

MEMORANDUM

TO: Options Members and Member Organizations

FROM: Tom Wittman
President

DATE: July 31, 2008

SUBJECT: Reduced fee for ROT and specialist equity option transaction charges

PHLX management is seeking Board approval to submit a rule filing with the Securities and Exchange Commission (“SEC”) that modifies the equity option comparison/transaction charges assessed to Registered Options Traders (“ROTs”)¹ and the equity option transaction charge assessed to specialists. **Specifically, Phlx management has proposed to reduce the transaction/comparison fees to \$.01 per contract for all contracts above 4.5 million contracts per month. All contracts up to and including 4.5 million contracts per month will be subject to the existing fee structure.**² To determine the 4.5 million, the Exchange will aggregate the trading activity of separate ROTs and specialist member organizations if there is at least 75% common ownership between the member organizations as reflected on each member organization’s Form BD, Schedule A. The proposal will exclude the following elements:

- Contract volume resulting from dividend, merger and short stock interest strategies (“strategy trades”) and contract volume related to outbound linkage (the Phlx trade related to the outbound linkage trade or “flip”) are not counted toward the 4.5 million, because those contracts currently receive a credit equal to the appropriate equity option transaction fee.
- Contract volume above the “14,000 contract cap” (on the fee schedule as per options class, per day, per qualifying transaction when contra-party to non-AUTOM delivered customer orders) will not be included in determining the 4.5 million, because that volume is already subject to reduced fees.
- The credit that applies to specialists that incur Phlx option transaction charges as a result of away Linkage P/A Orders will also remain intact. However, it will be modified so that if the new \$.01 transaction fee applies, the credit will be \$.01 rather than \$.21 per contract.
- Additionally, the \$.08/contract side rebate for ROTs and \$.07/contract side rebate for specialists for strategy trades will be eliminated. All other existing caps associated with strategy trades will remain unchanged.

¹ Includes Streaming Quote Traders and Remote Streaming Quote Traders

² ROTs are assessed a \$0.03 options comparison fee and a \$0.19 option transaction fee and specialists are assessed a \$0.21 option transaction fee

- World Currency Options and Index Options volumes do not count toward the 4.5 million, but the volume associated with MNX, NDX, RUT AND RMN options will be included in the 4.5 million because these are subject to the equity options fee schedule.

This proposal is expected to become effective August 1, 2008, pending approval by the SEC.

If you have any questions concerning the above, I invite you to contact me at 215-496-5631 or Walt Smith at 215-496-5532.