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April 30, 2003

David M. Battan
Associate General Counsel
Timber Hill LLC
Two Pickwick Plaza
Greenwich, CT 06830

Re: IM 4613 - Computer Generated Quoting

Dear Mr. Battan:

On June 10, 2002, The Nasdaq Stock Market, Inc. ("Nasdaq") issued an interpretation to Timber Hill that its Computer Generated Quoting ("CGQ") system was consistent with IM 4613. The June 10th letter was effective for a limited period of time. However, the interpretive relief has been extended on several occasions, with the most recent extension expiring on April 30, 2003.¹ In addition, the interpretive relief was modified temporarily on February 28, 2003, to suspend certain quote update limitations. The pilot program suspending the quote update limitations also was extended recently and is due to expire on April 30, 2003. This letter extends the June 10th interpretive relief, without the quote update limitations, subject to the conditions described below.

Nasdaq originally granted Timber Hill and other market makers permission to utilize CGQ systems for a limited period of time so that Nasdaq could study how to allow market makers to use these systems in a manner that was consistent with Nasdaq's obligations to protect the integrity of its systems, as well as to protect investors and the public interest. In particular, Nasdaq needed to determine that these systems would not adversely impact Nasdaq system capacity and degrade overall performance its market. Based on its overall experience with market makers currently using approved CGQ systems, Nasdaq is extending Timber Hill's permission to utilize its CGQ system without any time limitation. In addition, Timber Hill can continue to utilize its CGQ system without any quote update limitations.

The relief granted in this letter is based solely on your representations and the facts presented by you to the staff, as well as Nasdaq's belief that

¹ The interpretive letters concerning IM 4613 are available in the Rule Interpretations section of the NASD website at www.nasd.com.

providing Timber Hill with this relief will enhance market liquidity and is consistent with Nasdaq's obligation to protect the integrity of its systems, including preserving sufficient systems capacity, and to protect investors and the public interest. This interpretation is strictly limited to the application of NASD IM-4613 to Timber Hill's system described in its letter dated November 14, 2001. In the event that any material change occurs with respect to any of those facts or representations as they relate to NASD IM-4613, you should immediately inform Nasdaq staff.

Timber Hill is permitted to use the CGQ system described above, subject to the following conditions:

- (1) Timber Hill will provide Nasdaq, at all times, a current list of securities (in an electronic, ASCII text format) for which it is employing its CGQ system;
- (2) Timber Hill will quote in a manner consistent with the autoquoting restriction set forth in Amendment 12 to the Nasdaq/UTP Plan, a copy of which is attached;
- (3) Timber Hill must be able to suspend its CGQ system quickly upon request from Nasdaq; and
- (4) Timber Hill's system must measure quote update rates, and provide such information to Nasdaq upon request.

This interpretive relief is subject to modification or revocation if at any time Nasdaq determines that such action is necessary or appropriate in furtherance of applicable laws or NASD rules, to protect the integrity of its systems, including preserving sufficient systems capacity, and to protect of investors and the public interest. Moreover, the interpretation may be revoked or modified, if Nasdaq determines that Timber Hill's computer generated quotation practices are having a material adverse impact on Nasdaq's systems capacity, such action is necessary for maintenance of fair and honest markets and the protection of investors, or that Timber Hill has not complied with any of the conditions described above. In addition, Nasdaq also may limit or terminate through its systems Timber Hill's ability to enter computer generated quotes. As you know, Nasdaq and NASD monitor for compliance with the conditions contained in this interpretive relief.

The opinions expressed herein are staff opinions only and have not been reviewed or endorsed by the board of Directors of Nasdaq or NASD Regulation, or the Board of Governors of the NASD. This letter responds only to the issues that you have raised, based on the facts as described, and does

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not address any other rule or interpretation of the NASD, or other regulatory or legal issues.

If you have any questions, please feel free to call me at 202.912.3030, or Peter R. Geraghty, Associate General Counsel, Nasdaq, at 202.912.3036.

Sincerely,

A handwritten signature in black ink that reads "Edward S. Knight". The signature is written in a cursive, flowing style.

Edward S. Knight

Enc.