

THE AMERICAN STOCK EXCHANGE AUCTION AND ELECTRONIC MARKET INTEGRATION (AEMISM) PLATFORM

A Seamless Integration of the Auction Market and Electronic Market

The Best of Both Marketplaces

The American Stock Exchange's Auction and Electronic Market Integration (AEMISM) platform is a state-of-the-art trading platform scheduled to launch in fourth quarter 2006. AEMI will not only make the Exchange more technologically competitive and help ensure that the Amex qualifies as an automated trading center but it will also unite the best qualities of the electronic market and the auction market. AEMI will offer the execution speed of an ECN and continue to support auction market capabilities at times of order imbalances, complex trades, or when natural liquidity cannot be found. With AEMI, Amex customers will have more trading alternatives plus speed, flexibility, and functionality.

Amex is committed to providing its customers the very best technology and the highest quality marketplace. AEMI has been constructed according to these principles. AEMI gives investors instantaneous trading and, when desired, the specialized attention that floor traders can offer.

Status and Developments of AEMI

- Amex has been working closely with its customers and floor participants to develop the hybrid market structure and the optimal trading functionality for AEMI. The rules associated with Amex's proposed hybrid market structure have been filed with the Securities and Exchange Commission. The Amex's SEC filings are available on the Exchange's website (www.amex.com/aemi).
- Since April 2004, Amex has been developing and customizing existing licensed software, which will form AEMI's core trading system and support the Exchange's proposed hybrid market structure. The AEMI platform will be delivered through a series of functional releases throughout the remainder of this year. Amex is already testing the first five of nine releases of application software for AEMI and will introduce the pre-production working system to the trading floor during the fourth quarter of this year. Amex is also upgrading and introducing new trading support tools for floor brokers and booths that interact with AEMI.
- Amex intends to qualify as an automated trading center under Regulation NMS, and offer automated and immediate execution for all equity securities

traded on the Exchange. Irrespective of the timing of Regulation NMS implementation, Amex will commence deployment – with SEC approval - in fourth quarter 2006 for equities and exchange-traded funds. Options and bond products will be integrated thereafter.

Key Attributes of AEMI and Amex's Hybrid Market Structure

- AEMI will provide Amex customers with a hybrid market structure that integrates both automated execution and floor-based trading. This functionality greatly increases execution speed and enhances trading efficiency and flexibility that is called for by the Exchange's increasingly diverse trading community.
- Market participants will be able to choose the execution path and method that best suits their trading needs for an individual order. They will have a choice of automated execution with potential for price improvement, floor representation and/or auction representation. Amex will also migrate to Financial Information eXchange (FIX) messaging, allowing customers to access AEMI using industry-standard protocol.
- Specialists will continue to play a central role in Amex's marketplace, bringing liquidity and stabilization to the market by maintaining competitive quotes under their affirmative obligations, offering price improvement, managing auctions and adding resident liquidity on the AEMI book at multiple price levels.
- Market Makers will individually add liquidity to exchange traded funds through the provision of multiple two-way quotes. They will also be able to provide liquidity at multiple price points for added depth and trading opportunities.
- Both Specialists and Market Makers will be permitted to offer price improvement inside the quote that will interact with customer order flow. All price improvement opportunities for automated execution will be resident in the electronic environment prior to the arrival and processing of an incoming order. To ensure that price improvement is meaningful, the opportunities to price improve are tied to the competitiveness of the Specialist or Market Maker's quote at the time of the trade.
- Floor Brokers will continue to provide value-added services through their proximity to the point-of-sale participation in auctions, trading on parity, and provision of liquidity to the electronic environment. Floor Brokers will participate both in person and electronically, using enhanced tools that give up-to-the-minute information and flexibility to support their trading judgment. Floor Brokers will trade both verbally and electronically as crowd members

and they will layer liquidity in the book through “reserve orders” whilst ensuring the confidentiality of their order flow and trading style. Access to automated execution will remain constant and will be limited only in times of excessive volatility in the marketplace by the trigger of pre-defined and published trading tolerances. When a tolerance is triggered by an imbalance or volatility in the marketplace, the auction market will provide liquidity and stabilization to maintain market quality. Orders in the automated environment and floor participants all participate in the auction process, a unique combination that offers stability and deep cost savings for investors.

- Operating under Reg NMS, the Amex will immediately process incoming orders and access better away quotes of automated market centers if price improvement is unavailable at the Amex. Since speed is not the only parameter by which execution is judged, floor participants will also be able to access markets publishing manual quotes, in the event that an opportunity to participate in another market’s auction arises. This will give the floor participants the maximum flexibility to operate in both Amex’s own and other hybrid markets.

Key Benefits of AEMI

- *For Amex Investors:*

AEMI offers investors a choice of trading styles that combine speed and price discovery. The tight integration of the automated environment with the auction market ensures that the investor can preference one trading style over the other but may participate in both. The addition of individual participants providing quotes and the ability to layer the book with resident functionality will provide unqualified depth and competitiveness to the marketplace. The proactive provision of price improvement ensures tighter spreads, deeper liquidity, better prices and therefore higher levels of stability.

- *For Amex-Listed Issuers:*

Because AEMI is a hybrid trading platform, Amex listed issuers will enjoy the best of both trading worlds. AEMI supports trading in every type of security, whether a stock, exchange trade fund or closed-end fund, trades over one million shares a day or less than one thousand shares. AEMI’s flexible design can seamlessly move as the market dictates, from automatic, instant matching of orders to a specialist-led auction that brings together buyers and sellers. The combined forces of superior technology and the specialist’s affirmative obligation will cover all trading situations. The system’s state-of-the-art structure will provide shareholders - both institutional and private - with the unique capability to have their trades handled in the most efficient manner available today. Issuers will benefit from a higher level of comfort and confidence in their security’s marketplace. Moreover, with our pre-defined trading tolerances and auction process, issuers can expect less volatility and fewer short-term price fluctuations than on purely electronic trading platforms.

- *For Amex Market Participants:*

Amex has to balance the needs of those market participants who need instantaneous access and execution with those who wish to invest in smaller, growth stocks; stocks that do not necessarily have natural liquidity and cannot trade easily in a fully automated environment. Amex prides itself on being the home of growth companies, many of which later have become and will continue to become cornerstones of the American economy. These growing companies look to the auction and the specialist to provide a market that would enable investors and traders to take positions in their future. The Amex recognizes this responsibility to the trading community and has created a marketplace that will not only provide a fast fully electronic environment, but also one that will answer the need for liquidity and price discovery.

- *For the Marketplace:*

AEMI will give the marketplace the speed, functionality, and interaction with away markets that today's market participants demand. As more trading becomes fully automated from the point of order generation to the point of execution, it is important that the Amex remains responsive to the changing needs of order flow decision makers and provides a marketplace conducive to this type of trading.

Technology Platform

- Our technology strategy focuses around three main themes: (i) functionality (ii) performance and (iii) reliability. AEMI will provide a highly automated, technologically advanced infrastructure in support of Regulation NMS and our specialist auction marketplace. It will promote direct, immediate interaction of quotes and orders at the Amex Best Bid and Offer. It also will provide greatly improved tools to the Amex specialist to help him manage imbalances between supply and demand while finding the equilibrium price for the security. The technology also will allow for much more efficient access to better prices reflected in away markets.
- In addition to providing the necessary functionality to support our hybrid market structure, our new technology platform is built on a highly flexible, rules-based environment that will allow future enhancements to be codified and implemented very quickly in response to competition in the marketplace. The new platform is based on distributed computing architecture and event-driven technology and provides the highest system level reliability. Trading rules, data distribution, load balancing, fault tolerance, and disaster recovery are all key components that form part of the general notion of service abstraction. Additionally, our new trading environment supports the performance demands of the integrated market. The system's speed will process transactions within in a fraction of a second, its capacity will handle surges in volume, and its scalability will readily meet future demands.

Enhanced Surveillance Capabilities

- AEMI is designed to enhance Amex's regulatory functionality significantly by systematizing prohibitions of trading activities that might violate Amex rules. This will both avoid inadvertent rule violations and also reduce the costs associated with the Exchange's regulatory surveillance obligations.
- AEMI offers an integrated system that will enhance real-time and post-trade market surveillance. The trading system captures all the information necessary to surveil the entire lifecycle of an order, such as time of order entry, order updates, and time of execution. Data being delivered to our regulatory service provider, will give them the ability to utilize their full range of standard reports in surveilling the Amex market.
- AEMI also provides the functionality to create "on the spot" inquiries to isolate and surveil a broad range of trading behavior during the trading day. The system has the ability to suspend trading in a single product and suspend or limit the trading activity of individual users.

Amex AEMI Contacts

For more information about AEMI, please contact the Amex representatives below:

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