

"Special Risks of Credit Default Options" (which was added in the June 2007 Supplement):

SPECIAL RISKS OF BINARY OPTIONS (OTHER THAN CREDIT DEFAULT OPTIONS)

1. Risks of holders of binary options are similar to the risks described above applicable to holders of other cash-settled, European-style options, but the holder of a binary option will not receive any gain in excess of the fixed settlement amount of the option. Non-binary options, in contrast, may provide greater return to the holder as the difference between the exercise price and the exercise settlement value of the underlying interest increases. A binary option is like a capped option in the sense that its maximum return is limited. Unlike a capped option, however, the payout on a binary option is all or nothing. Accordingly, with respect to a binary option, the holder may experience a relatively greater gain than the holder of a non-binary option when the option is in the money by a small amount but a relatively smaller gain when the option is in the money by a greater amount.

2. Binary options may be more difficult to hedge, or to use as hedges, than non-binary options. Because of the fixed settlement amount to be realized from a binary option, an investor who wishes to hedge the risk of an increase in the price of a specified quantity of a stock, for example, cannot create a perfect hedge by buying a specified quantity of at-the-money binary options that return a cash settlement amount if the exercise settlement value of the underlying security is above the current price of the stock. If the stock price at expiration of the option has risen only slightly above the exercise price, the option payout may exceed the aggregate increase in the value of the stock. If the stock price has risen substantially over the exercise price, the payout from the option may not be sufficient to cover the excess. Similarly, an investor who writes a binary option on an individual stock and wishes to hedge the obligation through ownership of the shares of the underlying stock would not be able to do so precisely through the ownership of any specific number of shares.

3. Holders and writers of binary options may bear a heightened risk that they will be adversely affected by manipulative behavior in the markets. Because a binary option that is in the money by even the smallest amount (or, in the case of certain binary options, at the money) will pay the full fixed settlement amount, there may be an incentive for holders or writers of options that are at or near the money at expiration to attempt to influence the exercise settlement value in order to cause a series of options to expire either in or out of the money. Although