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

Proposed rule change relating to the extension of a pilot to permit certain option series to be quoted and traded in increments of $0.01.

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 Richard Last Name Rudolph
Title Vice President and Counsel
E-mail Richard.Rudolph@phlx.com
Telephone (215) 496-5074 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 07/24/2007
By Richard S. Rudolph Vice President 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.
**Form 19b-4 Information**
The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change**
The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3).

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**
Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**
Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**
The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**
The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**
If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.
1. **Text of the Proposed Rule Change**

The Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)\(^1\) and Rule 19b-4 thereunder,\(^2\) proposes to extend a pilot (the “pilot”) that permits certain options series to be quoted and traded in increments of $0.01. The Exchange proposes to extend the pilot through September 27, 2007.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. The text of the proposed rule change is set forth below. Brackets indicate deletions; underlining indicates new text.

**Minimum Increments**

**Rule 1034.** (a) ****

(i) (A) No change.

(B)[(1)] For a [six-month] pilot period [beginning on January 26, 2007] scheduled to expire September 27, 2007 (the “pilot”), certain options shall be quoted and traded on the Exchange in minimum increments of $0.01 for all series in such options with a price of less than $3.00, and in minimum increments of $0.05 for all series in such options with a price of $3.00 or higher, except that options overlying the Nasdaq-100 Index Tracking Stock (“QQQQ”)® shall be quoted and traded in minimum increments of $0.01 for all series regardless of the price. A list of such options shall be communicated to membership via Exchange circular.

[(2) On or before the last day of the fourth month of the pilot, the Exchange shall prepare and submit an analytical report to the Securities and Exchange Commission (“Commission”) that addresses the impact of the first three months of the pilot on the quality of the Exchange's markets and option quote traffic and capacity.]

(C) No change.

(ii) – (iii) No change.

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2. Procedures of the Self-Regulatory Organization

The Exchange’s Executive Committee, pursuant to delegated authority, approved the proposal for filing with the Securities and Exchange Commission (“SEC” or “Commission”) on July 19, 2007.

Questions and comments on the proposed rule change may be directed to Richard S. Rudolph, Vice President and Counsel, at (215) 496-5074, or Edith 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 continue to permit specified options series to be quoted and traded in increments of $0.01 by extending the pilot through September 27, 2007.

The pilot began on January 26, 2007.3 All series in options included in the pilot (“pilot options,” listed below) trading at a price of less than $3.00 are currently quoted and traded in minimum increments of $0.01, and pilot options with a price of $3.00 or higher are currently quoted and traded in minimum increments of $0.05, except that options overlying the Nasdaq-100 Index Tracking Stock (“QQQQ”)4 are quoted and

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4 The Nasdaq-100®, Nasdaq-100 Index®, Nasdaq®, The Nasdaq Stock Market®, Nasdaq-100 SharesSM, Nasdaq-100 TrustSM, Nasdaq-100 Index Tracking StockSM, and QQQSM are trademarks or service marks of The Nasdaq Stock Market, Inc. (Nasdaq) and have been licensed for use for certain purposes by the Philadelphia Stock Exchange pursuant to a License Agreement with Nasdaq. The Nasdaq-100 Index® (the Index) is determined, composed, and calculated by Nasdaq without regard to the Licensee, the Nasdaq-100 TrustSM, or the beneficial owners of Nasdaq-100 SharesSM. Nasdaq has complete control and sole
traded in minimum increments of $0.01 for all series regardless of the price. A list of all pilot options was communicated to membership via Exchange circular.

The options included in the pilot are:

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Underlying Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>IWM</td>
<td>Ishares Russell 2000</td>
</tr>
<tr>
<td>QQQQ</td>
<td>QQQQ</td>
</tr>
<tr>
<td>SMH</td>
<td>SemiConductor Holders</td>
</tr>
<tr>
<td>GE</td>
<td>General Electric</td>
</tr>
<tr>
<td>AMD</td>
<td>Advanced Micro Devices</td>
</tr>
<tr>
<td>MSFT</td>
<td>Microsoft</td>
</tr>
<tr>
<td>INTC</td>
<td>Intel</td>
</tr>
<tr>
<td>CAT</td>
<td>Caterpillar</td>
</tr>
<tr>
<td>WFMI</td>
<td>Whole Foods</td>
</tr>
<tr>
<td>TXN</td>
<td>Texas Instruments</td>
</tr>
<tr>
<td>A</td>
<td>Agilent Tech Inc.</td>
</tr>
<tr>
<td>FLEX</td>
<td>Flextronics International</td>
</tr>
<tr>
<td>SUNW</td>
<td>Sun Micro</td>
</tr>
</tbody>
</table>

Report to the Commission

Rule 1034(a)(i)(B)(2) required the Exchange to prepare and submit an analytical report (“report”) to the Commission that addressed the impact of the first three months of the pilot on the quality of the Exchange’s markets and option quote traffic and capacity on or before the last day of the fourth month of the pilot. The Exchange submitted the report on May 31, 2007, within the time frame specified in the rule. The Exchange proposes to delete Rule 1034(a)(i)(B)(2) because it is no longer applicable, and to make a technical numbering change to the rule.

The Exchange anticipates that it will submit further reports as the pilot continues. The Exchange will amend its rules accordingly.

discretion in determining, comprising, or calculating the Index or in modifying in any way its method for determining, comprising, or calculating the Index in the future.
b. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^5\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^6\) in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest, by ensuring the orderly continuity of the pilot.

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 proposed rule change is designated by the Exchange as a “non-controversial” rule pursuant to Section 19(b)(3)(A)\(^7\) of the Act and subparagraph (f)(6) of Rule 19b-4

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thereunder, 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 on which it
was filed, or such shorter time as the Commission may designate if consistent with the
protection of investors and the public interest, provided that the Exchange has given the
Commission written notice of its intent to file the proposed rule change at least five
business days prior to the filing of the proposed rule change. The rule is therefore being
filed for immediate effectiveness and the Exchange requests that the Commission waive the
5-day written notice requirement and the 30-day period for the proposal to become
operative, in order to ensure the continuity of the pilot, which is scheduled to expire July 25,
2007.

or of the Commission

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

9. Exhibits

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

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Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.                  ; File No. SR-Phlx-2007-53)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Extension of a Pilot Program to Quote and Trade Options in Penny Increments

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 extend a pilot (the “pilot”) that permits certain options series to be quoted and traded in increments of $0.01. The Exchange proposes to extend the pilot through September 27, 2007.

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The text of the proposed rule change is set forth below.

Brackets indicate deletions; underlining indicates new text.

**Minimum Increments**

**Rule 1034.** (a) ******

(i) (A) No change.

(B)[(1)] For a [six-month] pilot period [beginning on January 26, 2007] scheduled to expire September 27, 2007 (the “pilot”), certain options shall be quoted and traded on the Exchange in minimum increments of $0.01 for all series in such options with a price of less than $3.00, and in minimum increments of $0.05 for all series in such options with a price of $3.00 or higher, except that options overlying the Nasdaq-100 Index Tracking Stock ("QQQQ") shall be quoted and traded in minimum increments of $0.01 for all series regardless of the price. A list of such options shall be communicated to membership via Exchange circular.

[(2) On or before the last day of the fourth month of the pilot, the Exchange shall prepare and submit an analytical report to the Securities and Exchange Commission ("Commission") that addresses the impact of the first three months of the pilot on the quality of the Exchange's markets and option quote traffic and capacity.]

(C) No change.

(ii) – (iii) No change.

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 continue to permit specified options series to be quoted and traded in increments of $0.01 by extending the pilot through September 27, 2007.

The pilot began on January 26, 2007. All series in options included in the pilot ("pilot options," listed below) trading at a price of less than $3.00 are currently quoted and traded in minimum increments of $0.01, and pilot options with a price of $3.00 or higher are currently quoted and traded in minimum increments of $0.05, except that options overlying the Nasdaq-100 Index Tracking Stock ("QQQQ") are quoted and traded in minimum increments of $0.01 for all series regardless of the price. A list of all pilot options was communicated to membership via Exchange circular.

The options included in the pilot are:

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<tr>
<td>QQQQ</td>
<td>QQQQ</td>
</tr>
<tr>
<td>SMH</td>
<td>SemiConductor Holders</td>
</tr>
<tr>
<td>GE</td>
<td>General Electric</td>
</tr>
<tr>
<td>AMD</td>
<td>Advanced Micro Devices</td>
</tr>
<tr>
<td>MSFT</td>
<td>Microsoft</td>
</tr>
<tr>
<td>INTC</td>
<td>Intel</td>
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6 The Nasdaq-100®, Nasdaq-100 Index®, Nasdaq®, The Nasdaq Stock Market®, Nasdaq-100 SharesSM, Nasdaq-100 TrustSM, Nasdaq-100 Index Tracking StockSM, and QQQSM are trademarks or service marks of The Nasdaq Stock Market, Inc. (Nasdaq) and have been licensed for use for certain purposes by the Philadelphia Stock Exchange pursuant to a License Agreement with Nasdaq. The Nasdaq-100 Index® (the Index) is determined, composed, and calculated by Nasdaq without regard to the Licensee, the Nasdaq-100 TrustSM, or the beneficial owners of Nasdaq-100 SharesSM. Nasdaq has complete control and sole discretion in determining, comprising, or calculating the Index or in modifying in any way its method for determining, comprising, or calculating the Index in the future.
Report to the Commission

Rule 1034(a)(i)(B)(2) required the Exchange to prepare and submit an analytical report (“report”) to the Commission that addressed the impact of the first three months of the pilot on the quality of the Exchange’s markets and option quote traffic and capacity on or before the last day of the fourth month of the pilot. The Exchange submitted the report on May 31, 2007, within the time frame specified in the rule. The Exchange proposes to delete Rule 1034(a)(i)(B)(2) because it is no longer applicable, and to make a technical numbering change to the rule.

The Exchange anticipates that it will submit further reports as the pilot continues. The Exchange will amend its rules accordingly.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^7\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^8\) in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest, by ensuring the orderly continuity of the pilot.

B. Self-Regulatory Organization's Statement on Burden on Competition

\(^7\) 15 U.S.C. 78f(b).

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 proposed rule change is designated by the Exchange as a “non-controversial” rule pursuant to Section 19(b)(3)(A)\(^9\) of the Act and subparagraph (f)(6) of Rule 19b-4 thereunder,\(^10\) 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 on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, provided that the Exchange has given the Commission written notice of its intent to file the proposed rule change at least five business days prior to the filing of the proposed rule change. The rule is therefore being filed for immediate effectiveness and the Exchange requests that the Commission waive the 5-day written notice requirement and the 30-day period for the proposal to become operative, in order to ensure the continuity of the pilot, which is scheduled to expire July 25, 2007.

IV. Solicitation of Comments

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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](http://www.sec.gov/rules/sro.shtml); or
  
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2007-53 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-2007-53. 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](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-2007-53 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.¹¹

Nancy M. Morris
Secretary