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
[ ] ✓ [ ]

Rule
[ ] 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).

Extend quarterly options pilot through 07/10/08.

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 officer.

Date 06/27/2007
By Jurij Trypupenko
Director and Counsel

{Name} (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,
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 Rules 1012 (Series of Options Open for Trading) and 1101A (Terms of Option Contracts), in order to extend for a period of about one year an Exchange pilot program (the “Phlx Pilot”) to permit the listing and trading of options series that may be opened for trading on any business day and expire at the close of business on the last business day of a calendar quarter (“Quarterly Options” or “Quarterly Options Series”). The Phlx Pilot continues through July 24, 2007.\(^3\)

A notice of the proposed rule change for publication in the **Federal Register** is attached hereto as **Exhibit 1**. Phlx’s Pilot Program Report is attached hereto as **Exhibit 3** and the exhibits referenced in the Pilot Program Report are attached as **Exhibits 3.1, 3.2** and **3.3**.

The amended text of Phlx Rules 1012 and 1101A is set forth below.

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Additions are Underlined; Deletions are Bracketed

* * * * *

Rule 1012.  
Series Of Options Open For Trading

(a) - (d) – No Change.

Commentary

.01 - .07 – No Change.

.08  Quarterly Options Series Pilot Program. For a pilot period, the Exchange may list and trade options series that expire at the close of business on the last business day of a calendar quarter ("Quarterly Options Series"). The Exchange may list Quarterly Options Series for up to five (5) currently listed options classes that are either Index Options or options on Exchange Traded Funds. In addition, the Exchange may also list Quarterly Options Series on any options classes that are selected by other securities exchanges that employ a similar pilot program under their respective rules. The pilot will commence the day the Exchange first initiates trading in a Quarterly Options Series and will expire on July [24]10, 200[7]8.

Remainder of Phlx Rule 1012 – No Change.

Rule 1101A.  
Terms of Option Contracts

(a) – No Change.

(b) After a particular class of stock index options has been approved for listing and trading on the Exchange, the Exchange shall from time to time open for trading series of options therein. Within each approved class of stock index options, the Exchange may open for trading series of options expiring in consecutive calendar months ("consecutive month series"), as provided in subparagraph (i) of this paragraph (b), series of options expiring at three-month intervals ("cycle month series"), as provided in subparagraph (ii) of this paragraph (b) and/or series of options having up to thirty-six months to expiration ("long-term options series") of this paragraph (b). Prior to the opening of trading in any series of stock index options, the Exchange shall fix the expiration month and exercise price of option contracts included in each such series.

(i) - (iv) – No Change.
(v) Quarterly Options Series Pilot Program

For a pilot period, the Exchange may list and trade options series that expire at the close of business on the last business day of a calendar quarter ("Quarterly Options Series"). The Exchange may list Quarterly Options Series for up to five (5) currently listed options classes that are either Index Options or options on Exchange Traded Funds. In addition, the Exchange may also list Quarterly Options Series on any options classes that are selected by other securities exchanges that employ a similar pilot program under their respective rules. The pilot will commence the day the Exchange first initiates trading in a Quarterly Options Series and will expire on July [24]10, 200[7]8.

Remainder of Phlx Rule 1101A – No Change.

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2. Procedures of the Self-Regulatory Organization

The Executive Committee pursuant to delegated authority, approved the proposed rule change for filing with the Securities and Exchange Commission ("Commission") on June 8, 2007. Questions and comments regarding the proposed rule change may be directed to Jurij Trypupenko, Director and Counsel, at (215) 496-5019, or Edith H. Hallahan, Senior Vice President and Deputy General Counsel at (215) 496-5179.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

a. Purpose

The purpose of the proposed rule change is to extend the Phlx Pilot for a period of one year so that the Exchange can continue to list and trade Quarterly Options within the parameters specified in its Rules 1012 and 1101A.
In February 2007, the Commission approved the Phlx Pilot allowing the listing and trading of Quarterly Options on the Exchange.\(^4\) The Exchange is proposing to extend the Phlx Pilot for about one year through July 10, 2008.

The Phlx Pilot will remain unchanged such that Phlx will generally be able to list and trade Quarterly Options Series on any approved options class\(^5\) on a business day ("Quarterly Options Opening Date") and such options would expire at the close of business on the last business day of a calendar quarter ("Quarterly Options Expiration Date"). Quarterly Options Series listed on approved options classes would be P.M.-settled and, in all other respects, would settle in the same manner as do the monthly expiration series in the same options class.\(^6\)

The Phlx Pilot allows the Exchange to open up to five currently listed options classes that are options on ETFs or indexes. The strike price for each series is fixed at a price per share, with at least two strike prices above and two strike prices below the approximate value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange may list strike prices for a Quarterly Options Series that are within $5 from the closing price of the underlying security on the preceding trading day.

The Exchange can list not more than five strike prices above and not more than five strike prices below the value of the underlying security. The Exchange can list


\(^5\) Quarterly Options Series may be opened in options on indexes or options on exchange-traded funds ("ETFs") that satisfy the applicable listing criteria under Phlx rules.

\(^6\) The Quarterly Options that were chosen by the Exchange for listing and trading are set out in Exhibit 3.1 attached hereto.
additional Quarterly Options above or below the value of the underlying index provided that the total number of strike prices above the value of the underlying index is no greater than five and the total number of strike prices below the value of the underlying index is no greater than five.

The Phlx Pilot permits the Exchange to open for trading additional Quarterly Options Series of the same class when the Exchange deems it necessary to maintain an orderly market, to meet customer demand, or when the current market price of the underlying security moves substantially from the exercise prices of those Quarterly Options Series that already have been opened for trading on the Exchange. The exercise price of each Quarterly Options Series on an underlying index is required to be reasonably related to the current index value of the index at or about the time such series of options were first opened for trading on the Exchange. The Exchange is also permitted to open for trading additional Quarterly Options Series on an underlying index that are more than 30 per cent away from the current index value, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate, or individual customers or their brokers. Market-makers trading for their own account shall not be considered when determining customer interest under this provision. Moreover, because monthly options series expire on the third Friday of their expiration month, a Quarterly Options Series (which would expire on the last business day of the

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7 For purposes of the Phlx Pilot, the term "reasonably related to the current index value of the underlying index" means that the exercise price is within 30 per cent of the current index value. Phlx Rule 1012.
quarter) could never expire in the same week in which a monthly options series in the same class expires.  

Additionally, the Phlx Pilot requires that the interval between strike prices on Quarterly Options Series will be the same as the interval for strike prices for series in the same options class that expires in accordance with the normal monthly expiration cycles, and, allows the Exchange to list those Quarterly Options Series on any options class that is selected by another securities exchange with a similar Pilot Program under its rules.

In the Commission Order approving the Phlx Pilot, the Commission indicated that if the Exchange seeks extension, expansion, or permanent approval of the Phlx Pilot, it must submit a Phlx Pilot Report (the “Report”). The Report reviews the Exchange’s experience with the Phlx Pilot and clearly supports the Exchange’s belief that extension of the Phlx Pilot is proper. Among other things, the Report shows the strength and efficacy of the Phlx Pilot on the Exchange as reflected by the strong volume of Quarterly Options traded on Phlx since the pilot’s inception in February 2007. The Report establishes that the Phlx Pilot has not created and in the future should not create capacity problems for the Exchange or the OPRA (Options Price Reporting Authority) system.

8 The Exchange does not currently list and trade any Short Term Option Series.

9 See Securities Exchange Act Release No. 55301 (February 15, 2007), 72 FR 8238 (February 23, 2007)(SR-Phlx-2007-08). The Commission Order indicates that the Report must include, at a minimum: (1) data and written analysis on the open interest and trading volume in the classes for which Quarterly Option Series were opened; (2) an assessment of the appropriateness of the options classes selected for the Phlx Pilot; (3) an assessment of the impact of the Phlx Pilot on the capacity of Phlx, OPRA, and on market data vendors (to the extent data from market data vendors is available); (4) any capacity problems or other problems that arose during the operation of the Phlx Pilot and how Phlx addressed such problems; (5) any complaints that the Phlx received during the operation of the Phlx Pilot and how the Phlx addressed them; and (6) any additional information that would assist in assessing the operation of the Phlx Pilot.
Moreover, the Exchange represents that it has the necessary systems capacity to support new options series that will result from the introduction of Quarterly Options Series.

The Exchange believes that extending the Phlx Pilot would continue to provide investors with a flexible and valuable tool to manage risk exposure, minimize capital outlays, and be more responsive to the timing of events affecting the securities that underlie option contracts.

b. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,\(^{10}\) in general, and furthers the objectives of Section 6(b)(5), specifically,\(^{11}\) in that it is designed to perfect the mechanism of a free and open market and the national market system, protect investors and the public interest and promotes just and equitable principles of trade. The proposal would achieve this by allowing continued listing of Quarterly Options, thereby stimulating customer interest in such options and creating greater trading opportunities and flexibility and providing customers with the ability to more closely tailor their investment strategies.

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.

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\(^{10}\) 15 U.S.C. 78f(b).

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 Exchange believes that the foregoing proposed rule change may take effect upon filing with the Commission pursuant to Section 19(b)(3)(A)\(^{12}\) of the Act and Rule 19b-4(f)(6)(iii) thereunder\(^{13}\) because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate.

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.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. Furthermore, Rule 19b-4(f)(6)(iii) requires a self-

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regulatory organization to give the Commission written notice of its intent to file a
proposed rule change under that subsection at least five business days prior to the date of
filing, or such shorter time as designated by the Commission. The Exchange has
provided the Commission with written notice of its intent to file this proposed rule.

The Exchange is requesting that the Commission waive the 30-day operative
delay and designate the proposed rule change immediately operative, so that the
Exchange can have generic listing rules that are similar to those of other options
exchanges. The Exchange believes that waiving the 30-day operative delay is consistent
with the protection of investors and the public interest.

   or of the Commission

   The proposed rule change is not based on the rules or by-laws of another self-
regulatory organization or of the Commission.

9. Exhibits

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

   3. Phlx’s Pilot Program Report (with Exhibits 3.1, 3.2 and 3.3 referenced therein).
SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-Phlx-2007-42)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of
Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Extension of
Quarterly Options Pilot 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 amend its Rules 1012 (Series of Options Open for Trading)
and 1101A (Terms of Option Contracts), in order to extend for about a period of one
year an Exchange pilot program (the “Phlx Pilot”) to permit the listing and trading of
options series that may be opened for trading on any business day and expire at the

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close of business on the last business day of a calendar quarter ("Quarterly Options" or "Quarterly Options Series"). The Phlx Pilot continues through July 24, 2007.⁵


II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Phlx included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Phlx has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to extend the Phlx Pilot for a period of one year so that the Exchange can continue to list and trade Quarterly Options within the parameters specified in its Rules 1012 and 1101A.

In February 2007, the Commission approved the Phlx Pilot allowing the listing and trading of Quarterly Options on the Exchange.⁶ The Exchange is proposing to extend the Phlx Pilot for about one year through July 10, 2008.

The Phlx Pilot will remain unchanged such that Phlx will generally be able to list and trade Quarterly Options Series on any approved options class\(^7\) on a business day ("Quarterly Options Opening Date") and such options would expire at the close of business on the last business day of a calendar quarter ("Quarterly Options Expiration Date"). Quarterly Options Series listed on approved options classes would be P.M.-settled and, in all other respects, would settle in the same manner as do the monthly expiration series in the same options class.\(^8\)

The Phlx Pilot allows the Exchange to open up to five currently listed options classes that are options on ETFs or indexes. The strike price for each series is fixed at a price per share, with at least two strike prices above and two strike prices below the approximate value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange may list strike prices for a Quarterly Options Series that are within $5 from the closing price of the underlying security on the preceding trading day.

The Exchange can list not more than five strike prices above and not more than five strike prices below the value of the underlying security. The Exchange can list additional Quarterly Options above or below the value of the underlying index provided that the total number of strike prices above the value of the underlying index is no greater

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\(^7\) Quarterly Options Series may be opened in options on indexes or options on exchange-traded funds ("ETFs") that satisfy the applicable listing criteria under Phlx rules.

\(^8\) The Quarterly Options that were chosen by the Exchange for listing and trading are set out in Exhibit 3.1 attached hereto.
than five and the total number of strike prices below the value of the underlying index is no greater than five.

The Phlx Pilot permits the Exchange to open for trading additional Quarterly Options Series of the same class when the Exchange deems it necessary to maintain an orderly market, to meet customer demand, or when the current market price of the underlying security moves substantially from the exercise prices of those Quarterly Options Series that already have been opened for trading on the Exchange. The exercise price of each Quarterly Options Series on an underlying index is required to be reasonably related to the current index value of the index at or about the time such series of options were first opened for trading on the Exchange. The Exchange is also permitted to open for trading additional Quarterly Options Series on an underlying index that are more than 30 per cent away from the current index value, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate, or individual customers or their brokers. Market-makers trading for their own account shall not be considered when determining customer interest under this provision. Moreover, because monthly options series expire on the third Friday of their expiration month, a Quarterly Options Series (which would expire on the last business day of the quarter) could never expire in the same week in which a monthly options series in the same class expires.

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9 For purposes of the Phlx Pilot, the term "reasonably related to the current index value of the underlying index" means that the exercise price is within 30 per cent of the current index value. Phlx Rule 1012.

10 The Exchange does not currently list and trade any Short Term Option Series.
Additionally, the Phlx Pilot requires that the interval between strike prices on Quarterly Options Series will be the same as the interval for strike prices for series in the same options class that expires in accordance with the normal monthly expiration cycles, and, allows the Exchange to list those Quarterly Options Series on any options class that is selected by another securities exchange with a similar Pilot Program under its rules.

In the Commission Order approving the Phlx Pilot, the Commission indicated that if the Exchange seeks extension, expansion, or permanent approval of the Phlx Pilot, it must submit a Phlx Pilot Report (the “Report”). The Report reviews the Exchange’s experience with the Phlx Pilot and clearly supports the Exchange’s belief that extension of the Phlx Pilot is proper. Among other things, the Report shows the strength and efficacy of the Phlx Pilot on the Exchange as reflected by the strong volume of Quarterly Options traded on Phlx since the pilot’s inception in February 2007. The Report establishes that the Phlx Pilot has not created and in the future should not create capacity problems for the Exchange or the OPRA (Options Price Reporting Authority) system. Moreover, the Exchange represents that it has the necessary systems capacity to support new options series that will result from the introduction of Quarterly Options Series.

11 See Securities Exchange Act Release No. 55301 (February 15, 2007), 72 FR 8238 (February 23, 2007)(SR-Phlx-2007-08). The Commission Order indicates that the Report must include, at a minimum: (1) data and written analysis on the open interest and trading volume in the classes for which Quarterly Option Series were opened; (2) an assessment of the appropriateness of the options classes selected for the Phlx Pilot; (3) an assessment of the impact of the Phlx Pilot on the capacity of Phlx, OPRA, and on market data vendors (to the extent data from market data vendors is available); (4) any capacity problems or other problems that arose during the operation of the Phlx Pilot and how Phlx addressed such problems; (5) any complaints that the Phlx received during the operation of the Phlx Pilot and how the Phlx addressed them; and (6) any additional information that would assist in assessing the operation of the Phlx Pilot.
The Exchange believes that extending the Phlx Pilot would continue to provide investors with a flexible and valuable tool to manage risk exposure, minimize capital outlays, and be more responsive to the timing of events affecting the securities that underlie option contracts.

2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act, in general, and furthers the objectives of Section 6(b)(5), specifically, in that it is designed to perfect the mechanism of a free and open market and the national market system, protect investors and the public interest and promotes just and equitable principles of trade. The proposal would achieve this by allowing continued listing of Quarterly Options, thereby stimulating customer interest in such options and creating greater trading opportunities and flexibility and providing customers with the ability to more closely tailor their investment strategies.

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.

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

The Exchange believes that the foregoing proposed rule change may take effect upon filing with the Commission pursuant to Section 19(b)(3)(A)\(^{14}\) of the Act and Rule 19b-4(f)(6)(iii) thereunder\(^{15}\) because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate.

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.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided the Commission with written notice of its intent to file this proposed rule.

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The Exchange is requesting that the Commission waive the 30-day operative delay and designate the proposed rule change immediately operative, so that the Exchange can have generic listing rules that are similar to those of other options exchanges. The Exchange believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest.

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-2007-42 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-2007-42. 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-2007-42 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.¹⁶

Nancy M. Morris
Secretary

EXHIBIT 3

Philadelphia Stock Exchange
Quarterly Option Pilot Program Report

This report regarding the Quarterly Option pilot program of the Philadelphia Stock Exchange, Inc. (“Quarterly Pilot”) is compiled pursuant to the request of the Securities and Exchange Commission (“Commission”) for a report if an exchange desires to extend, expand, or seek permanent approval of its Quarterly Pilot (“Report”). Based on the Report as detailed below, the Exchange believes that there is clear support for the Commission to extend the Quarterly Pilot for one (1) year or such other, longer time as the Commission feels is appropriate. The Exchange likewise believes that there is clear support for the Commission to allow expansion or permanent approval of the Quarterly Pilot.

Since the Commission approved the Quarterly Pilot in February, 2007, \(^1\) which permitted listing by the Philadelphia Stock Exchange Inc. (“PHLX” or the “Exchange”) of series of Quarterly expiration intervals, the Exchange has listed nine Quarterly Option Series. A list of all Quarterly option issues is included as Exhibit 3.1.

This Report details the PHLX’s experience with the PHLX chosen Quarterly Options pursuant to the Quarterly Pilot (together known as “all Quarterly Options”), for the review period from February 21, 2007 to April 30, 2007 (the “Review Period”).

(1) Data and written analysis on the open interest and trading volume for options (at all strike price intervals) selected for the Pilot Program

Volume of all Quarterly Option classes in the Pilot Program traded on PHLX

The total PHLX volume of all Quarterly Options (at all strike price intervals) traded on PHLX during the Review Period was approximately 649,692 contracts. Volume figures for all Quarterly Options are reflected in Exhibit 3.2. Overall contract volumes and the interest in the Quarterly Options remained strong.

An analysis was done to determine the volume of contracts traded and open interest for the Quarterly Options during the Review Period. Below are PHLX volumes of all Quarterly Options, as well as industry open interest for the noted time period.

<table>
<thead>
<tr>
<th>Time Period</th>
<th>PHLX Volume</th>
<th>Industry Open Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 2007</td>
<td>162,524</td>
<td>2,618,334</td>
</tr>
<tr>
<td>March 2007</td>
<td>345,412</td>
<td>3,986,171</td>
</tr>
<tr>
<td>April 2007</td>
<td>141,756</td>
<td>2,546,984</td>
</tr>
</tbody>
</table>

The Review Period indicates strong interest and consistency in the volume of contracts traded on PHLX in all Quarterly Options and graphically shows how PHLX traders and the public have embraced the Quarterly Pilot and likely will continue to trade Quarterly Option issues. We continually hear positive comments from PHLX traders regarding the flexibility offered by Quarterly Options and a desire to continue or expand the Quarterly Pilot.

**Volume of PHLX chosen option classes in the Pilot Program**

The total PHLX volume of contracts in the nine (9) PHLX chosen Quarterly Options in the Quarterly Pilot was 649,692 contracts. The volume indicates a consistent and continual interest in trading Quarterly Options in the short time period since the listing of the Quarterly Options. PHLX volume figures for Quarterly Options are reflected in Exhibit 3.2

**Open Interest**

Analysis of industry open interest during the Review Period, as noted above, indicates a constant and strong interest in Quarterly Options. Month end open interest figures are reflected in Exhibits 3.3.

**An assessment of the appropriateness of Quarterly Options the PHLX selected for the Pilot Program**

The Exchange chose appropriate options classes for Quarterly Options. The Exchange began to trade the first five (5) issues on February 21, 2007 and the next four (4) issues on April 9, 2007. The first five issues were simply issues in which quarterly option series were currently traded. The next four issues were the most well-known and popular sector index options that are traded on the Exchange. The volume of trades and open interest in the four PHLX chosen Quarterly Options bare out the appropriateness of PHLX’s selection.

**An assessment of the impact of the Pilot Program on the capacity of the PHLX’s, OPRA’s, and vendors’ automated systems**

The PHLX’s Financial Automation Department (“FA”) reviewed the capacity impact of all Quarterly Options during the Review Period. The review, which included PHLX chosen Quarterly Options, indicated that the capacity needed for PHLX did not significantly change after the Quarterly Pilot was instituted.

Moreover, the Exchange believes that, according to Option Price Reporting Authority ("OPRA") figures, there is sufficient OPRA system capacity to accommodate the Exchange's proposal. On a daily basis, for example, the OPRA participants (AMEX, BOX, CBOE, ISE, PCX, and PHLX) are using an average of around 145,715 messages per second ("mps"), which is less than fifty percent of the current total system capacity of
359,000 mps, and to date have yet to exceed 212,684 mps for a one-minute period of time.

It is even more instructive to look at PHLX OPRA system usage figures. While PHLX is currently allocated 65,000 mps, it is using an average of about 27,048 mps, which is less than half of the Exchange’s OPRA system capacity allotment. The Exchange’s all-time one-minute peak on January 4, 2007, of 33,048 mps is approximately 50.8% of its OPRA system capacity.

Extending the Quarterly Pilot should not have any significant negative impact on PHLX’s portion of OPRA system capacity or total OPRA system capacity.

(4) Any capacity problems or other problems that arose during the operation of the Pilot Program and how the PHLX addressed them

No known problems arose during the operation of the Quarterly Pilot.

(5) Any complaints that the PHLX received during the operation of the Pilot Program and how the PHLX addressed them

During the operation of the Quarterly Pilot, the Exchange did not receive any complaints.

(6) Any additional information that would help to assess the operation of the Pilot Program

The Exchange has endeavored in this Report to provide information it believes would be helpful to assess the operation of the Quarterly Pilot, and would submit further available information that the Commission feels would be would helpful.

The PHLX feels that the Report clearly shows the propriety of the Commission extending the Quarterly Pilot for one (1) year or such other, longer time as the Commission feels is appropriate, or in the alternative permanently approving it.
<table>
<thead>
<tr>
<th>Name</th>
<th>Stock Symbol</th>
<th>Quarterly Option Symbol</th>
<th>start date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Select Sector SPDR</td>
<td>XLE</td>
<td>GQQ</td>
<td>2/21/2007</td>
</tr>
<tr>
<td>PowerShares QQQ Trust</td>
<td>QQQQ</td>
<td>UQQ</td>
<td>2/21/2007</td>
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<tr>
<td>iShares Russell 2000 Index Fund</td>
<td>IWM</td>
<td>IQQ</td>
<td>2/21/2007</td>
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<tr>
<td>Diamonds Trust</td>
<td>DIA</td>
<td>BQQ</td>
<td>2/21/2007</td>
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<tr>
<td>PHLX Oil Service Sector</td>
<td>OSX</td>
<td>OSA</td>
<td>4/9/2007</td>
</tr>
<tr>
<td>KBW Bank Index</td>
<td>BKK</td>
<td>BQA</td>
<td>4/9/2007</td>
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</table>
### Quarterly Option Volume

<table>
<thead>
<tr>
<th>Underlying Symbol</th>
<th>Option Sym</th>
<th>Feb-07</th>
<th>Mar-07</th>
<th>Apr-07</th>
<th>Total Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>BKX</td>
<td>BQA</td>
<td>0</td>
<td>0</td>
<td>4,058</td>
<td>4,058</td>
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<tr>
<td>DIA</td>
<td>BQQ</td>
<td>9,400</td>
<td>21,216</td>
<td>2,736</td>
<td>33,352</td>
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<tr>
<td>IWM</td>
<td>IQQ</td>
<td>59,948</td>
<td>87,716</td>
<td>103,948</td>
<td>251,612</td>
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<tr>
<td>OSX</td>
<td>OSA</td>
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<tr>
<td>QQQQ</td>
<td>UQQ</td>
<td>74,226</td>
<td>102,184</td>
<td>15,474</td>
<td>191,884</td>
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<tr>
<td>SOX</td>
<td>SBO</td>
<td>0</td>
<td>0</td>
<td>400</td>
<td>400</td>
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<tr>
<td>SPY</td>
<td>RQQ</td>
<td>18,394</td>
<td>123,520</td>
<td>2,852</td>
<td>144,766</td>
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<tr>
<td>XAU</td>
<td>XGI</td>
<td>0</td>
<td>0</td>
<td>1,786</td>
<td>1,786</td>
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<tr>
<td>XLE</td>
<td>GQQ</td>
<td>556</td>
<td>10,776</td>
<td>7,822</td>
<td>19,154</td>
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<tr>
<td><strong>Total Volume</strong></td>
<td></td>
<td>162,524</td>
<td>345,412</td>
<td>141,756</td>
<td>649,692</td>
</tr>
</tbody>
</table>
### Quarterly Open Interest Data

**Underlying Sym** | **Option Sym** | **Date** | **Total Open Interest** |
---|---|---|---|
BKK | BQA | April | 2,129 |
**Total** | | | **2,129** |
DIA | BQQ | Feb | 155,689 |
| | | Mar | 161,957 |
| | | April | 133,972 |
**Total** | | | **451,618** |
IWM | IQQ | Feb | 1,567,572 |
| | | Mar | 2,140,574 |
| | | April | 1,530,349 |
**Total** | | | **5,238,495** |
OSX | OSA | April | 1,303 |
**Total** | | | **1,303** |
QQQQ | UQQ | Feb | 488,686 |
| | | Mar | 586,800 |
| | | April | 504,006 |
**Total** | | | **1,579,492** |
SOX | SBO | April | 190 |
**Total** | | | **190** |
SPY | RQQ | Feb | 362,504 |
| | | Mar | 917,315 |
| | | April | 329,445 |
**Total** | | | **1,609,264** |
XAU | XGI | April | 763 |
**Total** | | | **763** |
XLE | GQQ | Feb | 43,883 |
| | | Mar | 179,525 |
| | | April | 44,827 |
**Total** | | | **268,235** |

### Month Totals

<table>
<thead>
<tr>
<th>Month</th>
<th>Totals</th>
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</thead>
<tbody>
<tr>
<td>Feb</td>
<td>2,618,334</td>
</tr>
<tr>
<td>Mar</td>
<td>3,986,171</td>
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<tr>
<td>April</td>
<td>2,546,984</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,151,489</strong></td>
</tr>
</tbody>
</table>