

November 17, 2006

Nancy M. Morris  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

Re: File No. SR-Amex-2006-106

Dear Ms. Morris:

optionsXpress, Inc. appreciates the opportunity to offer comments on the Securities and Exchange Commission ("Commission") proposal for the implementation of a pilot program to quote and to trade certain options in pennies.

optionsXpress (the "Firm") applauds the Commission's Penny Pilot impetus in options. The Firm expects a net positive effect for our customers seeking tighter markets and improved transparency in the most liquid option classes. The Firm believes it is necessary for the Securities and Exchange Commission to play an active role in guiding the pilot. A lack of coordination and communication will lead to an ineffective pilot and a bad experience for the growing customer segment of the options business.

The Firm's main concerns for the pilot center on the quality of quotes, latency in the system due to increased quote traffic, and problems with the options market linkage system. It is the Firm's hope that the Commission reviews the pilot data thoroughly with the help of industry representatives to determine the optimal products in which the benefits of pennies outweigh the costs to the marketplace. It is also the Firm's hope that a more logical threshold between penny and nickel quoting will result from the pilot program and that the Commission will encourage more efficient "private" linkages between exchanges.<sup>1</sup>

The American Stock Exchange ("AMEX") proposal appears to be consistent with the goals of the pilot program. The Firm is concerned that a longer holdback timer period will result in confusion as to the BBO

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<sup>1</sup> The current proposals use a \$3.00 threshold where all options under \$3 will be quoted in .01 increments and above \$3 will be quoted in .05 increments, with the exception of QQQQ options which will all be quoted in .01 increments. The Firm believes this is due to current exchange technology and encourages a more open approach for future trading thresholds.

and best execution. While optionsXpress' typical customer is not actively quoting and trading options multiple times on a daily basis, a longer holdback will increase the probability that the displayed quote differs from the actual exchange quote.<sup>2</sup> This difference may result in executions outside of expectations and would undermine the confidence in the transparency and market quality of options. The Firm believes that the Commission should closely review the amount of transactions that occur at the AMEX where the Exchange's internal BBO does not match what has been pushed to OPRA. Additionally, it is anticipated that the current problems of linkage will become larger issues in the penny classes. The Commission has been made aware of the issues with Linkage<sup>3</sup> and the AMEX has been named for review<sup>4</sup> of their practices in Linkage<sup>4</sup>. The Commission should closely monitor the activity through Linkage at the AMEX and be prudent in adjusting the required response time or possibly eliminating "slow" markets like the AMEX from the Linkage system. The current linkage timer does not appear to be synchronized with available industry technology and is merely a reflection of the self-interests of the weaker exchanges like the AMEX.

optionsXpress values its opportunity to provide these comments to the Commission and would be pleased to discuss the proposal further. We look forward to reviewing and commenting on the penny pilot proposals of the other two option exchanges not yet submitted.

Sincerely,

Peter J. Bottini  
Executive Vice-President  
optionsXpress, Inc.

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<sup>2</sup> The average optionsXpress customer makes 2.5 options trades per month, based on the Firm's most recent figures.

<sup>3</sup> SIA letter to the SEC Division of Market Regulation Re: Options Penny Pilot Program dated Oct. 19, 2006

<sup>4</sup> Citadel petition for Sanctions Against the American Stock Exchange filed Jan. 21, 2005