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>
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Rule

Pilot

Extension of Time Period for Commission Action

Date Expires


Description

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

$2.50 LEAPS.

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 Jurij

Last Name Trypupenko

Title Director and Counsel

E-mail jurij.trypupenko@phlx.com

Telephone (215) 496-5019

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 02/21/2007

By Jurij Trypupenko

Director 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.

Jurij Trypupenko,
<table>
<thead>
<tr>
<th><strong>Form 19b-4 Information</strong></th>
<th>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.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exhibit 1 - Notice of Proposed Rule Change</strong></td>
<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>
</tr>
<tr>
<td><strong>Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications</strong></td>
<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>
</tr>
<tr>
<td><strong>Exhibit 3 - Form, Report, or Questionnaire</strong></td>
<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>
</tr>
<tr>
<td><strong>Exhibit 4 - Marked Copies</strong></td>
<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>
<tr>
<td><strong>Exhibit 5 - Proposed Rule Text</strong></td>
<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>
</tr>
<tr>
<td><strong>Partial Amendment</strong></td>
<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>
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</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 clarify that LEAPS\(^3\) can be listed at $2.50 strike price intervals pursuant to the $2.50 Strike Price Program set forth in Commentary .05 to Phlx Rule 1012 (Series of Options Open for Trading).

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1.

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 January 10, 2007.

Questions and comments on the proposed rule change may be directed to Jurij Trypupenko, Director and Counsel, at (215) 496-5019, or Edith H. Hallahan, First Vice President and Deputy General Counsel, at (215) 496-5179.

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\(^3\) LEAPS are Long-term Equity Anticipation Securities or long term options series. See Phlx Rules 1079, 1012 and 1101A.
3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

   a. Purpose

   The purpose of the proposal is to clarify that LEAPS can be listed at $2.50 strike price intervals pursuant to the $2.50 Strike Price Program.

   The current $2.50 Strike Price Program is set forth in Commentary .05 to Phlx Rule 1012. The $2.50 Strike Price Program permits the Exchange to list $2.50 strike price intervals for selected options trading at strike prices greater than $25 but less than $75. In addition, each options exchange is permitted to list $2.50 strike price intervals on any option class that another options exchange selects under the $2.50 Strike Price Program.

   Initially adopted in 1995 as a pilot program, the pilot $2.50 Strike Price Program allowed options exchanges to list $2.50 strike price intervals for options up to $50 strike price on a total of up to 100 option classes. In 1998, the pilot program was permanently approved and expanded to allow the options exchanges to select up to 200 option classes for $2.50 strike price intervals up to $50. Of the 200 options classes eligible for the $2.50 Strike Price Program, 46 have been allocated to Phlx. In 2005, the $2.50 Strike

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6 The allocation is not changed by this proposed rule filing.
Price Program was expanded to permit the listing of $2.50 strike price intervals between $50 and $75 strike prices, provided that the $2.50 strike price intervals are no more than $10 from the closing price of the underlying stock in its primary market\(^7\) on the preceding day.\(^8\) With the expansion of the $2.50 Strike Price Program to $75, for example, if an option class has been selected as part of the $2.50 Strike Price Program, and the underlying stock closed at $48.50 in its primary market, the Exchange may list the $52.50 strike price and the $57.50 strike price on the next business day; and if an underlying security closed at $54, the Exchange may list the $52.50 strike price, the $57.50 strike price and the $62.50 strike price on the next business day. Moreover, an option class would remain in the $2.50 Strike Price Program until the Exchange otherwise designates and sends a decertification notice to the Options Clearing Corporation.

The Exchange is hereby clarifying that it, like other options exchanges that have $2.50 strike price programs similar to PHLX’s, may list LEAPS at $2.50 strike price intervals at all strike prices that are available pursuant to the $2.50 Strike Price Program. The Exchange believes that the $2.50 Strike Price Program has benefited the marketplace by creating additional trading opportunities for customers in all options including LEAPS.

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\(^7\) The term “primary market” is defined in Phlx Rule 1000 in respect of an underlying stock or Exchange-Traded Fund Share as the principal market in which the underlying stock or Exchange-Traded Fund Share is traded.

by affording such customers the ability to more closely tailor investment strategies to the precise movement of the underlying security. The availability of $2.50 strike price intervals for LEAPS options will likewise benefit the marketplace and is in conformity with current industry practice.

b. **Statutory Basis**

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act, in general, and furthers the objectives of Section 6(b)(5) of the Act, in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of change, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and 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 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.

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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 is non-controversial and has become effective pursuant to Section 19(b)(3)(A) of the Exchange Act\(^{11}\) and Rule 19b-4(f)(6) thereunder\(^{12}\) because the proposed rule change (1) does not significantly affect the protection of investors or the public interest, (2) does not impose any significant burden on competition, and (3) does not become operative for 30 days from the date of filing, or such shorter time that the Commission may designate if consistent with the protection of investors and the public interest, provided that the Phlx has given the Commission written notice of its intent to file the proposed rule change at least five business days prior to the filing date of the proposed rule change.\(^{13}\)

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 the furtherance of the purposes of the Exchange Act.\(^{14}\)

The Exchange requests that the Commission waive the thirty-day operative period so that the Exchange has the immediate ability to list and trade $2.50 strike price LEAPS in line with industry practice.

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\(^{13}\) As required under Exchange Act Rule 19b-4(f)(6)(iii), the Phlx provided the Commission with written notice of its intent to file the proposed rule change at least five business days prior to the filing date.

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

   Not applicable.

9. **Exhibits**

   1. Notice of proposed rule for publication in the *Federal Register*.
SECURITIES AND EXCHANGE COMMISSION
(Release No.          ; File No. SR-Phlx-2007-04)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of
Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Listing
LEAPS pursuant to the $2.50 Strike Price Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")\(^1\), and
Rule 19b-4\(^2\) thereunder, notice is hereby given that on _________________ 2007,
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 clarify that LEAPS\(^5\) can be listed at $2.50 strike price intervals pursuant to
   the $2.50 Strike Price Program set forth in Commentary .05 to Phlx Rule 1012 (Series of
   Options Open for Trading).

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\(^5\) LEAPS are Long-term Equity Anticipation Securities or long term options series. See
     Phlx Rules 1079, 1012 and 1101A.

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 proposal is to clarify that LEAPS can be listed at $2.50 strike price intervals pursuant to the $2.50 Strike Price Program.

The current $2.50 Strike Price Program is set forth in Commentary .05 to Phlx Rule 1012. The $2.50 Strike Price Program permits the Exchange to list $2.50 strike price intervals for selected options trading at strike prices greater than $25 but less than $75. In addition, each options exchange is permitted to list $2.50 strike price intervals on any option class that another options exchange selects under the $2.50 Strike Price Program.

Initially adopted in 1995 as a pilot program, the pilot $2.50 Strike Price Program allowed options exchanges to list $2.50 strike price intervals for options up to $50 strike
price on a total of up to 100 option classes. In 1998, the pilot program was permanently approved and expanded to allow the options exchanges to select up to 200 option classes for $2.50 strike price intervals up to $50. Of the 200 options classes eligible for the $2.50 Strike Price Program, 46 have been allocated to Phlx. In 2005, the $2.50 Strike Price Program was expanded to permit the listing of $2.50 strike price intervals between $50 and $75 strike prices, provided that the $2.50 strike price intervals are no more than $10 from the closing price of the underlying stock in its primary market on the preceding day. With the expansion of the $2.50 Strike Price Program to $75, for example, if an option class has been selected as part of the $2.50 Strike Price Program, and the underlying stock closed at $48.50 in its primary market, the Exchange may list the $52.50 strike price and the $57.50 strike price on the next business day; and if an underlying security closed at $54, the Exchange may list the $52.50 strike price, the

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8 The allocation is not changed by this proposed rule filing.

9 The term “primary market” is defined in Phlx Rule 1000 in respect of an underlying stock or Exchange-Traded Fund Share as the principal market in which the underlying stock or Exchange-Traded Fund Share is traded.

$57.50 strike price and the $62.50 strike price on the next business day. Moreover, an option class would remain in the $2.50 Strike Price Program until the Exchange otherwise designates and sends a decertification notice to the Options Clearing Corporation.

The Exchange is hereby clarifying that it, like other options exchanges that have $2.50 strike price programs similar to PHLX’s, may list LEAPS at $2.50 strike price intervals at all strike prices that are available pursuant to the $2.50 Strike Price Program. The Exchange believes that the $2.50 Strike Price Program has benefited the marketplace by creating additional trading opportunities for customers in all options including LEAPS by affording such customers the ability to more closely tailor investment strategies to the precise movement of the underlying security. The availability of $2.50 strike price intervals for LEAPS options will likewise benefit the marketplace and is in conformity with current industry practice.

2. **Statutory Basis**

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,\(^{11}\) in general, and furthers the objectives of Section 6(b)(5) of the Act,\(^{12}\) in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of change, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

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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 proposed rule change is non-controversial and has become effective pursuant to Section 19(b)(3)(A) of the Exchange Act\(^\text{13}\) and Rule 19b-4(f)(6) thereunder\(^\text{14}\) because the proposed rule change (1) does not significantly affect the protection of investors or the public interest, (2) does not impose any significant burden on competition, and (3) does not become operative for 30 days from the date of filing, or such shorter time that the Commission may designate if consistent with the protection of investors and the public interest, provided that the Phlx has given the Commission written notice of its intent to file the proposed rule change at least five business days prior to the filing date of the proposed rule change.\(^\text{15}\)


\(^{15}\) As required under Exchange Act Rule 19b-4(f)(6)(iii), the Phlx provided the Commission with written notice of its intent to file the proposed rule change at least five business days prior to the filing date.
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 the furtherance of the purposes of the Exchange Act.\(^{16}\)

The Exchange requests that the Commission waive the thirty-day operative period so that the Exchange has the immediate ability to list and trade $2.50 strike price LEAPS in line with industry practice.

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-2007-04 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-2007-04. 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
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-2007-04 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}

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

Nancy M. Morris
Secretary