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

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).

Short Stock Interest, Dividend and Merger Spread Programs

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 Cynthia Last Name Hoekstra

Title Director

E-mail cynthia.hoekstra@phlx.com

Telephone (215) 496-5066 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 06/28/2006

By Cynthia Hoekstra Director

(Note)

(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.

Cynthia HOekstra
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**

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**

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**

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**

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**

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**

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**

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 amend its schedule of fees to provide for a rebate of $0.08 per contract side for Registered Options Trader ("ROT") executions and $0.07 per contract side for specialist executions made pursuant to a short stock interest strategy. The Exchange proposes to define a short stock interest strategy as "transactions done to achieve a short stock interest arbitrage involving the purchase, sale and exercise of in-the-money options of the same class."

In addition, the Exchange proposes to impose a fee cap of $1,000 on equity option transaction and comparison charges for short stock interest strategies executed on the same trading day in the same options class. Similar to the fee caps currently in effect in connection with dividend and merger spread transactions,\(^3\) the fee cap will be implemented after any applicable rebates are applied to ROT and specialist equity option transaction and comparison charges.

In addition, the Exchange is proposing to assess a $0.05 per contract side license fee for short stock interest strategies in connection with certain products that carry license

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fees. The applicable license fee will be assessed on every transaction and will not be subject to the $1,000 fee cap, nor will it count towards reaching the $1,000 fee cap.

The short stock interest strategy rebate, $1,000 fee cap and $0.05 per contract side license fee would be effective beginning with trades settling on or after July 1, 2006. The short stock interest strategy $1,000 fee cap and $0.05 per contract side license fee would remain in effect as a pilot program that is scheduled to expire on September 1, 2006.\(^5\)

The Exchange is also proposing to amend its current definitions of dividend spread transactions and merger spread transactions (hereinafter referred to as “dividend strategy,” “merger strategy,” or “dividend and merger strategies” as applicable) and update its fee schedule accordingly.

First, the Exchange proposes to amend the definitions of dividend and merger strategies in order to clarify that transactions done to achieve a dividend or merger arbitrage do not necessarily need to be "spreads" in order to qualify for the fee cap and rebate program currently in effect. It is the Exchange’s understanding that each of these strategies can be achieved either by purchasing and selling the same option series or different options series. Accordingly, as explained in further detail below, the Exchange proposes to revise each definition to refer to each strategy as a "strategy" instead of as a "spread" and to change each definition in certain respects to make clear that transactions

\(^4\) For a complete list of these product symbols, see the Exchange’s $60,000 Firm-Related Equity Option and Index Option Cap Fee Schedule.

\(^5\) The proposed pilot program will be in effect for the same time period as the $1,000 and $1,750 fee caps and the $0.05 per contract side license fee that is scheduled to expire on September 1, 2006. See Securities Exchange Act Release No. 53529 (March 21, 2006), 71 FR 15508 (March 28, 2006) (SR-Phlx-2006-16).
done to achieve a dividend or merger arbitrage that involve only one options series may also qualify for the above-referenced fee cap and rebate.

Second, the Exchange is proposing changes to the definition of each strategy to better reflect the similarities between the strategies. Dividend and merger strategies are strategies that have similar economic risks and are executed in similar ways. Each proposed definition would be clarified to reflect that each strategy involves the "purchase, sale and exercise" of options. Each proposed definition would also be clarified to reflect that the options involved must be of the "same class".

The Exchange currently defines a dividend strategy for purposes of the rebate and fee cap as “any trade done within a defined time frame pursuant to a strategy in which a dividend arbitrage can be achieved between any two deep-in-the-money options.” The Exchange proposes to change "dividend spread" to "dividend strategy", and proposes to define a dividend strategy as "transactions done to achieve a dividend arbitrage involving the purchase, sale and exercise of in-the-money options of the same class, executed prior to the date on which the underlying stock goes ex-dividend." The word "two" is not included in the new definition so that transactions involving only a single options series that are done to achieve a dividend arbitrage may also qualify for the fee cap and rebate. The word "deep" is also not included in the new definition because the options used do not necessarily need to be deep-in-the-money options and also because of the difficulty in defining what constitutes "deep" in-the-money. The definition is clarified by making explicit two requirements: the options must be of the same class and the transactions must be effected on the day prior to the date on which the underlying stock goes ex-dividend.
The Exchange currently defines a merger strategy for purposes of the fee cap and rebate as a “transaction executed pursuant to a merger spread strategy involving the simultaneous purchase and sale of options of the same class and expiration date, but with different strike prices, followed by the exercise of the resulting long options position, each executed prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock.” The Exchange proposes to change "merger spread" to "merger strategy", and proposes to define a merger strategy as "transactions done to achieve a merger arbitrage involving the purchase, sale and exercise of options of the same class and expiration date, executed prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock." The proposed definition does not include the words "but with different strike prices" so that transactions involving only a single options series that are done to achieve a merger arbitrage may also qualify for the fee cap and rebate. The word "simultaneous" is also not included in the new definition because the purchase and sale transactions do not necessarily need to be executed simultaneously.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and a copy of the applicable section of the Exchange’s Summary of Equity Option Charges is attached hereto as Exhibit 5.

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 June 26, 2006.
Questions and comments on the proposed rule change may be directed to Cynthia Hoekstra, Director, at (215) 496-5066 or Edith Hallahan, 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**

   **Background:**

   Currently, the Exchange provides a rebate for certain contracts executed in connection with transactions occurring as part of a dividend or merger strategy. Specifically, for those options contracts executed pursuant to a dividend or merger strategy, the Exchange rebates $0.08 per contract side for ROT executions and $0.07 per contract side for specialist executions on the business day before the underlying stock’s ex-date. The ex-date is the date on or after which a security is traded without a previously declared dividend or distribution.

   The net transaction and comparison charges after the rebate is applied are capped at $1,750 for merger strategies executed on the same trading day in the same options class and for dividend strategies on the same day in the same options class, except for a security with a declared dividend or distribution less than $0.25. In that instance, the net transaction and comparison charges after the rebate is applied are capped at $1,000 for dividend strategies on the same day in the same options class.  

A $0.05 per contract side license fee is imposed for dividend strategies in connection with certain products that carry license fees. The license fee is assessed on every transaction and is not subject to the $1,750 or $1,000 fee cap, nor does it count towards reaching the fee caps. The $1,000 and $1,750 fee caps and the $0.05 per contract side license fee are subject to a pilot program scheduled to expire on September 1, 2006.

Consistent with the current rebate program for dividend and merger strategies, any rebate request forms for short stock interest strategies must be submitted to the Exchange three business days following the end of the previous month.

The purpose of the proposed rule change is to attract additional order flow to the Exchange. The Exchange believes that implementing a rebate and fee cap for short stock interest spread transactions, similar to the rebates and fee caps currently in place for dividend and merger strategy transactions, should increase the Exchange’s ability to compete with other options exchanges for order flow in connection with this options strategy.

The purpose of amending the definitions of dividend strategies and merger strategies is to add clarity and to make the definitions more consistent with each other

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7 For a complete list of these product symbols, see the Exchange’s $60,000 Firm-Related Equity Option and Index Option Cap Fee Schedule.

8 See footnote no. 5.


and with the proposed definition of short stock interest strategies, which should in turn, reflect the similarities among the strategies.

b. **Statutory Basis**

The Exchange believes that its proposal to amend its schedule of fees is consistent with Section 6(b) of the Act\(^\text{11}\) in general, and furthers the objectives of Section 6(b)(4) of the Act\(^\text{12}\) in particular, in that it is an equitable allocation of reasonable fees and other charges among Exchange members.

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**

The Exchange does not consent to an extension of the 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 foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act\(^\text{13}\) and paragraph (f)(2) of Rule 19b-4\(^\text{14}\) thereunder. At any time


within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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

   The proposed rule change is based on the rules of the Chicago Board Options Exchange, Inc., the NYSE Arca, Inc. (formerly the Pacific Exchange, Inc.) and the American Stock Exchange LLC.  

9. **Exhibits**

   1. Notice of proposed rule for publication in the Federal Register.
   5. Applicable section of the Exchange’s Summary of Equity Option Charges.

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Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ______; File No. SR-Phlx-2006-40)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Its Short Stock Interest, Dividend and Merger Spread Programs

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 ________________ 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 Act\(^3\) and Rule 19b-4 thereunder,\(^4\) proposes to amend its schedule of fees to provide for a rebate of $0.08 per contract side for Registered Options Trader ("ROT") executions and $0.07 per contract side for specialist executions made pursuant to a short stock interest strategy. The Exchange proposes to define a short stock interest strategy as "transactions done to achieve a short

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stock interest arbitrage involving the purchase, sale and exercise of in-the-money options of the same class."

In addition, the Exchange proposes to impose a fee cap of $1,000 on equity option transaction and comparison charges for short stock interest strategies executed on the same trading day in the same options class. Similar to the fee caps currently in effect in connection with dividend and merger spread transactions, the fee cap will be implemented after any applicable rebates are applied to ROT and specialist equity option transaction and comparison charges.

In addition, the Exchange is proposing to assess a $0.05 per contract side license fee for short stock interest strategies in connection with certain products that carry license fees. The applicable license fee will be assessed on every transaction and will not be subject to the $1,000 fee cap, nor will it count towards reaching the $1,000 fee cap.

The short stock interest strategy rebate, $1,000 fee cap and $0.05 per contract side license fee would be effective beginning with trades settling on or after July 1, 2006. The short stock interest strategy $1,000 fee cap and $0.05 per contract side license fee would remain in effect as a pilot program that is scheduled to expire on September 1, 2006.

The Exchange is also proposing to amend its current definitions of dividend spread transactions and merger spread transactions (hereinafter referred to as “dividend

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6 For a complete list of these product symbols, see the Exchange’s $60,000 Firm-Related Equity Option and Index Option Cap Fee Schedule.

7 The proposed pilot program will be in effect for the same time period as the $1,000 and $1,750 fee caps and the $0.05 per contract side license fee that is scheduled to expire on September 1, 2006. See Securities Exchange Act Release No. 53529 (March 21, 2006), 71 FR 15508 (March 28, 2006) (SR-Phlx-2006-16).
strategy,” “merger strategy,” or “dividend and merger strategies” as applicable) and update its fee schedule accordingly.

First, the Exchange proposes to amend the definitions of dividend and merger strategies in order to clarify that transactions done to achieve a dividend or merger arbitrage do not necessarily need to be "spreads" in order to qualify for the fee cap and rebate program currently in effect. It is the Exchange’s understanding that each of these strategies can be achieved either by purchasing and selling the same option series or different options series. Accordingly, as explained in further detail below, the Exchange proposes to revise each definition to refer to each strategy as a "strategy" instead of as a "spread" and to change each definition in certain respects to make clear that transactions done to achieve a dividend or merger arbitrage that involve only one options series may also qualify for the above-referenced fee cap and rebate.

Second, the Exchange is proposing changes to the definition of each strategy to better reflect the similarities between the strategies. Dividend and merger strategies are strategies that have similar economic risks and are executed in similar ways. Each proposed definition would be clarified to reflect that each strategy involves the "purchase, sale and exercise" of options. Each proposed definition would also be clarified to reflect that the options involved must be of the "same class".

The Exchange currently defines a dividend strategy for purposes of the rebate and fee cap as “any trade done within a defined time frame pursuant to a strategy in which a dividend arbitrage can be achieved between any two deep-in-the-money options.” The Exchange proposes to change "dividend spread" to "dividend strategy", and proposes to define a dividend strategy as "transactions done to achieve a dividend arbitrage involving
the purchase, sale and exercise of in-the-money options of the same class, executed prior to the date on which the underlying stock goes ex-dividend." The word "two" is not included in the new definition so that transactions involving only a single options series that are done to achieve a dividend arbitrage may also qualify for the fee cap and rebate. The word "deep" is also not included in the new definition because the options used do not necessarily need to be deep-in-the-money options and also because of the difficulty in defining what constitutes "deep" in-the-money. The definition is clarified by making explicit two requirements: the options must be of the same class and the transactions must be effected on the day prior to the date on which the underlying stock goes ex-dividend.

The Exchange currently defines a merger strategy for purposes of the fee cap and rebate as a “transaction executed pursuant to a merger spread strategy involving the simultaneous purchase and sale of options of the same class and expiration date, but with different strike prices, followed by the exercise of the resulting long options position, each executed prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock.” The Exchange proposes to change "merger spread" to "merger strategy", and proposes to define a merger strategy as "transactions done to achieve a merger arbitrage involving the purchase, sale and exercise of options of the same class and expiration date, executed prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock." The proposed definition does not include the words "but with different strike prices" so that transactions involving only a single options series that are done to achieve a merger arbitrage may also qualify for the fee cap and rebate. The word
"simultaneous" is also not included in the new definition because the purchase and sale transactions do not necessarily need to be executed simultaneously.


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

Background:

Currently, the Exchange provides a rebate for certain contracts executed in connection with transactions occurring as part of a dividend or merger strategy. Specifically, for those options contracts executed pursuant to a dividend or merger strategy, the Exchange rebates $0.08 per contract side for ROT executions and $0.07 per contract side for specialist executions on the business day before the underlying stock’s ex-date. The ex-date is the date on or after which a security is traded without a previously declared dividend or distribution.

The net transaction and comparison charges after the rebate is applied are capped at $1,750 for merger strategies executed on the same trading day in the same options class and
for dividend strategies on the same day in the same options class, except for a security with a declared dividend or distribution less than $0.25. In that instance, the net transaction and comparison charges after the rebate is applied are capped at $1,000 for dividend strategies on the same day in the same options class.  

8 A $0.05 per contract side license fee is imposed for dividend strategies in connection with certain products that carry license fees. 9 The license fee is assessed on every transaction and is not subject to the $1,750 or $1,000 fee cap, nor does it count towards reaching the fee caps. The $1,000 and $1,750 fee caps and the $0.05 per contract side license fee are subject to a pilot program scheduled to expire on September 1, 2006. 10

Consistent with the current rebate program for dividend and merger strategies, 11 any rebate request forms for short stock interest strategies must be submitted to the Exchange three business days following the end of the previous month.

The purpose of the proposed rule change is to attract additional order flow to the Exchange. The Exchange believes that implementing a rebate and fee cap for short stock interest spread transactions, similar to the rebates and fee caps currently in place for dividend and merger strategy transactions, should increase the Exchange’s ability to


9 For a complete list of these product symbols, see the Exchange’s $60,000 Firm-Related Equity Option and Index Option Cap Fee Schedule.

10 See footnote no. 7.

compete with other options exchanges for order flow in connection with this options strategy.\textsuperscript{12}

The purpose of amending the definitions of dividend strategies and merger strategies is to add clarity and to make the definitions more consistent with each other and with the proposed definition of short stock interest strategies, which should in turn, reflect the similarities among the strategies.

2. \textbf{Statutory Basis}

The Exchange believes that its proposal to amend its schedule of fees is consistent with Section 6(b) of the Act\textsuperscript{13} in general, and furthers the objectives of Section 6(b)(4) of the Act\textsuperscript{14} in particular, in that it is an equitable allocation of reasonable fees and other charges among Exchange members.

B. \textbf{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.

C. \textbf{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.


\textsuperscript{13} 15 U.S.C. 78f(b).

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act\(^{15}\) and paragraph (f)(2) of Rule 19b-4\(^{16}\) thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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-2006-40 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 20549-1090.


All submissions should refer to File Number SR-Phlx-2006-40. 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-2006-40 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.\textsuperscript{17}

Nancy M. Morris
Secretary

\textsuperscript{17} 17 CFR 200.30-3(a)(12).
**Exhibit 5**

**SUMMARY OF EQUITY OPTION CHARGES (p. 1/6)**

<table>
<thead>
<tr>
<th>OPTION COMPARISON CHARGE (applicable to all trades – except specialist trades)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered Option Trader</td>
</tr>
<tr>
<td>Firm / Proprietary⁹ +</td>
</tr>
<tr>
<td>Customer Executions, Broker-Dealer Orders</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPTION TRANSACTION CHARGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Executions</td>
</tr>
<tr>
<td>Firm / Proprietary¹⁰ +</td>
</tr>
<tr>
<td>Firm / Proprietary Facilitation +</td>
</tr>
<tr>
<td>Registered Option Trader (on-floor) *</td>
</tr>
<tr>
<td>Specialist * ⁹</td>
</tr>
<tr>
<td>Broker/Dealer¹¹ (AUTOM-delivered)</td>
</tr>
<tr>
<td>Broker/Dealer¹² (non-AUTOM-delivered)</td>
</tr>
<tr>
<td>Up to 2,000 contracts</td>
</tr>
<tr>
<td>Between 2,001 and 3,000 contracts</td>
</tr>
<tr>
<td>Residual above 3,000 contracts</td>
</tr>
</tbody>
</table>

+ Subject to a maximum fee of $60,000, except for certain license fees which are assessed per contract side – see $60,000 “Firm Related” Equity Option and Index Option Cap.

* ROTs are eligible for a $.08/contract side rebate and specialists are eligible for a $.07/contract side rebate for trades occurring as part of a dividend, [or] merger or short stock interest strategy [spread transaction]. The net transaction and comparison charges after the rebate is applied will be capped at $1,000 for short stock interest strategies and at $1,750 for [all] merger strategies [spread transactions] executed on the same trading day in the same options class. The net transaction and comparison charges after the rebate is applied will be capped at $1,750 for dividend strategies [spread transactions] on the same day in the same options class, except for a security with a declared dividend or distribution less than $0.25. In that instance, the net transaction and comparison charges after the rebate is applied will be capped at $1,000 for [all] dividend strategies [spread transactions] on the same day in the same options class. A $0.05 per contract side license fee is imposed for dividend and short stock interest [spread] strateg[y]ies [transactions] in connection with certain products that carry license fees. For a complete list of these product symbols, see the $60,000 Firm-Related Equity Option and Index Option Cap Fee Schedule. The license fee is assessed on every transaction and is not subject to the $1,750 or $1,000 cap, nor does it count towards reaching the caps. The $1,000 and $1,750 caps and the $0.05 per contract side license fee are subject to a pilot program scheduled to expire on September 1, 2006.

⁹ A fee credit of $0.21 per contract applies to specialists that incur option transaction charges when a customer order is delivered to the limit order book via the Exchange’s Options Floor Broker management System and is then sent and executed via the Intermarket Options Linkage as a P/A Order. The fee credit is scheduled to expire on July 31, 2006.

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⁹ For the purpose of this Summary of Equity Option Charges, the Firm / Proprietary comparison or transaction charge applies to member organizations for orders for the proprietary account of any member or non-member broker-dealer that derives more than 35% of its annual, gross revenues from commissions and principal transactions with customer. Member organizations will be required to verify this amount to the Exchange by certifying that they have reached this threshold and by submitting a copy of their annual report, which was prepared in accordance with Generally Accepted Accounting Principles (“GAAP”). In the event that a firm has not been in business for one year, the most recent quarterly reports, prepared in accordance with GAAP, will be accepted.

¹⁰ See footnote ⁹

¹¹ For the purpose of this Summary of Equity Option Charges, this charge applies to members for transactions, received from other than the floor of the Exchange, for any account (i) in which the holder of beneficial interest is a member or non-member broker-dealer or (ii) in which the holder of beneficial interest is a person associated with or employed by a member or non-member broker-dealer. This includes transactions for the account of an ROT entered from off-floor.

¹² See footnote ¹¹.