

Proposed Rule Change by NYSE Arca
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input checked="" type="checkbox"/>	Section 19(b)(3)(A) <input type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action <input type="checkbox"/>	Date Expires <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description
Provide a brief description of the proposed rule change (limit 250 characters).

Contact Information
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name	<input type="text" value="Andrew"/>	Last Name	<input type="text" value="Stevens"/>
Title	<input type="text" value="Assistant General Counsel"/>		
E-mail	<input type="text" value="astevens@nyse.com"/>		
Telephone	<input type="text" value="(312) 442-7632"/>	Fax	<input type="text"/>

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date	<input type="text" value="04/10/2007"/>	
By	<input type="text" value="Mary Yeager"/>	<input style="width: 80%; height: 30px;" type="text" value="Corporate Secretary"/>
	(Name)	(Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

Form 19b-4 Information

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

- (a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), NYSE Arca, Inc. (“NYSE Arca” or “Exchange”), through its wholly owned subsidiary NYSE Arca Equities, Inc. (“NYSE Arca Equities”), proposes to list and trade shares (“Shares”) of the following four funds (“Funds”) of StateShares™, Inc. (“Company”) based on numerous underlying securities indexes (“Indexes” or the “Underlying Indexes”) pursuant to NYSE Arca Equities Rule 5.2(j)(3):

StateShares™ Georgia 50 Exchange-Traded Fund
StateShares™ North Carolina 50 Exchange-Traded Fund
StateShares™ Virginia 50 Exchange-Traded Fund
StateShares™ Washington 50 Exchange-Traded Fund

The text of the proposed rule change is available on the Exchange’s website at www.nyse.com, at the Exchange’s Office of the Secretary and at the Commission.

- (b) The Exchange does not believe that the proposed rule change will have any direct effect, or any significant indirect effect, on any other Exchange rule in effect at the time of this filing.
- (c) Not applicable.

2. Procedures of the Self-Regulatory Organization

- (a) The proposed rule is being submitted by Exchange staff to the Securities and Exchange Commission (the “Commission” or the “SEC”) pursuant to authority delegated by the Exchange’s Board of Directors and the NYSE Arca Equities Board of Directors.
- (b) Questions and comments regarding the proposed rule change may be directed to the following:

Andrew B. Stevens
Assistant General Counsel
NYSE Group, Inc.
(312) 442-7727

Timothy J. Malinowski
Director
NYSE Group, Inc.
(312) 442-7886

3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

- (a) Purpose

Under NYSE Arca Equities Rule 5.2(j)(3), the Exchange may propose to list and/or trade pursuant to unlisted trading privileges (“UTP”) “Investment Company Units.”¹

With this filing, the Exchange proposes to list the Shares of the Funds. The Company is an investment company with 22 series of underlying fund portfolios and is registered under the Investment Company Act of 1940 (the “1940 Act”).² The Funds are registered with the SEC under the 1940 Act as open-end, non-diversified management investment companies. Each Fund’s investment objective is to seek to track the performance, before fees and expenses, of a particular Underlying Index, as described more fully below. Each Fund focuses on a different geographic index.

The Funds do not meet the “generic” listing requirements of NYSE Arca Equities Rule 5.2(j)(3) applicable to listing of Investment Company Units (“ICU”) based on indexes (permitting listing in reliance upon Rule 19b-4(e) under the Act),³ and cannot be listed without a filing pursuant to Rule 19b-4⁴ under the Act. Specifically, the Underlying Indexes do not meet the requirement of Commentary .01(a)(2) to NYSE Arca Equities Rule 5.2(j)(3), which requires that each of the component stocks of the Underlying Indexes have a minimum monthly trading volume during each of the last six months of at least 250,000 shares for stocks representing at least 90% of the weight of the Underlying Index.⁵

¹ In October 1999, the Commission approved NYSE Arca Equities Rule 5.2(j)(3), which sets forth the rules related to listing and trading criteria for Investment Company Units. See Securities Exchange Act Release No. 41983 (October 6, 1999), 64 FR 56008 (October 15, 1999) (SR-PCX-1998-29). In July 2001, the Commission also approved the Exchange’s generic listing standards for listing and trading, or the trading pursuant to UTP, of Investment Company Units under NYSE Arca Equities Rule 5.2(j)(3). See Securities Exchange Act Release No. 44551 (July 12, 2001), 66 FR 37716 (July 19, 2001) (SR-PCX-2001-14). The definition of an Investment Company Unit is set forth in NYSE Arca Equities Rule 5.1(b)(15), which provides that an Investment Company Unit is a security representing an interest in a registered investment company that could be organized as a unit investment trust, an open-end management investment company or a similar entity.

² *See* Post-Effective Amendment No. 1 to the Company’s Registration Statement on Form N-1A, as filed with the Commission on February 28, 2007 and accompanying Statement of Additional Information (“SAI”) (File No. 333-139823) (the “Registration Statement”). The Company was organized as a Maryland corporation on December 26, 2006.

³ 15 U.S.C. 78a.

⁴ 17 CFR 240.19b-4.

⁵ The monthly trading volume during each of the last six months of at least 250,000 shares for stocks represented 88.26%, 87.63%, 84.28%, and 89.34% of the weight

Operation of the Funds

XShares Advisors LLC, a subsidiary of XShares Group LLC (“XG”), will be the investment adviser (the “Advisor”) to the Funds. The Advisor is registered as an investment adviser under Section 203 of the Investment Advisers Act of 1940 (“Advisers Act”).⁶ The Advisor has overall responsibility for the general management and administration of the Funds, subject to the supervision of the Funds’ Board of Directors. Under the Investment Advisory Agreement, the Advisor is responsible for arranging sub-advisory, transfer agency, custody, fund administration, and all other non-distribution related services for the Funds to operate. The Advisor is also responsible for employing any sampling strategy for the Funds. Pursuant to the Investment Advisory Agreement, the Advisor is authorized to engage one or more sub-advisors to perform any of the services contemplated to be performed by the Advisor under the Investment Advisory Agreement.

BNY Investment Advisors (the “Sub-Advisor”), a separate identifiable division of The Bank of New York, a New York State banking corporation (“BONY”), will act as investment sub-advisor to the Funds. Pursuant to a Sub-Advisory Agreement between the Advisor and the Sub-Advisor, the Sub-Advisor will be responsible for the day-to-day management of the Funds, subject to the supervision of the Advisor and the Funds’ Board of Directors. In this regard, the Sub-Advisor will be responsible for implementing the replication strategy for each Fund with regard to its Underlying Index and for general administration, compliance and management services as may be agreed between the Advisor and the Sub-Advisor from time to time.

The Index Administrator

Standard & Poor’s is the index administrator (the “Index Administrator”) and in that capacity has sole responsibility and authority for maintaining each Underlying Index and determining, in accordance with the objective criteria, which securities are to be added or removed from an Underlying Index. Each Underlying Index is compiled, maintained and calculated without regard to the Advisor, Sub-Advisor, or Distributor. The Index Administrator has no obligation to take the specific needs of the Advisor, Sub-Advisor or Distributor into account in the determination and calculation of the Underlying Index.

of the S&P Custom/StateShares™ Georgia 50 Index, S&P Custom/StateShares™ North Carolina 50 Index, S&P Custom/StateShares™ Virginia 50 Index, and S&P Custom/StateShares™ Washington 50 Index, respectively, as of April 4, 2007. Source: Bloomberg.

⁶ 15 U.S.C. 80b.

Administrator, Accounting Agent, Custodian and Transfer Agent

BONY serves as administrator, accounting agent, custodian and transfer agent for the Funds (“Administrator”). As the Administrator, BONY is obligated on a continuous basis, to provide certain administration, valuation, accounting and computational services necessary for the proper administration of the Company and each Fund. BONY also holds the Funds’ assets, calculates the net asset value of Shares and calculates net income and realized capital gains or losses.

The Distributor

ALPS Distributors, Inc. serves as the distributor of Creation Units (as described more fully below) for each Fund on an agency basis (the “Distributor”). The Distributor has entered into a Distribution Agreement with the Company pursuant to which it distributes the Shares of the Funds. Shares are continuously offered for sale by the Distributor only in Creation Unit Aggregations (as described more fully below). Fund Shares in less than Creation Unit Aggregations are not distributed by the Distributor. The Distributor will deliver prospectuses and, upon request, the SAI to persons purchasing Creation Unit Aggregations and will maintain records of orders placed with it. The Distributor is a broker-dealer registered under the Act and a member of the National Association of Securities Dealers, Inc. (“NASD”).

Each Fund has elected and intends to continue to qualify as a “regulated investment company” (a “RIC”) under the Internal Revenue Code (the “Code”). Among other things, each Fund must meet certain diversification tests imposed by the Code in order to satisfy RIC requirements.⁷

Description of the Funds and the Underlying Indexes

According to the Funds’ Registration Statement, each Fund’s investment objective is to seek to track the performance, before fees and expenses, of a particular Underlying Index. The Underlying Indexes are designed to track

⁷ In order for the Funds to qualify for tax treatment as a RIC, it must meet several requirements under the Code. Among these is a requirement that, at the close of each quarter of each Fund’s taxable year, (1) at least 50% of the market value of the Fund’s total assets must be represented by cash items, U.S. government securities, securities of other RICs and other securities, with such other securities limited for the purpose of this calculation with respect to any one issuer to an amount not greater than 5% of the value of the Fund’s assets and not greater than 10% of the outstanding voting securities of such issuer; and (2) not more than 25% of the value of its total assets may be invested in securities of any one issuer, or two or more issuers that are controlled by the Fund (within the meaning of Section 851(b)(4)(B) of the Code) and that are engaged in the same or similar trades or business (other than U.S. government securities of other RICs).

various geographic sub-sectors of the economy and serve as (i) performance benchmarks for portfolio managers and investors who invest in securities of these issuers, (ii) performance yardsticks for issuers in these geographic areas, and (iii) vehicles for directing attention to regional investments and allocations within the U.S. economy. Each Fund focuses on a different geographic index. The Underlying Indexes have been designed geographically in each of the following areas: Georgia, North Carolina, Virginia and Washington.

Each Underlying Index was created and developed by XG based on its own proprietary intellectual model. In developing each Underlying Index, XG has established specific characterization/inclusion/exclusion criteria governing the stocks that are included in each Underlying Index.

The Underlying Index is maintained by the Index Administrator based on this criteria. Each Underlying Index is generally reconstituted on an annual basis. Decisions regarding additions to, and removals from, each individual Underlying Index are made by the Index Administrator, on an annual basis, in its sole discretion.

The Advisor uses a passive, or indexing, approach in managing the Funds. The Funds do not seek to outperform any particular market sector and will not assume temporary defensive positions when markets decline or appear overvalued.

Each Fund will invest at least 90% of its assets in the common stocks of companies in the Underlying Index. Because each Underlying Index is comprised only of stocks from companies headquartered in the named State, as indicated by its name (e.g., only “Georgia ” companies are contained in the S&P Custom/StateShares™ Georgia 50 Index), this means that each Fund will invest at least 90% of its assets in such companies. Each Fund may also invest up to 10% of its assets in futures contracts, options on futures contracts, options, swaps on securities of companies in the Underlying Index, as well as cash and cash equivalents, such as money market instruments (subject to applicable limitations of the 1940 Act). Each Fund will attempt to replicate the Underlying Index by matching the weighting of securities in its portfolio with such securities’ weightings in the Underlying Index.⁸ In managing the Funds, the Advisor seeks a correlation of 0.95 or better between each Fund’s performance and the performance of the Underlying Index. A figure of 1.00 would represent perfect correlation. There is no guarantee that the Advisor will be able to obtain this level of correlation.

From time to time, it may not be possible, for regulatory or other legal reasons, to replicate the Underlying Index and in such cases the Advisor may pursue a

⁸ Each company in the applicable Underlying Index is assigned a weight factor based upon total employees. Companies with more employees are assigned higher weighting than companies with fewer employees.

sampling strategy in managing the portfolio. Pursuant to this strategy, a Fund may invest the remainder of its assets in securities of companies not included in an Underlying Index if the Advisor believes that such securities will assist the Fund in tracking the Underlying Index. If a Fund pursues a sampling strategy, it will continue to invest at least 90% of its assets in the common stocks of the companies in the Underlying Index.

The following is a summary of the principal investment policies and strategies of each of the Funds:

StateShares™ Georgia 50 Exchange-Traded Fund. The StateShares™ Georgia 50 Exchange-Traded Fund seeks to track the performance, before fees and expenses, of the S&P Custom/StateShares™ Georgia 50 Index.

The Fund employs a “passive management” investment strategy designed to track the performance of the S&P Custom/StateShares™ Georgia 50 Index, an index of issuers that meet certain revenue and income criteria and that have been identified as “Georgia” companies by the Index Administrator and therefore are included in the S&P Custom/StateShares™ Georgia 50 Index. Only companies with market capitalizations greater than \$100 million for at least two of the preceding three quarters are eligible for inclusion in the S&P Custom/StateShares™ Georgia 50 Index. A Georgia company is a company whose headquarters is located in Georgia.

As its primary strategy, the Fund attempts to replicate the Underlying Index by investing substantially all of its assets in the stocks that make up the Underlying Index, holding each stock in approximately the same proportion as its weighting in the Underlying Index. The Fund will invest at least 90% of its assets in common stocks of companies in the Underlying Index. Because the Underlying Index is comprised of only stocks of Georgia 50 companies, this means that the Fund will invest at least 90% of its assets in Georgia 50 companies, as discussed above. The Fund may also invest up to 10% of its assets in futures contracts, options on futures contracts, options, swaps on securities of companies in the Underlying Index, as well as cash and cash equivalents, such as money market instruments (subject to applicable limitations of the 1940 Act). The Fund may also sample, rather than replicate, the Underlying Index by holding stocks that, in the aggregate, are intended to approximate the Underlying Index in terms of key characteristics, such as price/earnings ratio, earnings growth, and dividend yield. If the Fund pursues a sampling strategy, it will continue to invest at least 90% of its assets in the common stocks of companies in the Underlying Index.

StateShares™ North Carolina 50 Exchange-Traded Fund. The StateShares™ North Carolina 50 Exchange-Traded Fund seeks to track the performance, before fees and expenses, of the S&P Custom/StateShares™ North Carolina 50 Index.

The Fund employs a “passive management” investment strategy designed to track the performance of the S&P Custom/StateShares™ North Carolina 50 Index, an index of issuers that meet certain revenue and income criteria and that have been identified as “North Carolina” companies by the Index Administrator and therefore are included in the S&P Custom/StateShares™ North Carolina 50 Index. Only companies with market capitalizations greater than \$100 million for at least two of the preceding three quarters are eligible for inclusion in the S&P Custom/StateShares™ North Carolina 50 Index. A North Carolina company is a company whose headquarters is located in North Carolina.

As its primary strategy, the Fund attempts to replicate the Underlying Index by investing substantially all of its assets in the stocks that make up the Underlying Index, holding each stock in approximately the same proportion as its weighting in the Underlying Index. The Fund will invest at least 90% of its assets in common stocks of companies in the Underlying Index. Because the Underlying Index is comprised of only stocks of North Carolina 50 companies, this means that the Fund will invest at least 90% of its assets in North Carolina 50 companies, as discussed above. The Fund may also invest up to 10% of its assets in futures contracts, options on futures contracts, options, swaps on securities of companies in the Underlying Index, as well as cash and cash equivalents, such as money market instruments (subject to applicable limitations of the 1940 Act). The Fund may also sample, rather than replicate, the Underlying Index by holding stocks that, in the aggregate, are intended to approximate the Underlying Index in terms of key characteristics, such as price/earnings ratio, earnings growth, and dividend yield. If the Fund pursues a sampling strategy, it will continue to invest at least 90% of its assets in the common stocks of companies in the Underlying Index.

StateShares™ Virginia 50 Exchange-Traded Fund. The StateShares™ Virginia 50 Exchange-Traded Fund seeks to track the performance, before fees and expenses, of the S&P Custom/StateShares™ Virginia 50 Index.

The Fund employs a “passive management” investment strategy designed to track the performance of the S&P Custom/StateShares™ Virginia 50 Index, an index of issuers that meet certain revenue and income criteria and that have been identified as “Virginia” companies by the Index Administrator and therefore are included in the S&P Custom/StateShares™ Virginia 50 Index. Only companies with market capitalizations greater than \$100 million for at least two of the preceding three quarters are eligible for inclusion in the S&P Custom/StateShares™ Virginia 50 Index. A Virginia company is a company whose headquarters is located in Virginia.

As its primary strategy, the Fund attempts to replicate the Underlying Index by investing substantially all of its assets in the stocks that make up the Underlying Index, holding each stock in approximately the same proportion as its weighting in the Underlying Index. The Fund will invest at least 90% of its assets in

common stocks of companies in the Underlying Index. Because the Underlying Index is comprised of only stocks of Virginia 50 companies, this means that the Fund will invest at least 90% of its assets in Virginia 50 companies, as discussed above. The Fund may also invest up to 10% of its assets in futures contracts, options on futures contracts, options, swaps on securities of companies in the Underlying Index, as well as cash and cash equivalents, such as money market instruments (subject to applicable limitations of the 1940 Act). The Fund may also sample, rather than replicate, the Underlying Index by holding stocks that, in the aggregate, are intended to approximate the Underlying Index in terms of key characteristics, such as price/earnings ratio, earnings growth, and dividend yield. If the Fund pursues a sampling strategy, it will continue to invest at least 90% of its assets in the common stocks of companies in the Underlying Index.

StateShares™ Washington 50 Exchange-Traded Fund. The StateShares™ Washington 50 Exchange-Traded Fund seeks to track the performance, before fees and expenses, of the S&P Custom/StateShares™ Washington 50 Index.

The Fund employs a “passive management” investment strategy designed to track the performance of the S&P Custom/StateShares™ Washington 50 Index, an index of issuers that meet certain revenue and income criteria and that have been identified as “Washington” companies by the Index Administrator and therefore are included in the S&P Custom/StateShares™ Washington 50 Index. Only companies with market capitalizations greater than \$100 million for at least two of the preceding three quarters are eligible for inclusion in the S&P Custom/StateShares™ Washington 50 Index. A Washington company is a company whose headquarters is located in Washington.

As its primary strategy, the Fund attempts to replicate the Underlying Index by investing substantially all of its assets in the stocks that make up the Underlying Index, holding each stock in approximately the same proportion as its weighting in the Underlying Index. The Fund will invest at least 90% of its assets in common stocks of companies in the Underlying Index. Because the Underlying Index is comprised of only stocks of Washington 50 companies, this means that the Fund will invest at least 90% of its assets in Washington 50 companies, as discussed above. The Fund may also invest up to 10% of its assets in futures contracts, options on futures contracts, options, swaps on securities of companies in the Underlying Index, as well as cash and cash equivalents, such as money market instruments (subject to applicable limitations of the 1940 Act). The Fund may also sample, rather than replicate, the Underlying Index by holding stocks that, in the aggregate, are intended to approximate the Underlying Index in terms of key characteristics, such as price/earnings ratio, earnings growth, and dividend yield. If the Fund pursues a sampling strategy, it will continue to invest at least 90% of its assets in the common stocks of companies in the Underlying Index.

Information about each Underlying Index, including the component securities in each Underlying Index and value of the securities in each Underlying Index are

posted throughout the trading day every 15 seconds and are available through Reuters.

Each Fund imposes transaction fees on in-kind purchases and redemptions of the Fund to cover the custodial and other costs incurred by the Fund in effecting in-kind trades. To compensate the Company for transfer and other transaction costs involved in creation transactions through the Clearing Process (as described below), investors will be required to pay a fixed creation transaction fee, payable to the Company regardless of the number of creations made each day. A redemption transaction fee is imposed to offset transfer and other transaction costs that may be incurred by a Fund. An additional variable charge for cash redemptions (when cash redemptions are available or specified) for a Fund may be imposed. The creation and redemption transaction fees for creations and redemptions in-kind for the Funds are described in the Funds' prospectus.

The Funds will issue and redeem, on a continuous basis, shares at its net asset value ("NAV") only in blocks of 100,000 shares or multiples thereof (each, a "Creation Unit" or a "Creation Unit Aggregation"), generally in exchange for a basket of equity securities included in the Underlying Index, together with the deposit of a specified cash payment. Shares are redeemable only in Creation Unit Aggregations, and, generally, in exchange for portfolio securities and a specified cash payment.

All orders to purchase Shares of the Funds in Creation Units must be placed with the Distributor by or through an "Authorized Participant," which is either (i) a "Participating Organization," i.e., a broker dealer or other participant in the clearing process through the Continuous Net Settlement System of the National Securities Clearing Corporation ("NSCC") (the "Clearing Process"), a clearing agency that is registered with the Commission, or (ii) a Depository Trust Company ("DTC") Participant, and in each case, must have executed a "Participant Agreement" with the Distributor governing the purchase and redemption of Creation Units.

Consideration for Purchase of Creation Units

The consideration for purchase of a Creation Unit from a Fund generally consists of the in kind deposit of a designated portfolio of equity securities (the Deposit Securities) per each Creation Unit Aggregation constituting a substantial replication of the stocks included in the Underlying Index and an amount of cash (the Cash Component) consisting of a Balancing Amount (described below) and a transaction fee. Together, the Deposit Securities and the Cash Component constitute the Fund Deposit.

The Balancing Amount is an amount equal to the difference between the NAV of a Creation Unit and the market value of the Deposit Securities (the "Deposit Amount"). It ensures that the NAV of a Fund Deposit (not including the

transaction fee) is identical to the NAV of the Creation Unit it is used to purchase. If the Balancing Amount is a positive number (i.e., the NAV per Creation Unit exceeds the market value of the Deposit Securities), then that amount will be paid by the purchaser to the Fund in cash. If the Balancing Amount is a negative number (i.e., the NAV per Creation Unit is less than the market value of the Deposit Securities), then that amount will be paid by the Fund to the purchaser in cash (except as offset by the transaction fee).

The Company, through the NSCC, makes available on each Business Day, immediately prior to the opening of business on the NYSE (currently 9:30 a.m., Eastern time), a list of the names and the required number of shares of each Deposit Security to be included in the current Fund Deposit for each Fund (based on information at the end of the previous Business Day). The Fund Deposit is applicable, subject to any adjustments as described below, in order to effect purchases of Creation Units of a Fund until such time as the next-announced Fund Deposit composition is made available. Each Fund reserves the right to accept a nonconforming Fund Deposit.

The identity and number of shares of the Deposit Securities required for a Fund Deposit may change to reflect rebalancing adjustments and corporate actions by a Fund, or in response to adjustments to the weighting or composition of the component stocks of the Underlying Index. In addition, the Company reserves the right to permit or require the substitution of an amount of cash—i.e., a “cash in lieu” amount—to be added to the Cash Component to replace any Deposit Security that may not be available in sufficient quantity for delivery, may not be eligible for transfer through the Clearing Process, or may not be eligible for trading by a Participating Organization or the investor for which a Participating Organization is acting. Brokerage commissions incurred in connection with acquisition of Deposit Securities not eligible for transfer through the systems of DTC and hence not eligible for transfer through the Clearing Process will be an expense of the Fund. However, the Advisor, subject to the approval of the Board of Directors, may adjust the transaction fee to protect existing shareholders from this expense.

In addition to the list of names and numbers of securities constituting the current Deposit Securities, the Company, through the NSCC, also makes available on each Business Day, the estimated Cash Component, effective through and including the previous Business Day, per outstanding Creation Unit of the Fund. All questions as to the number of shares of each security in the Deposit Securities and the validity, form, eligibility, and acceptance for deposit of any securities to be delivered shall be determined by the appropriate Fund, and the Fund’s determination shall be final and binding.

Redemption of Shares in Creation Units

Fund Shares may be redeemed only in Creation Unit Aggregations at their NAV next determined after receipt of a redemption request in proper form by a Fund through the Administrator and only on a Business Day. A Fund will not redeem Shares in amounts less than Creation Unit Aggregations. Beneficial owners must accumulate enough Shares in the secondary market to constitute a Creation Unit Aggregation in order to have such Shares redeemed by the Company. There can be no assurance, however, that there will be sufficient liquidity in the public trading market at any time to permit assembly of a Creation Unit Aggregation. Investors should expect to incur brokerage and other costs in connection with assembling a sufficient number of Fund Shares to constitute a redeemable Creation Unit Aggregation.

With respect to a Fund, the Administrator, through the NSCC, makes available prior to the opening of business on the NYSE (currently 9:30 a.m., Eastern time) on each Business Day, the identity of the Fund Securities that will be applicable (subject to possible amendment or correction) to redemption requests received in proper form (as described below) on that day. Fund Securities received on redemption may not be identical to Deposit Securities that are applicable to creations of Creation Unit Aggregations.

Unless cash redemptions are available or specified for a Fund, the redemption proceeds for a Creation Unit Aggregation generally consist of Fund Securities, as announced on the Business Day of the request for redemption received in proper form, plus or minus cash in an amount equal to the difference between the NAV of the Fund Shares being redeemed, as next determined after a receipt of a request in proper form, and the value of the Fund Securities (the “Cash Redemption Amount”), less a redemption transaction fee. In the event that the Fund Securities have a value greater than the NAV of the Fund Shares, a compensating cash payment equal to the difference is required to be made by or through an Authorized Participant by the redeeming shareholder.

The right of redemption may be suspended or the date of payment postponed (i) for any period during which the NYSE is closed (other than customary weekend and holiday closings); (ii) for any period during which trading on the NYSE is suspended or restricted; (iii) for any period during which an emergency exists as a result of which disposal of the shares of the Fund or determination of a Fund’s NAV is not reasonably practicable; or (iv) in such other circumstances as is permitted by the SEC.

Dividends, Distributions and Taxes

Dividends from net investment income, if any, are declared and paid annually by each Fund. Distributions of net realized securities gains, if any, generally are declared and paid once a year, but the Company may make distributions on a

more frequent basis for certain Funds to improve index tracking or to comply with the distribution requirements of the Code, in all events in a manner consistent with the provisions of the 1940 Act.

Dividends and other distributions on Shares are distributed on a pro rata basis to Beneficial Owners of such Shares. Dividend payments are made through DTC Participants and Indirect Participants to Beneficial Owners then of record with proceeds received from the Company.

The Company makes additional distributions to the extent necessary (i) to distribute the entire annual taxable income of the Company, plus any net capital gains and (ii) to avoid imposition of the excise tax imposed by Section 4982 of the Code. Management of the Company reserves the right to declare special dividends if, in its reasonable discretion, such action is necessary or advisable to preserve the status of each Fund as a RIC or to avoid imposition of income or excise taxes on undistributed income.

Dividend Reinvestment Service

The Company will not make the DTC book-entry dividend reinvestment service available for use by Beneficial Owners for reinvestment of their cash proceeds, but certain individual broker-dealers may make available the DTC book-entry Dividend Reinvestment Service for use by Beneficial Owners of Funds through DTC Participants for reinvestment of their dividend distributions. Investors should contact their brokers to ascertain the availability and description of these services. Beneficial Owners should be aware that each broker may require investors to adhere to specific procedures and timetables in order to participate in the dividend reinvestment service and investors should ascertain from their brokers such necessary details. If this service is available and used, dividend distributions of both income and realized gains will be automatically reinvested in additional whole Shares issued by the same Fund based on a payable date NAV.

Availability of Information Regarding Shares and Underlying Indexes

The Company, through the NSCC, will make available on each Business Day, immediately prior to the opening of business on the Exchange (currently 9:30 a.m., Eastern time), a list of the names and the required number of shares of each Deposit Security to be included in the current Fund Deposit for each Fund (based on information at the end of the previous Business Day).

According to the Funds' Registration Statement, the NAV of each Fund's shares is calculated each business day as of the close of regular trading on the NYSE, generally 4:00 p.m., Eastern Time. NAV per share is computed by dividing the net assets by the number of shares outstanding.

Additional information regarding the indicative value of shares of each Fund, also known as the “indicative optimized portfolio value” (“IOPV”), is disseminated every fifteen seconds through the Consolidated Tape throughout the Opening, Core and Late Trading Sessions (4:00 a.m. ET to 8:00 p.m. ET) by the Exchange. The IOPV does not necessarily reflect the precise composition of the current portfolio of securities held by a Fund at a particular point in time nor the best possible valuation of the current portfolio. Therefore, the IOPV should not be viewed as a “real-time” update of the NAV, which is computed only once a day. The IOPV is generally determined by using both current market quotations and/or price quotations obtained from broker-dealers that may trade in the portfolio securities held by a Fund.

The Funds’ website at <http://www.StateSharesinc.com> will show the prior day’s closing NAV and closing market price for the Funds’ shares. In addition, the Funds’ website will contain the following information, on a per share basis, for each Fund: (a) the prior business day’s NAV and the Bid/Ask Price and a calculation of the premium or discount of the Bid/Ask Price at the time of calculation of the net asset value against such net asset value; and (b) data in chart format displaying the frequency distribution of discounts and premiums of the daily Bid/Ask Price against the net asset value, within appropriate ranges, for each of the four previous calendar quarters. In addition, the Funds’ website contains information regarding the premiums and discounts at which shares of the Funds have traded. The Exchange will also disseminate a variety of data such as Total Cash Amount Per Creation Unit, Shares Outstanding and Net Asset Value with respect to the Fund on a daily basis by means of CTA and CQ High Speed Lines.

The Funds’ portfolio holdings are publicly disseminated each day the Funds are open for business through financial reporting and news services including publicly available internet web sites. In addition, a basket composition file, which includes the security names and share quantities required to be delivered in exchange for Fund Shares, together with estimates and actual cash components, is publicly disseminated daily prior to the opening of the NYSE via the NSCC.

The Company has informed the Exchange that each Fund will make the NAV for each Fund available to all market participants at the same time. If the NAV is not disseminated to all market participants at the same time, the Exchange will halt trading in the Fund shares.

Information about each Underlying Index, including the component securities in each Underlying Index and value of the securities in each Underlying Index are posted throughout the trading day every 15 seconds and are available through Reuters.

The Underlying Indexes

S&P Custom/StateShares™ Georgia 50 Index. As of April 4, 2007, the S&P Custom/StateShares™ Georgia 50 Index component securities had a modified market capitalization of approximately \$72,107,201,000, representing 50 securities. The five highest weighted securities represented approximately 15.37% of the index weight. The heaviest weighted security represented approximately 3.20% of the index weight. The monthly trading volume during each of the last six months of at least 250,000 shares for stocks represented 88.26% of the weight of the index.⁹

S&P Custom/StateShares™ North Carolina 50 Index. As of April 4, 2007, the S&P Custom/StateShares™ North Carolina 50 Index component securities had a modified market capitalization of approximately \$75,522,378,000, representing 50 securities. The five highest weighted securities represented approximately 15.22% of the index weight. The heaviest weighted security represented approximately 3.30% of the index weight. The monthly trading volume during each of the last six months of at least 250,000 shares for stocks represented 87.63% of the weight of the index.¹⁰

S&P Custom/StateShares™ Virginia 50 Index. As of April 4, 2007, the S&P Custom/StateShares™ Virginia 50 Index component securities had a modified market capitalization of approximately \$69,886,467,000, representing 50 securities. The five highest weighted securities represented approximately 15.79% of the index weight. The heaviest weighted security represented approximately 3.67% of the index weight. The monthly trading volume during each of the last six months of at least 250,000 shares for stocks represented 84.28% of the weight of the index.¹¹

S&P Custom/StateShares™ Washington 50 Index. As of April 4, 2007, the S&P Custom/StateShares™ Washington 50 Index component securities had a modified market capitalization of approximately \$70,059,732,000, representing 50 securities. The five highest weighted securities represented approximately 15.48% of the index weight. The heaviest weighted security represented approximately 3.34% of the index weight. The monthly trading volume during each of the last six months of at least 250,000 shares for stocks represented 89.34% of the weight of the index.¹²

⁹ Source: Bloomberg.

¹⁰ See footnote 9, *supra*.

¹¹ See footnote 9, *supra*.

¹² See footnote 9, *supra*.

Criteria for Initial and Continued Listing

The Shares are subject to the criteria for initial and continued listing of Investment Company Units under NYSE Arca Equities Rules 5.2(j)(3) and 5.5(g)(2). A minimum of one Creation Units (at least 100,000 Shares) will be required to be outstanding at the start of trading. This minimum number of Shares required to be outstanding at the start of trading will be comparable to requirements that have been applied to previously listed series of Investment Company Units. The Exchange believes that the proposed minimum number of Shares outstanding at the start of trading is sufficient to provide market liquidity.

The continued listing criteria for Investment Company Units under NYSE Arca Equities Rule 5.5(g)(2) provides that the Exchange will consider the suspension of trading and delisting (if applicable) of the Shares in any of the following circumstances:

- Following the initial twelve-month period beginning upon the commencement of trading of the Shares of a Fund, there are fewer than 50 record and/or beneficial holders of such Shares for 30 or more consecutive trading days; or
- The value of the Underlying Index of a Fund is no longer calculated or available; or
- Such other event occurs or condition exists that, in the opinion of the Exchange, makes further dealings on the Exchange inadvisable.

In addition, the Exchange will remove the Shares from trading and listing upon termination of the Company.

The Exchange represents the Company is required to comply with Rule 10A-3 under the Act for the initial and continued listing of the Shares.

Trading Rules

The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. The trading hours for the Funds on the Exchange are the same as those set forth in NYSE Arca Equities Rule 7.34 (4:00 a.m. to 8:00 p.m. Eastern Time). The minimum trading increment for shares of the Funds on the Exchange will be \$0.01.

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of a Fund. Trading may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. These may include: (1) the extent to which trading is not occurring in the securities comprising an Underlying Index and/or the Financial Instruments of a Fund, or

(2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. In addition, trading in Shares will be subject to trading halts caused by extraordinary market volatility pursuant to the Exchange's "circuit breaker" rule¹³ or by the halt or suspension of trading of the underlying securities. If the IIV or the index value applicable to a series of Units is not being disseminated as required, the Exchange may halt trading during the day in which the interruption to the dissemination of the IIV or the index value occurs. If the interruption to the dissemination of the IIV or the index value persists past the trading day in which it occurred, the Exchange will halt trading no later than the beginning of the trading day following the interruption.

The Information Bulletin will discuss exemptive, no-action and interpretive relief granted by the Commission from Section 11(d)(1) and certain rules under the Act, including Rule 10a-1, Regulation SHO, Rule 10b-10, Rule 14e-5, Rule 10b-17, Rule 11d1-2, Rules 15c1-5 and 15c1-6, and Rules 101 and 102 of Regulation M under the Act.

Surveillance

The Exchange intends to utilize its existing surveillance procedures applicable to derivative products to monitor trading in the Shares. The Exchange represents that these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules.

The Exchange's current trading surveillance focuses on detecting securities trading outside their normal patterns. When such situations are detected, surveillance analysis follows and investigations are opened, where appropriate, to review the behavior of all relevant parties for all relevant trading violations.

The Exchange may obtain information via the Intermarket Surveillance Group ("ISG") from exchanges who are members or affiliates of the ISG.¹⁴

In addition, the Exchange also has a general policy prohibiting the distribution of material, non-public information by its employees.

Information Bulletin

Prior to the commencement of trading, the Exchange will inform its ETP Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares. Specifically, the Bulletin will discuss the following: (1) the procedures for purchases and redemptions of Shares in Creation Unit

¹³ See NYSE Arca Equities Rule 7.12.

¹⁴ For a list of the current members and affiliate members of ISG, see www.isgportal.com.

Aggregations (and that Shares are not individually redeemable); (2) NYSE Arca Equities Rule 9.2(a),¹⁵ which imposes a duty of due diligence on its ETP Holders to learn the essential facts relating to every customer prior to trading the Shares; (3) how information regarding the IIV is disseminated; (4) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (5) trading information.

In addition, the Bulletin will reference that a Fund is subject to various fees and expenses described in the Registration Statement. The Bulletin will also discuss any exemptive, no-action and interpretive relief granted by the Commission from any rules under the Act. The Bulletin will also disclose that the NAV for the Shares will be calculated after 4:00 p.m. ET each trading day.

(b) Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)¹⁶ of the Act, in general, and furthers the objectives of Section 6(b)(5)¹⁷ in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system.

4. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purpose of the Act.

¹⁵ NYSE Arca Equities Rule 9.2(a) provides that ETP Holders, before recommending a transaction, must have reasonable grounds to believe that the recommendation is suitable for the customer based on any facts disclosed by the customer as to his other security holdings and as to his financial situation and needs. Further, the rule provides, with a limited exception, that prior to the execution of a transaction recommended to a non-institutional customer, the ETP Holders shall make reasonable efforts to obtain information concerning the customer's financial status, tax status, investment objectives, and any other information that they believe would be useful to make a recommendation. *See* Securities Exchange Act Release No. 34-54045 (June 26, 2006), 71 FR 37971 (July 3, 2006) (SR-PCX-2005-115).

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(5).

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

6. Extension of Time Period for Commission Action

The Exchange does not consent at this time to an extension of any time period for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The Exchange requests that the Commission find good cause pursuant to Section 19(b)(2)¹⁸ of the Act for approving the proposed rule change prior to the 30th day after publication of the proposed rule change in the Federal Register. The Funds are substantially similar in structure to other exchange-traded funds, which have an established and active trading history on the NYSE and other exchanges. The Funds present no novel issues with respect to trading. The Exchange anticipates that the Funds will be in a position to begin trading on the Exchange prior to the 35 day period for Commission action under Section 19(b)¹⁹ of the Act. Accelerated approval will enable the Exchange to accommodate the timetable for trading the Funds on the Exchange.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

This proposed rule change is not based on the rules of another self-regulatory organization or of the Commission.

9. Exhibits

Exhibit 1 - Form of Notice of Proposed Rule Change for Federal Register.

¹⁸ 15 U.S.C. 78s (b)(2).

¹⁹ 15 U.S.C. 78s (b).

SECURITIES AND EXCHANGE COMMISSION
 (Release No. 34- ; File No. SR-NYSEArca-2007-37)

[DATE]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by NYSE Arca, Inc. Relating to Listing and Trading Shares of the four funds of StateShares, Inc.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 10, 2007, NYSE Arca, Inc. (“NYSE Arca” or “Exchange”), through its wholly owned subsidiary NYSE Arca Equities, Inc. (“NYSE Arca Equities”), filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice and order to solicit comment on the proposed rule change from interested persons and to approve the proposed rule change on an accelerated basis.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (the “1934 Act”),³ the Exchange, through its wholly owned subsidiary NYSE Arca Equities, Inc. (“NYSE Arca Equities”), proposes to list and trade shares (“Shares”) of the following four funds (“Funds”) of StateShares™, Inc. (“Company”) based on numerous underlying securities indexes (“Indexes” or the “Underlying Indexes”) pursuant to NYSE Arca Equities Rule 5.2(j)(3):

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(1).

StateShares™ Georgia 50 Exchange-Traded Fund

StateShares™ North Carolina 50 Exchange-Traded Fund

StateShares™ Virginia 50 Exchange-Traded Fund

StateShares™ Washington 50 Exchange-Traded Fund

The text of the proposed rule change is available on the Exchange’s website at www.nyse.com, at the Exchange’s Office of the Secretary and at the Commission.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections (A), (B), and (C) below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(1) Purpose

Under NYSE Arca Equities Rule 5.2(j)(3), the Exchange may propose to list and/or trade pursuant to unlisted trading privileges (“UTP”) “Investment Company Units.”⁴

⁴ In October 1999, the Commission approved NYSE Arca Equities Rule 5.2(j)(3), which sets forth the rules related to listing and trading criteria for Investment Company Units. See Securities Exchange Act Release No. 41983 (October 6, 1999), 64 FR 56008 (October 15, 1999) (SR-PCX-1998-29). In July 2001, the Commission also approved the Exchange’s generic listing standards for listing and trading, or the trading pursuant to UTP, of Investment Company Units under NYSE Arca Equities Rule 5.2(j)(3). See Securities Exchange Act Release No.

With this filing, the Exchange proposes to list the Shares of the Funds. The Company is an investment company with 22 series of underlying fund portfolios and is registered under the Investment Company Act of 1940 (the “1940 Act”).⁵ The Funds are registered with the SEC under the 1940 Act as open-end, non-diversified management investment companies. Each Fund’s investment objective is to seek to track the performance, before fees and expenses, of a particular Underlying Index, as described more fully below. Each Fund focuses on a different geographic index.

The Funds do not meet the “generic” listing requirements of NYSE Arca Equities Rule 5.2(j)(3) applicable to listing of Investment Company Units (“ICU”) based on indexes (permitting listing in reliance upon Rule 19b-4(e) under the Act),⁶ and cannot be listed without a filing pursuant to Rule 19b-4⁷ under the Act. Specifically, the Underlying Indexes do not meet the requirement of Commentary .01(a)(2) to NYSE Arca Equities Rule 5.2(j)(3), which requires that each of the component stocks of the Underlying Indexes have a minimum monthly trading volume during each of the last six

44551 (July 12, 2001), 66 FR 37716 (July 19, 2001) (SR-PCX-2001-14). The definition of an Investment Company Unit is set forth in NYSE Arca Equities Rule 5.1(b)(15), which provides that an Investment Company Unit is a security representing an interest in a registered investment company that could be organized as a unit investment trust, an open-end management investment company or a similar entity.

⁵ See Post-Effective Amendment No. 1 to the Company’s Registration Statement on Form N-1A, as filed with the Commission on February 28, 2007 and accompanying Statement of Additional Information (“SAI”) (File No. 333-139823) (the “Registration Statement”). The Company was organized as a Maryland corporation on December 26, 2006.

⁶ 15 U.S.C. 78a.

⁷ 17 CFR 240.19b-4.

months of at least 250,000 shares for stocks representing at least 90% of the weight of the Underlying Index.⁸

Operation of the Funds

XShares Advisors LLC, a subsidiary of XShares Group LLC (“XG”), will be the investment adviser (the “Advisor”) to the Funds. The Advisor is registered as an investment adviser under Section 203 of the Investment Advisers Act of 1940 (“Advisers Act”).⁹ The Advisor has overall responsibility for the general management and administration of the Funds, subject to the supervision of the Funds’ Board of Directors. Under the Investment Advisory Agreement, the Advisor is responsible for arranging sub-advisory, transfer agency, custody, fund administration, and all other non-distribution related services for the Funds to operate. The Advisor is also responsible for employing any sampling strategy for the Funds. Pursuant to the Investment Advisory Agreement, the Advisor is authorized to engage one or more sub-advisors to perform any of the services contemplated to be performed by the Advisor under the Investment Advisory Agreement.

BNY Investment Advisors (the “Sub-Advisor”), a separate identifiable division of The Bank of New York, a New York State banking corporation (“BONY”), will act as investment sub-advisor to the Funds. Pursuant to a Sub-Advisory Agreement between the Advisor and the Sub-Advisor, the Sub-Advisor will be responsible for the day-to-day

⁸ The monthly trading volume during each of the last six months of at least 250,000 shares for stocks represented 88.26%, 87.63%, 84.28%, and 89.34% of the weight of the S&P Custom/StateShares™ Georgia 50 Index, S&P Custom/StateShares™ North Carolina 50 Index, S&P Custom/StateShares™ Virginia 50 Index, and S&P Custom/StateShares™ Washington 50 Index, respectively, as of April 4, 2007. Source: Bloomberg.

⁹ 15 U.S.C. 80b.

management of the Funds, subject to the supervision of the Advisor and the Funds' Board of Directors. In this regard, the Sub-Advisor will be responsible for implementing the replication strategy for each Fund with regard to its Underlying Index and for general administration, compliance and management services as may be agreed between the Advisor and the Sub-Advisor from time to time.

The Index Administrator

Standard & Poor's is the index administrator (the "Index Administrator") and in that capacity has sole responsibility and authority for maintaining each Underlying Index and determining, in accordance with the objective criteria, which securities are to be added or removed from an Underlying Index. Each Underlying Index is compiled, maintained and calculated without regard to the Advisor, Sub-Advisor, or Distributor. The Index Administrator has no obligation to take the specific needs of the Advisor, Sub-Advisor or Distributor into account in the determination and calculation of the Underlying Index.

Administrator, Accounting Agent, Custodian and Transfer Agent

BONY serves as administrator, accounting agent, custodian and transfer agent for the Funds ("Administrator"). As the Administrator, BONY is obligated on a continuous basis, to provide certain administration, valuation, accounting and computational services necessary for the proper administration of the Company and each Fund. BONY also holds the Funds' assets, calculates the net asset value of Shares and calculates net income and realized capital gains or losses.

The Distributor

ALPS Distributors, Inc. serves as the distributor of Creation Units (as described more fully below) for each Fund on an agency basis (the “Distributor”). The Distributor has entered into a Distribution Agreement with the Company pursuant to which it distributes the Shares of the Funds. Shares are continuously offered for sale by the Distributor only in Creation Unit Aggregations (as described more fully below). Fund Shares in less than Creation Unit Aggregations are not distributed by the Distributor. The Distributor will deliver prospectuses and, upon request, the SAI to persons purchasing Creation Unit Aggregations and will maintain records of orders placed with it. The Distributor is a broker-dealer registered under the Act and a member of the National Association of Securities Dealers, Inc. (“NASD”).

Each Fund has elected and intends to continue to qualify as a “regulated investment company” (a “RIC”) under the Internal Revenue Code (the “Code”). Among other things, each Fund must meet certain diversification tests imposed by the Code in order to satisfy RIC requirements.¹⁰

Description of the Funds and the Underlying Indexes

According to the Funds’ Registration Statement, each Fund’s investment objective is to seek to track the performance, before fees and expenses, of a particular

¹⁰ In order for the Funds to qualify for tax treatment as a RIC, it must meet several requirements under the Code. Among these is a requirement that, at the close of each quarter of each Fund’s taxable year, (1) at least 50% of the market value of the Fund’s total assets must be represented by cash items, U.S. government securities, securities of other RICs and other securities, with such other securities limited for the purpose of this calculation with respect to any one issuer to an amount not greater than 5% of the value of the Fund’s assets and not greater than 10% of the outstanding voting securities of such issuer; and (2) not more than 25% of the value of its total assets may be invested in securities of any one issuer, or two or more issuers that are controlled by the Fund (within the meaning of Section 851(b)(4)(B) of the Code) and that are engaged in the same or similar trades or business (other than U.S. government securities of other RICs).

Underlying Index. The Underlying Indexes are designed to track various geographic sub-sectors of the economy and serve as (i) performance benchmarks for portfolio managers and investors who invest in securities of these issuers, (ii) performance yardsticks for issuers in these geographic areas, and (iii) vehicles for directing attention to regional investments and allocations within the U.S. economy. Each Fund focuses on a different geographic index. The Underlying Indexes have been designed geographically in each of the following areas: Georgia, North Carolina, Virginia and Washington.

Each Underlying Index was created and developed by XG based on its own proprietary intellectual model. In developing each Underlying Index, XG has established specific characterization/inclusion/exclusion criteria governing the stocks that are included in each Underlying Index.

The Underlying Index is maintained by the Index Administrator based on this criteria. Each Underlying Index is generally reconstituted on an annual basis. Decisions regarding additions to, and removals from, each individual Underlying Index are made by the Index Administrator, on an annual basis, in its sole discretion.

The Advisor uses a passive, or indexing, approach in managing the Funds. The Funds do not seek to outperform any particular market sector and will not assume temporary defensive positions when markets decline or appear overvalued.

Each Fund will invest at least 90% of its assets in the common stocks of companies in the Underlying Index. Because each Underlying Index is comprised only of stocks from companies headquartered in the named State, as indicated by its name (e.g., only “Georgia ” companies are contained in the S&P Custom/StateShares™ Georgia 50 Index), this means that each Fund will invest at least 90% of its assets in such

companies. Each Fund may also invest up to 10% of its assets in futures contracts, options on futures contracts, options, swaps on securities of companies in the Underlying Index, as well as cash and cash equivalents, such as money market instruments (subject to applicable limitations of the 1940 Act). Each Fund will attempt to replicate the Underlying Index by matching the weighting of securities in its portfolio with such securities' weightings in the Underlying Index.¹¹ In managing the Funds, the Advisor seeks a correlation of 0.95 or better between each Fund's performance and the performance of the Underlying Index. A figure of 1.00 would represent perfect correlation. There is no guarantee that the Advisor will be able to obtain this level of correlation.

From time to time, it may not be possible, for regulatory or other legal reasons, to replicate the Underlying Index and in such cases the Advisor may pursue a sampling strategy in managing the portfolio. Pursuant to this strategy, a Fund may invest the remainder of its assets in securities of companies not included in an Underlying Index if the Advisor believes that such securities will assist the Fund in tracking the Underlying Index. If a Fund pursues a sampling strategy, it will continue to invest at least 90% of its assets in the common stocks of the companies in the Underlying Index.

The following is a summary of the principal investment policies and strategies of each of the Funds:

¹¹ Each company in the applicable Underlying Index is assigned a weight factor based upon total employees. Companies with more employees are assigned higher weighting than companies with fewer employees.

StateShares™ Georgia 50 Exchange-Traded Fund. The StateShares™ Georgia 50 Exchange-Traded Fund seeks to track the performance, before fees and expenses, of the S&P Custom/StateShares™ Georgia 50 Index.

The Fund employs a “passive management” investment strategy designed to track the performance of the S&P Custom/StateShares™ Georgia 50 Index, an index of issuers that meet certain revenue and income criteria and that have been identified as “Georgia” companies by the Index Administrator and therefore are included in the S&P Custom/StateShares™ Georgia 50 Index. Only companies with market capitalizations greater than \$100 million for at least two of the preceding three quarters are eligible for inclusion in the S&P Custom/StateShares™ Georgia 50 Index. A Georgia company is a company whose headquarters is located in Georgia.

As its primary strategy, the Fund attempts to replicate the Underlying Index by investing substantially all of its assets in the stocks that make up the Underlying Index, holding each stock in approximately the same proportion as its weighting in the Underlying Index. The Fund will invest at least 90% of its assets in common stocks of companies in the Underlying Index. Because the Underlying Index is comprised of only stocks of Georgia 50 companies, this means that the Fund will invest at least 90% of its assets in Georgia 50 companies, as discussed above. The Fund may also invest up to 10% of its assets in futures contracts, options on futures contracts, options, swaps on securities of companies in the Underlying Index, as well as cash and cash equivalents, such as money market instruments (subject to applicable limitations of the 1940 Act). The Fund may also sample, rather than replicate, the Underlying Index by holding stocks that, in the aggregate, are intended to approximate the Underlying Index in terms of key

characteristics, such as price/earnings ratio, earnings growth, and dividend yield. If the Fund pursues a sampling strategy, it will continue to invest at least 90% of its assets in the common stocks of companies in the Underlying Index.

StateShares™ North Carolina 50 Exchange-Traded Fund. The StateShares™ North Carolina 50 Exchange-Traded Fund seeks to track the performance, before fees and expenses, of the S&P Custom/StateShares™ North Carolina 50 Index.

The Fund employs a “passive management” investment strategy designed to track the performance of the S&P Custom/StateShares™ North Carolina 50 Index, an index of issuers that meet certain revenue and income criteria and that have been identified as “North Carolina” companies by the Index Administrator and therefore are included in the S&P Custom/StateShares™ North Carolina 50 Index. Only companies with market capitalizations greater than \$100 million for at least two of the preceding three quarters are eligible for inclusion in the S&P Custom/StateShares™ North Carolina 50 Index. A North Carolina company is a company whose headquarters is located in North Carolina.

As its primary strategy, the Fund attempts to replicate the Underlying Index by investing substantially all of its assets in the stocks that make up the Underlying Index, holding each stock in approximately the same proportion as its weighting in the Underlying Index. The Fund will invest at least 90% of its assets in common stocks of companies in the Underlying Index. Because the Underlying Index is comprised of only stocks of North Carolina 50 companies, this means that the Fund will invest at least 90% of its assets in North Carolina 50 companies, as discussed above. The Fund may also invest up to 10% of its assets in futures contracts, options on futures contracts, options, swaps on securities of companies in the Underlying Index, as well as cash and cash

equivalents, such as money market instruments (subject to applicable limitations of the 1940 Act). The Fund may also sample, rather than replicate, the Underlying Index by holding stocks that, in the aggregate, are intended to approximate the Underlying Index in terms of key characteristics, such as price/earnings ratio, earnings growth, and dividend yield. If the Fund pursues a sampling strategy, it will continue to invest at least 90% of its assets in the common stocks of companies in the Underlying Index.

StateShares™ Virginia 50 Exchange-Traded Fund. The StateShares™ Virginia 50 Exchange-Traded Fund seeks to track the performance, before fees and expenses, of the S&P Custom/StateShares™ Virginia 50 Index.

The Fund employs a “passive management” investment strategy designed to track the performance of the S&P Custom/StateShares™ Virginia 50 Index, an index of issuers that meet certain revenue and income criteria and that have been identified as “Virginia” companies by the Index Administrator and therefore are included in the S&P Custom/StateShares™ Virginia 50 Index. Only companies with market capitalizations greater than \$100 million for at least two of the preceding three quarters are eligible for inclusion in the S&P Custom/StateShares™ Virginia 50 Index. A Virginia company is a company whose headquarters is located in Virginia.

As its primary strategy, the Fund attempts to replicate the Underlying Index by investing substantially all of its assets in the stocks that make up the Underlying Index, holding each stock in approximately the same proportion as its weighting in the Underlying Index. The Fund will invest at least 90% of its assets in common stocks of companies in the Underlying Index. Because the Underlying Index is comprised of only stocks of Virginia 50 companies, this means that the Fund will invest at least 90% of its

assets in Virginia 50 companies, as discussed above. The Fund may also invest up to 10% of its assets in futures contracts, options on futures contracts, options, swaps on securities of companies in the Underlying Index, as well as cash and cash equivalents, such as money market instruments (subject to applicable limitations of the 1940 Act).

The Fund may also sample, rather than replicate, the Underlying Index by holding stocks that, in the aggregate, are intended to approximate the Underlying Index in terms of key characteristics, such as price/earnings ratio, earnings growth, and dividend yield. If the Fund pursues a sampling strategy, it will continue to invest at least 90% of its assets in the common stocks of companies in the Underlying Index.

StateShares™ Washington 50 Exchange-Traded Fund. The StateShares™ Washington 50 Exchange-Traded Fund seeks to track the performance, before fees and expenses, of the S&P Custom/StateShares™ Washington 50 Index.

The Fund employs a “passive management” investment strategy designed to track the performance of the S&P Custom/StateShares™ Washington 50 Index, an index of issuers that meet certain revenue and income criteria and that have been identified as “Washington” companies by the Index Administrator and therefore are included in the S&P Custom/StateShares™ Washington 50 Index. Only companies with market capitalizations greater than \$100 million for at least two of the preceding three quarters are eligible for inclusion in the S&P Custom/StateShares™ Washington 50 Index. A Washington company is a company whose headquarters is located in Washington.

As its primary strategy, the Fund attempts to replicate the Underlying Index by investing substantially all of its assets in the stocks that make up the Underlying Index, holding each stock in approximately the same proportion as its weighting in the

Underlying Index. The Fund will invest at least 90% of its assets in common stocks of companies in the Underlying Index. Because the Underlying Index is comprised of only stocks of Washington 50 companies, this means that the Fund will invest at least 90% of its assets in Washington 50 companies, as discussed above. The Fund may also invest up to 10% of its assets in futures contracts, options on futures contracts, options, swaps on securities of companies in the Underlying Index, as well as cash and cash equivalents, such as money market instruments (subject to applicable limitations of the 1940 Act). The Fund may also sample, rather than replicate, the Underlying Index by holding stocks that, in the aggregate, are intended to approximate the Underlying Index in terms of key characteristics, such as price/earnings ratio, earnings growth, and dividend yield. If the Fund pursues a sampling strategy, it will continue to invest at least 90% of its assets in the common stocks of companies in the Underlying Index.

Information about each Underlying Index, including the component securities in each Underlying Index and value of the securities in each Underlying Index are posted throughout the trading day every 15 seconds and are available through Reuters.

Each Fund imposes transaction fees on in-kind purchases and redemptions of the Fund to cover the custodial and other costs incurred by the Fund in effecting in-kind trades. To compensate the Company for transfer and other transaction costs involved in creation transactions through the Clearing Process (as described below), investors will be required to pay a fixed creation transaction fee, payable to the Company regardless of the number of creations made each day. A redemption transaction fee is imposed to offset transfer and other transaction costs that may be incurred by a Fund. An additional variable charge for cash redemptions (when cash redemptions are available or specified)

for a Fund may be imposed. The creation and redemption transaction fees for creations and redemptions in-kind for the Funds are described in the Funds' prospectus.

The Funds will issue and redeem, on a continuous basis, shares at its net asset value ("NAV") only in blocks of 100,000 shares or multiples thereof (each, a "Creation Unit" or a "Creation Unit Aggregation"), generally in exchange for a basket of equity securities included in the Underlying Index, together with the deposit of a specified cash payment. Shares are redeemable only in Creation Unit Aggregations, and, generally, in exchange for portfolio securities and a specified cash payment.

All orders to purchase Shares of the Funds in Creation Units must be placed with the Distributor by or through an "Authorized Participant," which is either (i) a "Participating Organization," i.e., a broker dealer or other participant in the clearing process through the Continuous Net Settlement System of the National Securities Clearing Corporation ("NSCC") (the "Clearing Process"), a clearing agency that is registered with the Commission, or (ii) a Depository Trust Company ("DTC") Participant, and in each case, must have executed a "Participant Agreement" with the Distributor governing the purchase and redemption of Creation Units.

Consideration for Purchase of Creation Units

The consideration for purchase of a Creation Unit from a Fund generally consists of the in kind deposit of a designated portfolio of equity securities (the Deposit Securities) per each Creation Unit Aggregation constituting a substantial replication of the stocks included in the Underlying Index and an amount of cash (the Cash Component) consisting of a Balancing Amount (described below) and a transaction fee. Together, the Deposit Securities and the Cash Component constitute the Fund Deposit.

The Balancing Amount is an amount equal to the difference between the NAV of a Creation Unit and the market value of the Deposit Securities (the “Deposit Amount”). It ensures that the NAV of a Fund Deposit (not including the transaction fee) is identical to the NAV of the Creation Unit it is used to purchase. If the Balancing Amount is a positive number (i.e., the NAV per Creation Unit exceeds the market value of the Deposit Securities), then that amount will be paid by the purchaser to the Fund in cash. If the Balancing Amount is a negative number (i.e., the NAV per Creation Unit is less than the market value of the Deposit Securities), then that amount will be paid by the Fund to the purchaser in cash (except as offset by the transaction fee).

The Company, through the NSCC, makes available on each Business Day, immediately prior to the opening of business on the NYSE (currently 9:30 a.m., Eastern time), a list of the names and the required number of shares of each Deposit Security to be included in the current Fund Deposit for each Fund (based on information at the end of the previous Business Day). The Fund Deposit is applicable, subject to any adjustments as described below, in order to effect purchases of Creation Units of a Fund until such time as the next-announced Fund Deposit composition is made available. Each Fund reserves the right to accept a nonconforming Fund Deposit.

The identity and number of shares of the Deposit Securities required for a Fund Deposit may change to reflect rebalancing adjustments and corporate actions by a Fund, or in response to adjustments to the weighting or composition of the component stocks of the Underlying Index. In addition, the Company reserves the right to permit or require the substitution of an amount of cash-i.e., a “cash in lieu” amount-to be added to the Cash Component to replace any Deposit Security that may not be available in sufficient

quantity for delivery, may not be eligible for transfer through the Clearing Process, or may not be eligible for trading by a Participating Organization or the investor for which a Participating Organization is acting. Brokerage commissions incurred in connection with acquisition of Deposit Securities not eligible for transfer through the systems of DTC and hence not eligible for transfer through the Clearing Process will be an expense of the Fund. However, the Advisor, subject to the approval of the Board of Directors, may adjust the transaction fee to protect existing shareholders from this expense.

In addition to the list of names and numbers of securities constituting the current Deposit Securities, the Company, through the NSCC, also makes available on each Business Day, the estimated Cash Component, effective through and including the previous Business Day, per outstanding Creation Unit of the Fund. All questions as to the number of shares of each security in the Deposit Securities and the validity, form, eligibility, and acceptance for deposit of any securities to be delivered shall be determined by the appropriate Fund, and the Fund's determination shall be final and binding.

Redemption of Shares in Creation Units

Fund Shares may be redeemed only in Creation Unit Aggregations at their NAV next determined after receipt of a redemption request in proper form by a Fund through the Administrator and only on a Business Day. A Fund will not redeem Shares in amounts less than Creation Unit Aggregations. Beneficial owners must accumulate enough Shares in the secondary market to constitute a Creation Unit Aggregation in order to have such Shares redeemed by the Company. There can be no assurance, however, that there will be sufficient liquidity in the public trading market at any time to permit

assembly of a Creation Unit Aggregation. Investors should expect to incur brokerage and other costs in connection with assembling a sufficient number of Fund Shares to constitute a redeemable Creation Unit Aggregation.

With respect to a Fund, the Administrator, through the NSCC, makes available prior to the opening of business on the NYSE (currently 9:30 a.m., Eastern time) on each Business Day, the identity of the Fund Securities that will be applicable (subject to possible amendment or correction) to redemption requests received in proper form (as described below) on that day. Fund Securities received on redemption may not be identical to Deposit Securities that are applicable to creations of Creation Unit Aggregations.

Unless cash redemptions are available or specified for a Fund, the redemption proceeds for a Creation Unit Aggregation generally consist of Fund Securities, as announced on the Business Day of the request for redemption received in proper form, plus or minus cash in an amount equal to the difference between the NAV of the Fund Shares being redeemed, as next determined after a receipt of a request in proper form, and the value of the Fund Securities (the “Cash Redemption Amount”), less a redemption transaction fee. In the event that the Fund Securities have a value greater than the NAV of the Fund Shares, a compensating cash payment equal to the difference is required to be made by or through an Authorized Participant by the redeeming shareholder.

The right of redemption may be suspended or the date of payment postponed (i) for any period during which the NYSE is closed (other than customary weekend and holiday closings); (ii) for any period during which trading on the NYSE is suspended or restricted; (iii) for any period during which an emergency exists as a result of which

disposal of the shares of the Fund or determination of a Fund's NAV is not reasonably practicable; or (iv) in such other circumstances as is permitted by the SEC.

Dividends, Distributions and Taxes

Dividends from net investment income, if any, are declared and paid annually by each Fund. Distributions of net realized securities gains, if any, generally are declared and paid once a year, but the Company may make distributions on a more frequent basis for certain Funds to improve index tracking or to comply with the distribution requirements of the Code, in all events in a manner consistent with the provisions of the 1940 Act.

Dividends and other distributions on Shares are distributed on a pro rata basis to Beneficial Owners of such Shares. Dividend payments are made through DTC Participants and Indirect Participants to Beneficial Owners then of record with proceeds received from the Company.

The Company makes additional distributions to the extent necessary (i) to distribute the entire annual taxable income of the Company, plus any net capital gains and (ii) to avoid imposition of the excise tax imposed by Section 4982 of the Code. Management of the Company reserves the right to declare special dividends if, in its reasonable discretion, such action is necessary or advisable to preserve the status of each Fund as a RIC or to avoid imposition of income or excise taxes on undistributed income.

Dividend Reinvestment Service

The Company will not make the DTC book-entry dividend reinvestment service available for use by Beneficial Owners for reinvestment of their cash proceeds, but certain individual broker-dealers may make available the DTC book-entry Dividend

Reinvestment Service for use by Beneficial Owners of Funds through DTC Participants for reinvestment of their dividend distributions. Investors should contact their brokers to ascertain the availability and description of these services. Beneficial Owners should be aware that each broker may require investors to adhere to specific procedures and timetables in order to participate in the dividend reinvestment service and investors should ascertain from their brokers such necessary details. If this service is available and used, dividend distributions of both income and realized gains will be automatically reinvested in additional whole Shares issued by the same Fund based on a payable date NAV.

Availability of Information Regarding Shares and Underlying Indexes

The Company, through the NSCC, will make available on each Business Day, immediately prior to the opening of business on the Exchange (currently 9:30 a.m., Eastern time), a list of the names and the required number of shares of each Deposit Security to be included in the current Fund Deposit for each Fund (based on information at the end of the previous Business Day).

According to the Funds' Registration Statement, the NAV of each Fund's shares is calculated each business day as of the close of regular trading on the NYSE, generally 4:00 p.m., Eastern Time. NAV per share is computed by dividing the net assets by the number of shares outstanding.

Additional information regarding the indicative value of shares of each Fund, also known as the "indicative optimized portfolio value" ("IOPV"), is disseminated every fifteen seconds through the Consolidated Tape throughout the Opening, Core and Late Trading Sessions (4:00 a.m. ET to 8:00 p.m. ET) by the Exchange. The IOPV does not

necessarily reflect the precise composition of the current portfolio of securities held by a Fund at a particular point in time nor the best possible valuation of the current portfolio. Therefore, the IOPV should not be viewed as a “real-time” update of the NAV, which is computed only once a day. The IOPV is generally determined by using both current market quotations and/or price quotations obtained from broker-dealers that may trade in the portfolio securities held by a Fund.

The Funds’ website at <http://www.StateSharesinc.com> will show the prior day’s closing NAV and closing market price for the Funds’ shares. In addition, the Funds’ website will contain the following information, on a per share basis, for each Fund: (a) the prior business day’s NAV and the Bid/Ask Price and a calculation of the premium or discount of the Bid/Ask Price at the time of calculation of the net asset value against such net asset value; and (b) data in chart format displaying the frequency distribution of discounts and premiums of the daily Bid/Ask Price against the net asset value, within appropriate ranges, for each of the four previous calendar quarters. In addition, the Funds’ website contains information regarding the premiums and discounts at which shares of the Funds have traded. The Exchange will also disseminate a variety of data such as Total Cash Amount Per Creation Unit, Shares Outstanding and Net Asset Value with respect to the Fund on a daily basis by means of CTA and CQ High Speed Lines.

The Funds’ portfolio holdings are publicly disseminated each day the Funds are open for business through financial reporting and news services including publicly available internet web sites. In addition, a basket composition file, which includes the security names and share quantities required to be delivered in exchange for Fund Shares,

together with estimates and actual cash components, is publicly disseminated daily prior to the opening of the NYSE via the NSCC.

The Company has informed the Exchange that each Fund will make the NAV for each Fund available to all market participants at the same time. If the NAV is not disseminated to all market participants at the same time, the Exchange will halt trading in the Fund shares.

Information about each Underlying Index, including the component securities in each Underlying Index and value of the securities in each Underlying Index are posted throughout the trading day every 15 seconds and are available through Reuters.

The Underlying Indexes

S&P Custom/StateShares™ Georgia 50 Index. As of April 4, 2007, the S&P Custom/StateShares™ Georgia 50 Index component securities had a modified market capitalization of approximately \$72,107,201,000, representing 50 securities. The five highest weighted securities represented approximately 15.37% of the index weight. The heaviest weighted security represented approximately 3.20% of the index weight. The monthly trading volume during each of the last six months of at least 250,000 shares for stocks represented 88.26% of the weight of the index.¹²

S&P Custom/StateShares™ North Carolina 50 Index. As of April 4, 2007, the S&P Custom/StateShares™ North Carolina 50 Index component securities had a modified market capitalization of approximately \$75,522,378,000, representing 50 securities. The five highest weighted securities represented approximately 15.22% of the index weight. The heaviest weighted security represented approximately 3.30% of the index weight.

¹² Source: Bloomberg.

The monthly trading volume during each of the last six months of at least 250,000 shares for stocks represented 87.63% of the weight of the index.¹³

S&P Custom/StateShares™ Virginia 50 Index. As of April 4, 2007, the S&P Custom/StateShares™ Virginia 50 Index component securities had a modified market capitalization of approximately \$69,886,467,000, representing 50 securities. The five highest weighted securities represented approximately 15.79% of the index weight. The heaviest weighted security represented approximately 3.67% of the index weight. The monthly trading volume during each of the last six months of at least 250,000 shares for stocks represented 84.28% of the weight of the index.¹⁴

S&P Custom/StateShares™ Washington 50 Index. As of April 4, 2007, the S&P Custom/StateShares™ Washington 50 Index component securities had a modified market capitalization of approximately \$70,059,732,000, representing 50 securities. The five highest weighted securities represented approximately 15.48% of the index weight. The heaviest weighted security represented approximately 3.34% of the index weight. The monthly trading volume during each of the last six months of at least 250,000 shares for stocks represented 89.34% of the weight of the index.¹⁵

Criteria for Initial and Continued Listing

The Shares are subject to the criteria for initial and continued listing of Investment Company Units under NYSE Arca Equities Rules 5.2(j)(3) and 5.5(g)(2). A minimum of one Creation Units (at least 100,000 Shares) will be required to be outstanding at the start of trading. This minimum number of Shares required to be

¹³ See footnote 9, *supra*.

¹⁴ See footnote 9, *supra*.

¹⁵ See footnote 9, *supra*.

outstanding at the start of trading will be comparable to requirements that have been applied to previously listed series of Investment Company Units. The Exchange believes that the proposed minimum number of Shares outstanding at the start of trading is sufficient to provide market liquidity.

The continued listing criteria for Investment Company Units under NYSE Arca Equities Rule 5.5(g)(2) provides that the Exchange will consider the suspension of trading and delisting (if applicable) of the Shares in any of the following circumstances:

- Following the initial twelve-month period beginning upon the commencement of trading of the Shares of a Fund, there are fewer than 50 record and/or beneficial holders of such Shares for 30 or more consecutive trading days; or
- The value of the Underlying Index of a Fund is no longer calculated or available; or
- Such other event occurs or condition exists that, in the opinion of the Exchange, makes further dealings on the Exchange inadvisable.

In addition, the Exchange will remove the Shares from trading and listing upon termination of the Company.

The Exchange represents the Company is required to comply with Rule 10A-3 under the Act for the initial and continued listing of the Shares.

Trading Rules

The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. The trading hours for the Funds on the Exchange are the same as those set forth in NYSE Arca Equities Rule 7.34 (4:00 a.m. to 8:00 p.m. Eastern Time). The minimum trading increment for shares of the Funds on the Exchange will be \$0.01.

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of a Fund. Trading may

be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. These may include: (1) the extent to which trading is not occurring in the securities comprising an Underlying Index and/or the Financial Instruments of a Fund, or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. In addition, trading in Shares will be subject to trading halts caused by extraordinary market volatility pursuant to the Exchange's "circuit breaker" rule¹⁶ or by the halt or suspension of trading of the underlying securities. If the IIV or the index value applicable to a series of Units is not being disseminated as required, the Exchange may halt trading during the day in which the interruption to the dissemination of the IIV or the index value occurs. If the interruption to the dissemination of the IIV or the index value persists past the trading day in which it occurred, the Exchange will halt trading no later than the beginning of the trading day following the interruption.

The Information Bulletin will discuss exemptive, no-action and interpretive relief granted by the Commission from Section 11(d)(1) and certain rules under the Act, including Rule 10a-1, Regulation SHO, Rule 10b-10, Rule 14e-5, Rule 10b-17, Rule 11d1-2, Rules 15c1-5 and 15c1-6, and Rules 101 and 102 of Regulation M under the Act.

Surveillance

The Exchange intends to utilize its existing surveillance procedures applicable to derivative products to monitor trading in the Shares. The Exchange represents that these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules.

¹⁶ See NYSE Arca Equities Rule 7.12.

The Exchange's current trading surveillance focuses on detecting securities trading outside their normal patterns. When such situations are detected, surveillance analysis follows and investigations are opened, where appropriate, to review the behavior of all relevant parties for all relevant trading violations.

The Exchange may obtain information via the Intermarket Surveillance Group ("ISG") from exchanges who are members or affiliates of the ISG.¹⁷

In addition, the Exchange also has a general policy prohibiting the distribution of material, non-public information by its employees.

Information Bulletin

Prior to the commencement of trading, the Exchange will inform its ETP Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares. Specifically, the Bulletin will discuss the following: (1) the procedures for purchases and redemptions of Shares in Creation Unit Aggregations (and that Shares are not individually redeemable); (2) NYSE Arca Equities Rule 9.2(a),¹⁸ which imposes a duty of due diligence on its ETP Holders to learn the essential facts relating to every customer prior to trading the Shares; (3) how information regarding the IIV is

¹⁷ For a list of the current members and affiliate members of ISG, *see* www.isgportal.com.

¹⁸ NYSE Arca Equities Rule 9.2(a) provides that ETP Holders, before recommending a transaction, must have reasonable grounds to believe that the recommendation is suitable for the customer based on any facts disclosed by the customer as to his other security holdings and as to his financial situation and needs. Further, the rule provides, with a limited exception, that prior to the execution of a transaction recommended to a non-institutional customer, the ETP Holders shall make reasonable efforts to obtain information concerning the customer's financial status, tax status, investment objectives, and any other information that they believe would be useful to make a recommendation. *See* Securities Exchange Act Release No. 34-54045 (June 26, 2006), 71 FR 37971 (July 3, 2006) (SR-PCX-2005-115).

disseminated; (4) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (5) trading information.

In addition, the Bulletin will reference that a Fund is subject to various fees and expenses described in the Registration Statement. The Bulletin will also discuss any exemptive, no-action and interpretive relief granted by the Commission from any rules under the Act. The Bulletin will also disclose that the NAV for the Shares will be calculated after 4:00 p.m. ET each trading day.

(2) Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)¹⁹ of the Act, in general, and furthers the objectives of Section 6(b)(5)²⁰ in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

¹⁹ 15 U.S.C. 78f(b).

²⁰ 15 U.S.C. 78f(b)(5).

Written comments on the proposed rule change were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve such rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-NYSEArca-2007-37 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549.

All submissions should refer to File No. SR-NYSEArca-2007-37. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website

(<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal offices of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-NYSEArca-2007-37 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²¹

Florence Harmon
Deputy Secretary

²¹ 17 CFR 200.30-3(a)(12).