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

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)

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.

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Title Vice President
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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 officer.

Date 03/08/2007
By Cynthia Hoekstra

(Vice President)

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.
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.

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)

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.

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.

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.

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.
Partial Amendment No. 1

The Philadelphia Stock Exchange, Inc. ("Exchange") hereby submits this Partial Amendment, constituting Amendment No. 1, to its rule filing SR-Phlx-2007-12, in which the Exchange proposes to assess equity option charges, as opposed to index option charges: on (1) options on the Russell 2000® Index\textsuperscript{1} traded under the symbol RUT (the "Full Value Russell Index"), and (2) options on the one-tenth value Russell 2000® Index traded under the symbol RMN (the "Reduced Value Russell Index"; the Full Value and the Reduced Value Russell Indexes together are referred to herein as the “Russell Products”).

The purpose of Amendment No. 1 is to clarify the description and application of how the license fees are assessed when the Exchange’s current 14,000 contract cap on Registered Options Traders (“ROT”) comparison charges and ROT and specialist transaction charges on non-AUTOM delivered equity option contracts is reached in Form 19b-4 and accompanying Exhibit 1, and in the rule text. In addition, the purpose of Amendment No. 1 is to make a minor clarifying change relating to the placement of footnote 11 on page 16 of Form 19b-4 and on page 12 of Exhibit 1.

Specifically, the following paragraph should replace the first full paragraph on page 4 of Form 19b-4 and page 11 of Exhibit 1:

The Exchange also proposes to amend its Summary of Equity Option Charges to reflect that a $0.15 license fee on the Russell Products will be assessed in connection with the Exchange’s current cap on Registered Options Traders (“ROT”) comparison charges and ROT and specialist transaction charges\textsuperscript{2} on non-AUTOM delivered equity option contracts when an ROT or specialist executes over 14,000 contracts calculated on a daily basis.\textsuperscript{4} These terms apply only to transactions when an ROT or specialist is the contra-

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\textsuperscript{2} The Exchange does not currently assess a comparison charge on specialist transactions. Therefore, the proposed cap will apply to ROT comparison and transaction charges combined and separately to specialist transaction charges.

\textsuperscript{3} For purposes of this fee, orders delivered via the Floor Broker Management System shall be deemed to be non-AUTOM delivered orders. See Exchange Rule 1063.

\textsuperscript{4} See Securities Exchange Act Release No. 54659 (October 27, 2006), 71 FR 64603 (November 2, 2006) (SR-Phlx-2006-67) (capping ROT comparison charges and ROT and specialist transaction charges when certain requirements are met. For equity options, ROT transaction and comparison charges and specialist transaction charges are not
party to a customer order. Therefore, after the 14,000 non-AUTOM delivered contract level is reached in a specific option, additional comparison and transaction charges are not assessed on subsequent option contracts in excess of 14,000 that are executed on that day in that specific option when the ROT or specialist is the contra-party to a customer order. Even when the 14,000 cap is reached, a license fee of $0.10 per contract side (or $0.15 per contract side for each of the Russell Products) will be imposed on applicable ROTs and specialists for equity option transactions on those licensed products that carry a license fee. 

In addition, the first paragraph under the “Purpose Section’ on page 6 of Form 19b-4 and on page 12 of Exhibit 1 should be replaced with the following paragraph:

The purpose of this proposal is to assess equity option charges, including payment for order flow charges, which are competitive with charges assessed on these same products by other exchanges. Thus, the Russell Products will not be assessed customer comparison or transaction charges in accordance with the Exchange’s equity option fee schedule.

The first sentence of the second paragraph under the “Purpose Section” on page 6 of Form 19b-4 and page 13 of Exhibit 1 should be replaced with the following sentence:

The purpose of assessing the Russell Products a license fee of $.15 per contract side after reaching the $60,000 cap and the 14,000 cap as described in this proposal is to help defray licensing costs associated with the trading of these products, while still capping member organizations’ fees enough to attract volume from other exchanges.

Exhibit 5 of the original filing will be replaced in its entirety with the one below.

For a complete list of the licensed products that will be assessed a license fee per contract side after the 14,000 equity option contract cap is reached, see $60,000 “Firm Related” Equity Option and Index Option Cap on the Exchange’s fee schedule.


See e.g., Securities Exchange Act Release Nos. 55099 (January 12, 2007), 72 FR 2720 (January 22, 2007) (SR-NYSEArca-2006-91) (adopting a $0.15 per contract Royalty Fee on options traded on RUT); 55000 (December 21, 2006), 71 FR 78479 (December 29, 2006) (SR-BSE-2006-47) (establishing a $0.15 surcharge fee for transactions in options on RUT); 53968 (June 9, 2006), 71 FR 34971 (June 16, 2006) (SR-Amex-2006-56) (adopting a per contract licensing fee for the orders of specialists, registered options traders, firms, non-member market makers, and broker-dealers in connection with options transactions on the RUT); and 51858 (June 16, 2005), 70 FR 36218 (June 22, 2005) (SR-ISE-2005-26) (adopting a surcharge fee of $0.10 per contract for trading in RUT and RMN).
### Summary of Equity Option and RUT and RMN Charges

#### Option Comparison Charge** (applicable to all trades – except specialist trades)
- **Registered Option Trader**: $0.03 per contract
- **Firm / Proprietary**: $0.04 per contract
- **Customer Executions, Broker-Dealer Orders**: No charge

#### 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)**: $0.25 per contract

**When contra-party to non-AUTOM delivered customer orders, ROT transaction and comparison charges and Specialist transaction charges will not be assessed on additional qualifying transactions on option contracts that number greater than 14,000, calculated per day: (1) per equity option overlying the same underlying security; (2) per RUT option; and (3) per RMN option. A $0.10 per contract side license fee will [continue to] be imposed [even when] after the 14,000 cap is met in connection with certain products that carry license fees. For a complete list of these product symbols and applicable license fees, see the $60,000 Firm Related Equity Option and Index Option Cap Fee Schedule.

+ 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 $0.08/contract side rebate and specialists are eligible for a $0.07/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 dividend, merger and short stock interest strategies executed on the same trading day in the same options class. Net equity option transaction and comparison charges for dividend, merger and short stock interest strategies combined will be further capped at $25,000 per member organization per month. 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 $1,000 or $25,000 caps, nor does it count towards reaching the caps. The $1,000 and $25,000 caps and the $0.05 per contract side license fee are subject to a pilot program scheduled to expire on March 1, 2007. A dividend strategy is defined 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. A merger strategy is defined 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. A short stock interest strategy is defined 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.

* 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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1 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.

2 See footnote 1.

3 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.

4 See footnote 3.
$60,000 “FIRM RELATED” EQUITY OPTION AND INDEX OPTION CAP

“Firm related” transaction and comparison charges for equity and index options, in the aggregate, for one billing month will not exceed $60,000 per month, per member organization, except when a member organization who trades KSX, KIX, BKX, KRX MFX, [and] HAI, RUT and RMN options exceeds the $60,000 cap, a license fee of $0.10 per contract side for KSX, KIX, BKX, KRX, MFX and HAI or $0.15 per contract side for RUT and RMN will be in addition, once the cap is reached. When calculating the $60,000 cap, all equity option and index option transaction and comparison charges for products without license fees are calculated first and then equity option and index option transaction and comparison charges for products with license fees that are assessed by the Exchange after the $60,000 cap is reached are calculated.

See Appendix A for additional fees.

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