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)

☑ 19b-4(f)(4) ☐ 19b-4(f)(6)

☑ 19b-4(f)(5)

☑ Pilot 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)

Description

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

Proposed rule change relating to penny trading in options.

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 08/17/2007

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.
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.
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 and expand a pilot program (the “pilot”) that permits certain options series to be quoted and traded in increments of $0.01, through March 27, 2009. The extended pilot would include additional options that are not part of the current pilot.

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) For a pilot period scheduled to expire [September 27, 2007] **March 27, 2009** (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.

(C) No change.

(ii) – (iii) No change.


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 August 10, 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 March 27, 2009, and to expand the pilot to include additional options, as described more fully below. The Exchange believes that including additional options to the pilot should provide greater breadth and depth of experience in quoting and trading options series in increments of $0.01, and should therefore enable the Exchange to better analyze the impact of the pilot on the options marketplace.

Current Pilot

The current pilot began on January 26, 2007, and was thereafter extended through September 27, 2007. All series in options included in the pilot (“pilot options,”

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3 See Securities Exchange Act Release No. 55153 (January 23, 2007), 72 FR 4553 (January 31, 2007) (SR-Phlx-2006-74). In that filing, the Exchange also made conforming amendments to various Exchange rules in order to be consistent with the pilot. These conforming changes were also approved on a six-month pilot basis. Therefore, the Exchange is proposing to extend the effective date for these rules through March 27, 2009.
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")\(^5\) 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 current pilot are:

<table>
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<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>
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<tr>
<td>AMD</td>
<td>Advanced Micro Devices</td>
</tr>
<tr>
<td>MSFT</td>
<td>Microsoft</td>
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<td>INTC</td>
<td>Intel</td>
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<tr>
<td>CAT</td>
<td>Caterpillar</td>
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<tr>
<td>WFMI</td>
<td>Whole Foods</td>
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<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>

Expanded Pilot

The current pilot will be expanded to include additional options in two phases
beginning on September 28, 2007.

\[^4\] See Securities Exchange Act Release No. 56141 (July 24, 2007), 72 FR 42216 (August 1, 2007) (SR-

\[^5\] The Nasdaq-100®, Nasdaq-100 Index®, Nasdaq®, The Nasdaq Stock Market®, Nasdaq-100 Shares℠,
Nasdaq-100 Trust℠, Nasdaq-100 Index Tracking Stock℠, and QQQ℠ 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
Trust℠, or the beneficial owners of Nasdaq-100 Shares℠. Nasdaq has complete control and sole
Phase I

Phase I will begin September 28, 2007, and will continue through March 27, 2008. Phase I will include the original 13 pilot options, together with 22 additional options. The 22 new options (listed below), combined with the original 13, will represent approximately 35% of national trading volume based on year-to-date trading volume data (through July 16, 2007) from the Options Clearing Corporation (“OCC”). Excluded from this phase are Google, NDX and RUT due to their relatively high premiums.

All pilot options in Phase I will trade in $0.01 increments in series trading below $3.00, and in $0.05 increments in series trading at $3.00 and above, except that options on QQQQ will continue to trade in increments of $0.01 for all series.

Options to be added to the pilot in Phase I:

<table>
<thead>
<tr>
<th>Symbol</th>
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<tr>
<td>SPY</td>
<td>SPDR Trust Series 1</td>
</tr>
<tr>
<td>AAPL</td>
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</tr>
<tr>
<td>MO</td>
<td>Altria Group Inc.</td>
</tr>
<tr>
<td>DNDN</td>
<td>Dendreon Corporation</td>
</tr>
<tr>
<td>AMGN</td>
<td>Amgen, Inc.</td>
</tr>
<tr>
<td>YHOO</td>
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<tr>
<td>QCOM</td>
<td>Qualcomm, Inc.</td>
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<td>GM</td>
<td>General Motors Corporation</td>
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<tr>
<td>XLE</td>
<td>S&amp;P Energy Select Sector SPDR</td>
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<tr>
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<tr>
<td>OIH</td>
<td>Oil Services HOLDRS</td>
</tr>
<tr>
<td>NYX</td>
<td>NYSE Euronext</td>
</tr>
<tr>
<td>CSCO</td>
<td>Cisco Systems, Inc.</td>
</tr>
<tr>
<td>XLF</td>
<td>S&amp;P Financial Select Sector SPDR</td>
</tr>
<tr>
<td>T</td>
<td>AT&amp;T Corporation</td>
</tr>
<tr>
<td>C</td>
<td>Citigroup, Inc.</td>
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<tr>
<td>AMZN</td>
<td>Amazon.com, Inc.</td>
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<tr>
<td>MOT</td>
<td>Motorola, Inc.</td>
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<td>FCX</td>
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Phase II

Phase II will begin March 28, 2008, and will extend for one year, through March 27, 2009. Options will be added to the pilot in Phase II such that the Top 50 multiply listed options by national volume will be included, bringing the total number of options in the pilot to 63. Thus, any multiply listed options in the Top 50 that are not included in Phase I will be added to the pilot in Phase II. The Exchange will file a proposed rule change under Section (b)(3)(A) of the Act, and will issue a circular to membership, identifying the options to be added to the pilot in Phase II.

Again, all penny options in Phase II will trade in $0.01 increments in series trading below $3.00, and in $0.05 increments in series trading at $3.00 and above. Options on QQQQ will continue to trade in increments of $0.01 for all series.

Reporting

The Exchange will submit four (4) reports on the pilot analyzing its impact on the quality of the Exchange’s markets and on capacity, which will be due on the last day of the calendar month following a specified period, as follows:

Report #1 will cover the period from May 1, 2007 - September 27, 2007.
Report #2 will cover the period from September 28, 2007 - January 31, 2008.
Report #3 will cover the period from February 1, 2008 - July 31, 2008.
Report #4 will cover the period from August 1, 2008 - January 31, 2009.
b. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^6\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^7\) 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 expanding the pilot to include more options series.

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)**

Not applicable.


\(^7\) 15 U.S.C. 78f(b)(5).
8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization 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*. 
Exhibit 1

SECURITIES AND EXCHANGE COMMISSION

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Extension and Expansion of a Pilot Program to Quote and Trade Certain Options Series in Increments of $0.01

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\(^4\) thereunder, proposes to extend and expand a pilot program (the “pilot”) that permits certain options series to be quoted and traded in increments of $0.01, through March 27, 2009. The extended pilot would include additional options that are not part of the current pilot. The text of the proposed rule change is set forth below.

Minimum Increments

Rule 1034. (a) *****

(i) (A) No change.

(B) For a pilot period scheduled to expire [September 27, 2007] March 27, 2009 (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.

(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 March 27, 2009, and to expand the pilot to include additional options, as described more fully below. The Exchange believes that including additional options to the pilot should
provide greater breadth and depth of experience in quoting and trading options series in increments of $0.01, and should therefore enable the Exchange to better analyze the impact of the pilot on the options marketplace.

Current Pilot

The current pilot began on January 26, 2007, and was thereafter extended through September 27, 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.

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5 See Securities Exchange Act Release No. 55153 (January 23, 2007), 72 FR 4553 (January 31, 2007) (SR-Phlx-2006-74). In that filing, the Exchange also made conforming amendments to various Exchange rules in order to be consistent with the pilot. These conforming changes were also approved on a six-month pilot basis. Therefore, the Exchange is proposing to extend the effective date for these rules through March 27, 2009.


7 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
Expanded Pilot

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Phase I

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<td>NYSE Euronext</td>
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<td>CSCO</td>
<td>Cisco Systems, Inc.</td>
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<td>COP</td>
<td>ConocoPhillips</td>
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<tr>
<td>BMY</td>
<td>Bristol-Meyers Squibb Company</td>
</tr>
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The Exchange will issue a circular to membership identifying the options to be added to the pilot in Phase I.

**Phase II**

Phase II will begin March 28, 2008, and will extend for one year, through March 27, 2009. Options will be added to the pilot in Phase II such that the Top 50 multiply listed options by national volume will be included, bringing the total number of options in the pilot to 63. Thus, any multiply listed options in the Top 50 that are not included in Phase I will be added to the pilot in Phase II. The Exchange will file a proposed rule change under Section (b)(3)(A) of the Act, and will issue a circular to membership, identifying the options to be added to the pilot in Phase II.

Again, all penny options in Phase II will trade in $0.01 increments in series trading below $3.00, and in $0.05 increments in series trading at $3.00 and above. Options on QQQQ will continue to trade in increments of $0.01 for all series.
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Report #4 will cover the period from August 1, 2008 - January 31, 2009.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^8\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^9\) 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 expanding the pilot to include more options series.

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**

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which Phlx consents, the Commission shall: (a) by order approve such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

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](http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2007-62 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-2007-62. 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.
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-2007-62 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.\(^\text{10}\)

Nancy M. Morris
Secretary

\(^{10}\) 17 CFR 200.30-3(a)(12).