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

<table>
<thead>
<tr>
<th>Initial</th>
<th>Amendment</th>
<th>Withdrawal</th>
<th>Section 19(b)(2)</th>
<th>Section 19(b)(3)(A)</th>
<th>Section 19(b)(3)(B)</th>
<th>Rule</th>
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Pilot Extension of Time Period for Commission Action Date Expires

- 19b-4(f)(2)
- 19b-4(f)(5)
- 19b-4(f)(6)

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

Extending the Exchange's Pilot Program for Dividend, Merger and Short Stock Interest Strategies

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 08/09/2006
By Cynthia Hoekstra Director

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.
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\(^2\) thereunder, proposes to extend for a period of six months, until March 1, 2007, the pilot programs for: (1) fee caps of either $1,000 or $1,750, as described below, on equity option transaction and comparison charges on dividend,\(^3\) merger,\(^4\) and short stock interest\(^5\) strategies; and (2) the license fee of $0.05 per contract side imposed on dividend and short stock interest strategies. The current fee caps on equity option transaction and comparison charges on dividend, merger, and short stock interest strategies and $0.05 per contract side license fee for dividend and short stock interest strategies are in effect as a pilot program that is currently scheduled to expire on September 1, 2006. Other than extending the pilot program for an additional six-month

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\(^3\) For purposes of this proposal, the Exchange defines 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. See Securities Exchange Act Release No. 54174 (July 19, 2006), 71 FR 42156 (July 25, 2006) (SR-Phlx-2006-40).

\(^4\) For purposes of this proposal, the Exchange defines 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. See Id.

\(^5\) For purposes of this proposal, the Exchange defines 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. See Id.
period until March 1, 2007, no other changes to the Exchange’s current dividend, merger
and short stock interest strategy programs are being proposed at this time.

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

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

   Currently, the Exchange provides a rebate for certain contracts executed in
   connection with transactions occurring as part of a dividend, merger or short stock
   interest strategy. Specifically, for these option contracts executed pursuant to a dividend
   or merger strategy, the Exchange rebates $0.08 per contract side for Registered Options
   Trader (“ROT”) executions and $0.07 per contract side for specialist executions
   transacted 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 Exchange also provides for a rebate of $0.08 per contract side for ROT
executions and $0.07 per contract side for specialist executions made pursuant to a short stock interest strategy.

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

In addition, the Exchange assesses a license fee of $0.05 per contract side for dividend and short stock interest 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 caps described above, nor does it count towards reaching the $1,750 fee caps.

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8 For a complete list of these product symbols, see the Exchange’s $60,000 Firm-Related Equity Option and Index Option Cap Fee Schedule.
or $1,000 fee caps. The $1,000 and $1,750 fee caps and the $0.05 per contract license fee are subject to a pilot program that is scheduled to expire on September 1, 2006.

The purpose of extending the pilot program for the Exchange’s $1,000 or $1,750 fee caps on equity option transaction and comparison charges on dividend, merger, and short stock interest strategies and its $0.05 per contract side license fee imposed for dividend and short stock interest strategies until March 1, 2007 is to continue to attract additional liquidity to the Exchange and to remain competitive. In addition, the purpose of this proposal is to recoup the license fees owed in connection with the trading of products that carry license fees. Even with the assessment of the $0.05 license fee per contract side, the fee caps and rebates should continue to encourage specialists and ROTs to provide liquidity for dividend spread 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\(^9\) in general, and furthers the objectives of Section 6(b)(4) of the Act\(^10\) 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 proposed rule change establishes or changes a due, fee, or other charge applicable only to a member pursuant to Section 19(b)(3)(A)(ii) of the Act\(^{11}\) and Rule 19b-4(f)(2)\(^{12}\) thereunder. Accordingly, the proposal will take effect upon filing with the Commission. 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.\(^{13}\)

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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.

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.                  ; File No. SR-Phlx-2006-50)

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

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 extend for a period of six months, until March 1, 2007, the pilot programs for: (1) fee caps of either $1,000 or $1,750, as described below, on equity option transaction and comparison charges on dividend,\(^5\) merger,\(^6\) and short stock interest\(^7\)

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\(^5\) For purposes of this proposal, the Exchange defines 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
strategies; and (2) the license fee of $0.05 per contract side imposed on dividend and short stock interest strategies. The current fee caps on equity option transaction and comparison charges on dividend, merger, and short stock interest strategies and $0.05 per contract side license fee for dividend and short stock interest strategies are in effect as a pilot program that is currently scheduled to expire on September 1, 2006. Other than extending the pilot program for an additional six-month period until March 1, 2007, no other changes to the Exchange’s current dividend, merger and short stock interest strategy programs are being proposed at this time.


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.


For purposes of this proposal, the Exchange defines 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. See Id.

For purposes of this proposal, the Exchange defines 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. See Id.
A. **Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

1. **Purpose**

Currently, the Exchange provides a rebate for certain contracts executed in connection with transactions occurring as part of a dividend, merger or short stock interest strategy. Specifically, for these option contracts executed pursuant to a dividend or merger strategy, the Exchange rebates $0.08 per contract side for Registered Options Trader ("ROT") executions and $0.07 per contract side for specialist executions transacted 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 Exchange also provides for a rebate of $0.08 per contract side for ROT executions and $0.07 per contract side for specialist executions made pursuant to a short stock interest strategy.

The net transaction and comparison charges after the rebate is applied are capped at $1,000 for short stock interest strategies executed on the same trading day in the same options class and at $1,750 for merger strategies executed on the same trading day in the same options class.\(^8\) The net transaction and comparison charges are capped at $1,750 for dividend strategies executed on the same trading day in the same options class, except for a security with a declared dividend or distribution of less than $0.25. In that instance, the net transaction and comparison charges, after any applicable rebate is applied, are

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capped at $1,000 for dividend strategies executed on the same trading day in the same options class.\(^9\)

In addition, the Exchange assesses a license fee of $0.05 per contract side for dividend and short stock interest strategies in connection with certain products that carry license fees.\(^10\) The license fee is assessed on every transaction and is not subject to the $1,750 or $1,000 fee caps described above, nor does it count towards reaching the $1,750 or $1,000 fee caps. The $1,000 and $1,750 fee caps and the $0.05 per contract license fee are subject to a pilot program that is scheduled to expire on September 1, 2006.

The purpose of extending the pilot program for the Exchange’s $1,000 or $1,750 fee caps on equity option transaction and comparison charges on dividend, merger, and short stock interest strategies and its $0.05 per contract side license fee imposed for dividend and short stock interest strategies until March 1, 2007 is to continue to attract additional liquidity to the Exchange and to remain competitive. In addition, the purpose of this proposal is to recoup the license fees owed in connection with the trading of products that carry license fees. Even with the assessment of the $0.05 license fee per contract side, the fee caps and rebates should continue to encourage specialists and ROTs to provide liquidity for dividend spread strategies.

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\(^10\) For a complete list of these product symbols, see the Exchange’s $60,000 Firm-Related Equity Option and Index Option Cap Fee Schedule.
2. **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.

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.

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 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.


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-2006-50 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-2006-50. 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-2006-50 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{15}

Nancy M. Morris  
Secretary

\textsuperscript{15} 17 CFR 200.30-3(a)(12).
### Summary of Equity Option Charges (p. 1/6)

#### Option Comparison Charge (applicable to all trades – except specialist trades)

<table>
<thead>
<tr>
<th>Category</th>
<th>Charge</th>
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<tbody>
<tr>
<td>Registered Option Trader</td>
<td>$.03 per contract</td>
</tr>
<tr>
<td>Firm / Proprietary +</td>
<td>$.04 per contract</td>
</tr>
<tr>
<td>Customer Executions, Broker-Dealer Orders</td>
<td>No charge</td>
</tr>
</tbody>
</table>

#### Option Transaction Charge

- **Customer Executions**: No charge
- **Firm / Proprietary**: $0.20 per contract
- **Firm / Proprietary Facilitation**: $0.10 per contract
- **Registered Option Trader (on-floor)**: $0.19 per contract
- **Specialist**: $0.21 per contract
- **Broker/Dealer (AUTOM-delivered)**: $0.45 per contract
- **Broker/Dealer (non-AUTOM-delivered)**:
  - Up to 2,000 contracts: $0.35 per contract
  - Between 2,001 and 3,000 contracts: $0.25 per contract
  - Residual above 3,000 contracts: $0.20 per contract above 3,000 contracts

* 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, merger or short stock interest strategy. 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 merger strategies 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 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 dividend strategies 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 strategies 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, 2007.

* 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, 2007.

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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.