Proposed Rule Change by Philadelphia Stock Exchange

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial Amendment Withdrawal

Section 19(b)(2) Section 19(b)(3)(A) Section 19(b)(3)(B)

[ ] [ ] [ ]

Rule

19b-4(f)(6) 19b-4(f)(5)

Pilot Extension of Time Period for Commission Action Date Expires

[ ] [ ]

19b-4(f)(1) 19b-4(f)(4)

19b-4(f)(2) 19b-4(f)(5)

19b-4(f)(3) 19b-4(f)(6)

Description

Provide a brief description of the proposed rule change (limit 250 characters).

Proposed rule change relating to the extension of a pilot program concerning position and exercise limits in options.

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 Richard Last Name Rudolph

Title Vice President and Counsel

E-mail Richard.Rudolph@phlx.com

Telephone (215) 496-5074 Fax (215) 496-6729

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 02/24/2006

By Richard S. Rudolph Vice President and Counsel

(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.

Richard RUDolph,
<table>
<thead>
<tr>
<th>Exhibit 1 - Notice of Proposed Rule Change</th>
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</thead>
<tbody>
<tr>
<td>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)</td>
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<tr>
<th>Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications</th>
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<tr>
<td>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.</td>
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<tr>
<th>Exhibit 3 - Form, Report, or Questionnaire</th>
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<td>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.</td>
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<tr>
<th>Exhibit 4 - Marked Copies</th>
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<tbody>
<tr>
<td>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.</td>
</tr>
</tbody>
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<th>Exhibit 5 - Proposed Rule Text</th>
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<td>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.</td>
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<th>Partial Amendment</th>
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<td>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.</td>
</tr>
</tbody>
</table>
1. **Text of the Proposed Rule Change**

The Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")\(^1\) and Rule 19b-4 thereunder,\(^2\) proposes to extend, for a period of approximately six months, through September 1, 2006, a pilot program applicable to Exchange Rule 1001, Position Limits, which increases the standard position and exercise limits for equity option contracts and options on the Nasdaq-100 Index Tracking Stock\(^3\) ("QQQQ") (the "Pilot Program").

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and the text of amended Exchange Rule 1001 is set forth below.

Brackets indicate deletions; underlining indicates new text.

**Position Limits**

**Rule 1001.** Except with the prior written approval of the Exchange in each instance, no member or member organization shall effect, for any account in which such member or member organization has an interest or for the account of any partner, officer, director or employee thereof or for the account of any customer, an opening transaction (whether on the Exchange or on another participating exchange) in an option contract of any class of options dealt in on the Exchange if the member or member organization has reason to believe that, as a result of such transaction, the member or member organization or partner, officer, director or employee thereof or customer would, acting alone or in

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\(^3\) The Nasdaq-100®, Nasdaq-100 Index®, Nasdaq®, The Nasdaq Stock Market®, Nasdaq-100 Shares℠, Nasdaq-100 Trust℠, Nasdaq-100 Index Tracking Stock℠, and QQQ℠ are trademarks or service marks of The Nasdaq Stock Market, Inc. ("Nasdaq") and have been licensed for use for certain purposes by the Philadelphia Stock Exchange pursuant to a License Agreement with Nasdaq. The Nasdaq-100 Index® (the "Index") is determined, composed, and calculated by Nasdaq without regard to the Licensee, the Nasdaq-100 Trust℠, or the beneficial owners of Nasdaq-100 Shares℠. Nasdaq has complete control and sole discretion in determining, comprising, or calculating the Index or in modifying in any way its method for determining, comprising, or calculating the Index in the future.
concert with others, directly or indirectly control an aggregate position: (a) of more than 13,500, 22,500, 31,500, 60,000 or 75,000), except that for a pilot program period of 6 months (the “Pilot Program Period”) from [September 3, 2005] March 4, 2006 through [March 3, 2006] September 1, 2006, the position limits shall be 25,000 or 50,000 or 75,000 or 200,000 or 250,000 option contracts (whether long or short), put or call option contracts on the same side of the market relating to the same underlying security, which limit is determined in accordance with commentary .05(a), in the case of options on a stock or Exchange-Traded Fund Share, (except with respect to put or call option contracts overlying the Nasdaq-100 Index Tracking Stock (“QQQQ”)® for which the position limit shall be 300,000 contracts (or 900,000 contracts during the Pilot Program Period) on the same side of the market, and the Standard and Poor’s Depositary Receipts (“SPDRs”), for which the position limit shall be 300,000 contracts on the same side of the market, or (b) with respect to a stock or Exchange-Traded Fund Share option not dealt in on the Exchange, exceeding the applicable position limit established by the exchange on which the option contract is transacted, when the member or member organization is not a member of that other exchange, or more than 200,000 put or call option contracts on the same side of the market relating to the same underlying foreign currency (except for the U.S. dollar, Italian lira, Spanish peseta, and the Mexican peso) in the case of options on a foreign currency, or such other number of option contracts as may be fixed from time to time by the Exchange as the position limit for one or more classes or series. Position limits for index warrants shall be determined in accordance with Commentary .05(d).

Commentary: No change.

2. Procedures of the Self-Regulatory Organization

The Executive Committee, pursuant to delegated authority, approved the proposal for filing with the Securities and Exchange Commission (“SEC” or “Commission”) on March 3, 2005.

Questions and comments on the proposed rule change may be directed to Richard S. Rudolph, Vice President and Counsel, at (215) 496- 5074, or Edith Hallahan, Senior Vice President and Deputy General Counsel, at (215) 496-5179.
3. **Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

   a. **Purpose**

   The purpose of the proposed rule change is to extend the Pilot Program, which is scheduled to expire March 3, 2006, for approximately an additional six-month period, through September 1, 2006.

   Position limits impose a ceiling on the number of option contracts in each class on the same side of the market relating to the same underlying security that can be held or written by an investor or group of investors acting in concert. Exchange Rule 1002 (not proposed to be amended herein) establishes corresponding exercise limits. Exercise limits prohibit an investor or group of investors acting in concert from exercising more than a specified number of puts or calls in a particular class within five consecutive business days.

   Rule 1001 subjects equity options to one of five different position limits depending on the trading volume and outstanding shares of the underlying security. Rule 1002 establishes exercise limits for the corresponding options at the same levels as the corresponding security’s position limits.\(^5\)

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\(^5\) Rule 1002 states, in relevant part, “... no member or member organization shall exercise, for any account in which such member or member organization has an interest or for the account of any partner, officer, director or employee thereof or for the account of any customer, a long position in any option contract of a class of options dealt in on the Exchange (or, respecting an option not dealt in on the Exchange, another exchange if the member or member organization is not a member of that exchange) if as a result thereof such member or member organization, or partner, officer, director or employee thereof or customer, acting alone or in concert with others, directly or indirectly, has or will have exercised within any five (5) consecutive business days aggregate long positions in that class (put or call) as set forth as the position limit in Rule 1001, in the case of options on a stock or on an Exchange-Traded Fund Share...”
**Standard Position and Exercise Limit**

The Pilot Program increases the standard position and exercise limits for equity options traded on the Exchange and for options overlying QQQQ to the following levels:

<table>
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<tr>
<th>Standard Equity Option Contract Limit</th>
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To date, the Exchange believes that there have been no adverse affects on the market as a result of these increases in the limits for equity option contracts and options overlying QQQQ.

b. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^6\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^7\) in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and,

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\(^7\) 15 U.S.C. 78f(b)(5).
in general to protect investors and the public interest, by extending the pilot for an additional six months.

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

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

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

   No written comments were either solicited or received.

6. **Extension of Time Period for Commission Action**

   Not applicable.

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

   The foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest, and (2) does not impose any significant burden on competition. Therefore, it has become effective pursuant to Section 19(b)(3)(A)\(^8\) of the Act and Rule 19b-4(f)(6)\(^9\) thereunder. The Exchange requests that the Commission waive the 30-day period for the proposed rule change to become operative, in order to provide for the continuity of the Pilot Program through September 1, 2006.

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

   The proposed rule change is based on Chicago Board Options Exchange, Inc.

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9. **Exhibits**

1. Notice of proposed rule for publication in the *Federal Register*.

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SECURITIES AND EXCHANGE COMMISSION
(Release No.                  ; File No. SR-Phlx-2006-13)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Extension of a Pilot Program Concerning Option Position Limits

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4² thereunder, notice is hereby given that on ______________________ 2006, the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Phlx. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Phlx, pursuant to Section 19(b)(1) of the Act³ and Rule 19b-4 thereunder,⁴ proposes to extend, for a period of approximately six months, through September 1, 2006, a pilot program applicable to Exchange Rule 1001, Position Limits, which increases the standard position and exercise limits for equity option contracts and options on the Nasdaq-100 Index Tracking Stock⁵ (“QQQQ”) (the “Pilot Program”).

⁵ The Nasdaq-100®, Nasdaq-100 Index®, Nasdaq®, The Nasdaq Stock Market®, Nasdaq-100 Shares℠, Nasdaq-100 Trust℠, Nasdaq-100 Index Tracking Stock℠, and QQQ℠ are trademarks or service marks of The Nasdaq Stock Market, Inc. (Nasdaq) and have been licensed for use for certain purposes by the
The text of amended Exchange Rule 1001 is set forth below.

Brackets indicate deletions; underlining indicates new text.

Position Limits

**Rule 1001.** Except with the prior written approval of the Exchange in each instance, no member or member organization shall effect, for any account in which such member or member organization has an interest or for the account of any partner, officer, director or employee thereof or for the account of any customer, an opening transaction (whether on the Exchange or on another participating exchange) in an option contract of any class of options dealt in on the Exchange if the member or member organization has reason to believe that, as a result of such transaction, the member or member organization or partner, officer, director or employee thereof or customer would, acting alone or in concert with others, directly or indirectly control an aggregate position: (a) of more than 13,500, 22,500, 31,500, 60,000 or 75,000), except that for a pilot program period of 6 months (the “Pilot Program Period”) from [September 3, 2005] March 4, 2006 through [March 3, 2006] September 1, 2006, the position limits shall be 25,000 or 50,000 or 75,000 or 200,000 or 250,000 option contracts (whether long or short), put or call option contracts on the same side of the market relating to the same underlying security, which limit is determined in accordance with commentary .05(a), in the case of options on a stock or Exchange-Traded Fund Share, (except with respect to put or call option contracts overlying the Nasdaq-100 Index Tracking Stock ("QQQQ")® for which the position limit shall be 300,000 contracts (or 900,000 contracts during the Pilot Program Period) on the same side of the market, and the Standard and Poor’s Depositary Receipts ("SPDRs”), for which the position limit shall be 300,000 contracts on the same side of the market,) or (b) with respect to a stock or Exchange-Traded Fund Share option not dealt in on the Exchange, exceeding the applicable position limit established by the exchange on which the option contract is transacted, when the member or member organization is not a member of that other exchange, or more than 200,000 put or call option contracts on the same side of the market relating to the same underlying foreign currency (except for the U.S. dollar, Italian lira, Spanish peseta, and the Mexican peso) in the case of options on a foreign currency, or such other number of option contracts as may be fixed from time to time by the Exchange as the position limit for one or more classes or series. Position limits for index warrants shall be determined in accordance with Commentary .05(d).

Commentary: No change.
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 Phlx 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 Phlx 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**

The purpose of the proposed rule change is to extend the Pilot Program, which is scheduled to expire March 3, 2006, for approximately an additional six-month period, through September 1, 2006.

Position limits impose a ceiling on the number of option contracts in each class on the same side of the market relating to the same underlying security that can be held or written by an investor or group of investors acting in concert. Exchange Rule 1002 (not proposed to be amended herein) establishes corresponding exercise limits. Exercise limits prohibit an investor or group of investors acting in concert from exercising more than a specified number of puts or calls in a particular class within five consecutive business days.

Rule 1001 subjects equity options to one of five different position limits depending on the trading volume and outstanding shares of the underlying security.

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b. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^8\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^9\) in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by extending the pilot for an additional six months.

2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^10\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^11\) in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by extending the pilot for an additional six months.

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 not necessary or appropriate in furtherance of the purposes of the Act.

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

No written comments were either solicited or received.

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

The foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest, and (2) does not impose any significant burden on competition. Therefore, it has become effective pursuant to Section 19(b)(3)(A)\(^{12}\) of the Act and Rule 19b-4(f)(6)\(^{13}\) thereunder. The Exchange requests that the Commission waive the 30-day period for the proposed rule change to become operative, in order to provide for the continuity of the Pilot Program through September 1, 2006.

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 Number SR-Phlx-2006-13 on the subject line.


\(^{13}\) 17 CFR 240.19b-4(f)(6).
Paper comments:

- Send paper comments in triplicate to Nancy Morris, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609.

All submissions should refer to File Number SR-Phlx-2006-13. 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 Web site (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 the filing also will be available for inspection and copying at the principal office of the Phlx. 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 Number SR-Phlx-2006-13 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.¹⁴

Nancy M. Morris
Secretary