and member organizations shall include such a written description with any sales material relating to the Shares that is provided to customers or the public. Any other written materials provided by a member or member organization to customers or the public making specific reference to the Shares as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of [the series of Trust Shares] is available from your broker. It is recommended that you obtain and review such circular before purchasing [the series of Trust Shares]. In addition, upon request you may obtain from your broker a prospectus for [the series of Trust Shares]." A member or member organization carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase Shares for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to members and member

organizations under this rule. Upon request of a customer, the member or member organization shall also provide a prospectus for the particular series Shares.

Exemptive, Interpretive and No-Action Relief Under Federal Securities Regulations

The SEC has issued exemptive, interpretive and no-action relief from certain provisions of and rules under the Securities and Exchange Act of 1934 regarding trading in the Fund.

Short Sale Rule (Rule 10a-1)

The SEC has granted an exemption from Rule 10a-1 to permit short sales of the Shares on a minus or zero-minus tick. **The Exchange emphasizes that members effecting short sales must make prior arrangements to borrow the securities.**

Rule 10b-10 (Customer Confirmations)

The SEC has granted an exemption from Rule 10b-10 that will permit broker-dealers who create or redeem Shares on behalf of their customers to confirm such creation or redemption transactions without providing a statement of the identity, price and number of shares of each individual component security tendered to or delivered by the Fund pursuant to the creation or redemption transaction. This exemption, which does not apply to secondary market trading, is subject to certain conditions, including that any confirmation statement of a creation or redemption transaction that omits any of the information specified in Rule 10b-10(a) will contain a statement that such omitted information will be provided to the customer upon request; that all such requests will be fulfilled in a timely manner; and that confirmation statements of creations and redemptions will contain all information specified in Rule 10b-10(a) other than identity, price, and number of shares of each component security tendered or received by the customer in the transaction.

Section 11(d)(1); Rule 11d1-2 (Customer Margin)

The SEC has taken a no-action position under Section 11(d)(1) that will permit broker-dealers that do not create Shares but engage in both proprietary and customer transactions in such Shares exclusively in the secondary market to extend or maintain or arrange for the extension or maintenance of credit on the Shares, in connection with such secondary market transactions. For broker-dealers that engage in the creation of Shares, the SEC has also taken a no-action position under Rule 11d1-2 that will cover the extension or maintenance or the arrangement for the extension or maintenance of credit on the Shares that have been owned by the persons to whom credit is provided for more than 30 days.

Rule 15c1-5 and 15c1-6 (Disclosure of Control and Interest in Distributions)

The SEC has taken a no-action position under Rule 15c1-5 that will permit a broker-dealer to execute transactions in Shares without disclosing any control relationship with an issuer of a component security. In addition, the SEC has taken a no-action position under Rule 15c1-6 that will permit a broker-dealer to execute transactions in the Shares without disclosing its participation or interest in a primary or secondary distribution of a component security.

Questions regarding XLE functionality may be directed to the XLE Help Desk at (215) 496-5311 or 1-877-678-PHLX. Questions regarding the security may be directed to Lori Mann at (215) 496-5472