

of the Trust's securities, known as MID CAP SPDRs (for Standard & Poor's MidCap 400 Portfolio Depositary Receipts).

2. Units of beneficial interest in the Trust will be issued in aggregates of 25,000 MID CAP SPDRs known as "Creation Units." Each MID CAP SPDR will be worth one-fifth the value of the S&P MidCap Index, or approximately \$34 at the time of filing the application. Each Creation Unit, therefore, would cost about \$850,000.

3. All orders to purchase Creation Units from the Trust must be placed with the Distributor, who shall be responsible for transmitting such orders to the Trustee. The Distributor will furnish to purchasers confirmation that the orders have been accepted, but shall reject any order that is not in proper form. Upon acceptance of an order, the Distributor will instruct the Trustee to initiate the appropriate procedures. The Distributor will maintain records of the orders placed with it, the confirmations of acceptances it issues, and the instructions to implement delivery. The Distributor will be responsible for distributing prospectuses and may provide certain other administrative services, such as those related to state securities compliance. The Sponsor will pay the Distributor a fee for its services. The Sponsor will not seek reimbursement from the Trust for the payment of such fee without obtaining exemptive relief from the SEC.

4. Investors wishing to purchase a Creation Unit must transfer to the Trust a "Portfolio Deposit," which consists of: (a) a portfolio of securities that is substantially similar, in composition, to the component securities ("Index Securities") of the S&P MidCap 400 Index; (b) a cash payment equal to the dividends accrued on the Trust's portfolio securities since the last dividend payment by the Trust, net of expenses and liabilities, on a Creation Unit basis; and (c) a cash payment or credit ("Balancing Amount") designed to equalize the net asset value of the S&P MidCap 400 Index and the net asset value of a Portfolio Deposit. The Balancing Amount is required because, among other things, a Portfolio Deposit, unlike the S&P MidCap 400 Index, cannot contain fractional shares. An investor making a Portfolio Deposit also will be charged a nominal service fee ("Transaction Fee") to defray securities settlement costs, as discussed below.

5. MID CAP SPDRs will not be individually redeemable, except upon termination of the Trust. To redeem, an investor must accumulate enough MID CAP SPDRs to reconstitute a Creation Unit. An investor redeeming a Creation

Unit will receive Index Securities and cash identical to the Portfolio Deposit required of an investor wishing to purchase a Creation Unit on that date.

6. Because a redeeming shareholder will receive a Portfolio Deposit in exchange for its Creation Unit, and only a minute portion of a Portfolio Deposit consists of cash, the Trustee will not be forced to maintain large cash reserves for redemptions. This should allow the Trust's resources to be committed as fully as possible to tracking the S&P MidCap 400 Index, enabling the Trust to track the Index more closely than other basket products that must allocate a much greater portion of their assets for cash redemptions.

7. Persons obtaining MID CAP SPDRs from the Trust in Creation Unit size aggregations may hold those MID CAP SPDRs or sell some or all of them into the secondary market. MID CAP SPDRs will be listed on the AMEX and traded in the secondary market in the same manner as other equity securities. The price of MID CAP SPDRs on the AMEX will be based on a current bid/offer market. Transactions involving the sale of MID CAP SPDRs will be subject to customary brokerage commissions and charges.

8. Applicants expect that the price at which MID CAP SPDRs trade will be disciplined by arbitrage opportunities created by the ability to purchase or redeem Creation Unit-size aggregations at net asset value, which should ensure that MID CAP SPDRs will not trade at a material discount or premium in relation to net asset value.

9. To be eligible to purchase a Creation Unit, an organization must be a participant in the continuous net settlement system of the National Securities Clearing Corporation ("NSCC") or a Depository Trust Company ("DTC") participant, but is not required to be an AMEX member. The procedures employed to process a purchase order will depend upon whether the transaction is settled through NSCC or DTC. Procedures for redeeming a Creation Unit are analogous to those for purchasing one, although redemption requests are placed with the Trustee, rather than the Distributor.

10. MID CAP SPDRs will be registered in book-entry form only; certificates will not be issued. The DTC or its nominee will be the registered owner of all outstanding MID CAP SPDRs. Records reflecting the beneficial owners of MID CAP SPDRs will be maintained by the DTC or the DTC participants.

11. Persons purchasing Creation Units will be cautioned in the prospectus that some activities on their part may, depending on the circumstances, result

in their being deemed statutory underwriters. For example, a broker-dealer firm may be deemed a statutory underwriter if it purchases Creation Units from the Trust, breaks them down into the constituent MID CAP SPDRs, and sells the MID CAP SPDRs directly to its customers; or if it chooses to couple the creation of a supply of new MID CAP SPDRs with an active selling effort involving solicitation of a secondary market demand for MID CAP SPDRs. The prospectus will state that whether a person is an underwriter depends upon all the facts and circumstances pertaining to that person's activities. The prospectus will explain that (a) a statutory underwriter will be subject to certain liability provisions of the Securities Act, and (b) dealers who are statutory underwriters, and dealers effecting transactions in MID CAP SPDRs that are part of an "unsold allotment" within the meaning of section 4(3)(C) of the Securities Act, will be unable to take advantage of the prospectus delivery exemption provided to dealers by section 4(3) of the Securities Act.

12. As provided in the rules of the AMEX, applicants will make available a "Product Description" of MID CAP SPDRs to members and member organizations for distributions by them to customers purchasing MID CAP SPDRs. In addition, members are required to include the Product Description with sales materials relating to MID CAP SPDRs that is provided to the public. The Product Description is designed to provide a brief and readily understandable description of the salient aspects of MID CAP SPDRs. The Product Description will advise investors that a prospectus is available without charge upon request. Although the AMEX rule cannot ensure delivery of a Product Description to investors purchasing MID CAP SPDRs through a non-member broker-dealer in a transaction away from the AMEX floor, applicants expect that such transactions should be extremely rare. In addition, applicants note that transactions effected on regional exchanges pursuant to unlisted trading privileges can be covered by conditioning the grant of such privileges upon imposition of an exchange requirement that Product Descriptions be delivered. Purchases effected over the counter may be somewhat more difficult to address, although applicants note that the National Association of Securities Dealers, Inc. may wish to promulgate an advice to members regarding the need to distribute a Product Description to every