

RULE, PHLX, ¶3075, Rule 1080.

Philadelphia Stock Exchange Automated Options Market (AUTOM) and Automatic Execution System (AUTO-X)

Rule 1080.

Philadelphia Stock Exchange Automated Options Market (AUTOM) and Automatic Execution System (AUTO-X)

(a) General --AUTOM is the Exchange's electronic order delivery and reporting system, which provides for the automatic entry and routing of Exchange-listed equity options and index options orders to the Exchange trading floor. Orders delivered through AUTOM may be executed manually, or certain orders are eligible for AUTOM's automatic execution feature, AUTO-X, in accordance with the provisions of this Rule. Equity option and index option specialists are required by the Exchange to participate in AUTOM and its features and enhancements. Option orders entered by Exchange member organizations into AUTOM are routed to the appropriate specialist unit on the Exchange trading floor.

This Rule shall govern the orders, execution reports and administrative messages ("order messages") transmitted between the offices of member organizations and the trading floors of the Exchange through AUTOM.

All references to "ROTs" in this Rule 1080 are the Phlx Registered Options Traders as defined in Exchange Rule 1014(b).

(b) Eligible Orders

(i) The following types of orders are eligible for entry into AUTOM:

(A) Agency orders may be entered. The following types of agency orders are eligible for AUTOM; day, GTC, Immediate or Cancel ("IOC"), market, limit, all or none, or better, simple cancel, simple cancel to reduce size (cancel leaves), cancel to change price, cancel with replacement order, and possible duplicate orders.

(B) Respecting non-Streaming Quote Options, on-floor orders for the proprietary account(s) of non-SQT ROTs and specialists via electronic interface with AUTOM may be entered, subject to the restrictions on order entry set forth in Commentary .04 of this Rule. The following types of orders for the proprietary account(s) of ROTs and specialists are eligible for entry via electronic interface with AUTOM: GTC, day limit and simple cancel.

(C) Off-floor broker-dealer limit orders, subject to the restrictions on order entry set forth in Commentary .05 of this Rule, may be entered. The following types of broker-dealer limit orders are eligible for AUTOM: day, GTC, IOC, simple cancel, simple cancel to reduce size (cancel leaves), cancel to change price, cancel with replacement order. For purposes of this Rule 1080, the term "off-floor broker-dealer" means a broker-dealer that delivers orders from off the floor of the Exchange for the proprietary account(s) of such broker-dealer, including a market maker located on an exchange or trading floor other than the Exchange's trading floor who elects to deliver orders via AUTOM for the proprietary account(s) of such market maker.

(ii) The Exchange's Options Committee may determine to accept additional types of orders as well as to discontinue accepting certain types of orders.

(A) In accordance with this sub-paragraph (ii), the Options Committee has determined to allow a customer limit order to be delivered via AUTOM onto the limit order book by an Order Entry Firm

(as defined in Rule 1080(c)(ii)). If the Order Entry Firm also sends in a proprietary contraside order for the account of such Order Entry Firm, an affiliated firm, or a solicited party (as defined in Rule 1064(c)(ii)), it must label the customer order with a "K" indicator and the proprietary order (which is an immediate-or-cancel order that is not eligible for automatic execution) with an "L" indicator. The customer limit order labeled "K" may be executed by the specialist or crowd at any time. The customer limit order labeled "K" must be exposed to the trading crowd for not less than 30 seconds before it can be executed, in whole or in part, against proprietary orders with a labeled "L" indicator.

(B) It shall be a violation of Rule 1080(b)(ii)(A) for any Exchange member or member organization to be a party to any arrangement designed to circumvent Rule 1080(b)(ii)(A) by providing an opportunity for a customer, member, member organization, or non-member broker-dealer to execute immediately against agency orders delivered to the Exchange, whether such orders are delivered via AUTOM or represented in the trading crowd by a member or a member organization.

(iii) Orders may not be unbundled for the purposes of eligibility for AUTOM and AUTO-X, nor may a firm solicit a customer to unbundle an order for this purpose.

(c) AUTO-X. --AUTO-X is a feature of AUTOM that automatically executes eligible market and marketable limit orders up to the number of contracts permitted by the Exchange for certain strike prices and expiration months in equity options and index options, unless the Options Committee determines otherwise. AUTO-X automatically executes eligible orders using the Exchange disseminated quotation (except if executed pursuant to the NBBO Feature in sub-paragraph (i) below) and then automatically routes execution reports to the originating member organization. AUTOM orders not eligible for AUTO-X are executed manually in accordance with Exchange rules. Manual execution may also occur when AUTO-X is not engaged, such as pursuant to sub-paragraph (iv) below. An order may also be executed partially by AUTO-X and partially manually.

The Options Committee may for any period restrict the use of AUTO-X on the Exchange in any option or series provided that the effectiveness of any such restriction shall be conditioned upon its having been approved by the Securities and Exchange Commission pursuant to Section 19(b) of the Securities Exchange Act of 1934 and the rules and regulations thereunder. Any such restriction on the use of AUTO-X approved by the Options Committee will be clearly communicated to Exchange membership and AUTOM users through an electronic message sent via AUTOM and through an Exchange information circular. Such restriction would not take effect until after such communication has been made.

Currently, the Exchange's maximum allowable AUTO-X guarantee is 250 contracts. With respect to options on the Nasdaq-100 Index Tracking Stock ("QQQ")SM, orders of up to 2,000 contracts in the first two (2) near term expiration months, and 1,000 contracts for all other expiration months, are eligible for AUTO-X.

For each option, there shall be a minimum guaranteed AUTO-X size and a maximum guaranteed AUTO-X size.

The Exchange shall provide automatic executions for eligible customer and broker-dealer orders up to the Exchange's disseminated size as defined in Exchange Rule 1082 (except with respect to orders eligible for "Book Match" as described in Rule 1080(g)(ii) below), subject to a minimum guaranteed AUTO-X size and a maximum guaranteed AUTO-X size. The current minimum guaranteed AUTO-X size is 1 contract, and the current maximum guaranteed AUTO-X size is 250 contracts, except for QQQSM options.

- If the Exchange's disseminated size is greater than the minimum guaranteed AUTO-X size, and less than the maximum guaranteed AUTO-X size, inbound eligible orders shall be automatically executed up to Exchange's disseminated size. Remaining contracts shall be

executed manually by the specialist or placed on the limit order book.

- If the Exchange's disseminated size is less than the minimum guaranteed AUTO-X size for that option, inbound eligible orders shall be automatically executed up to such minimum guaranteed AUTO-X size. Remaining contracts shall be executed manually by the specialist or placed on the limit order book.

- If the Exchange's disseminated size is greater than the maximum guaranteed AUTO-X size, inbound eligible orders shall be automatically executed up to such maximum guaranteed AUTO-X size. Remaining contracts shall be executed manually by the specialist.

The minimum and maximum guaranteed AUTO-X size applicable to each option shall be posted on the Exchange's web site.

The Options Committee may, in its discretion, increase the size of orders in one or more classes of multiply-traded equity options eligible for AUTO-X to the extent necessary to match the size of orders in the same options eligible for entry into the automated execution system of any other options exchange, provided that the effectiveness of any such increase shall be conditioned upon its having been filed with the Securities and Exchange Commission pursuant to Section 19(b)(3)(A) of the Securities Exchange Act of 1934.

(i) (A) Where the Chairman of the Options Committee or his designee (or if the Chairman of the Options Committee or his designee is unavailable, two Floor Officials), determines that quotes in options on the Exchange or another market or markets are subject to relief from the firm quote requirement set forth in the SEC Quote Rule, as defined in Exchange Rule 1082(a)(iii) (the "Quote Rule"), customer market orders will receive an automatic execution at the NBBO based on the best bid or offer in markets whose quotes are not subject to relief from the firm quote requirement set forth in the Quote Rule. Such determination may be made by way of notification from another market that its quotes are not firm or are unreliable; administrative message from the Option Price Reporting Authority ("OPRA"); quotes received from another market designated as "not firm" using the appropriate indicator; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are not firm. AUTOM customers will be duly notified via electronic message from AUTOM that such quotes are excluded from the calculation of NBBO. The Exchange may determine to exclude quotes from its calculation of NBBO on a series-by-series basis or issue-by-issue basis, or may determine to exclude all options quotes from an exchange, where appropriate, under the conditions set forth above. The Exchange shall maintain a record of each instance in which another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. Such documentation shall include: identification of the option(s) affected by such action; the date and time such action was taken and concluded; identification of the other exchange(s) whose quotes were excluded from the Exchange's calculation of NBBO; identification of the Chairman of the Options Committee, his designee, or two Floor Officials (as applicable) who approved such action; the reasons for which such action was taken; and identification of the specialist and the specialist unit. The Exchange will maintain these documents pursuant to the record retention requirements of the Securities Exchange Act of 1934 and the rule and regulations thereunder.

(B) Where the Chairman of the Options Committee or his designee (or if the Chairman of the Options Committee or his designee is unavailable, two Floor Officials), determines that quotes in options on the Exchange or another market or markets previously subject to relief from the firm quote requirement set forth in the Quote Rule are no longer subject to such relief, such quotations will be included in the calculation of NBBO for such options. Such determination may be made by way of notification from another market that its quotes are firm; administrative message from the Option Price Reporting Authority ("OPRA"); and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are firm. AUTOM customers will be duly notified via electronic message from AUTOM that such quotes are again included in the calculation of

NBBO.

(ii) Order Entry Firms and Users

(A) Definitions

(1) The term "Order Entry Firm" means a member organization of the Exchange that is able to route orders to AUTOM.

(2) The term "User" means any person or firm that obtains access to AUTO-X through an Order Entry Firm.

(B) Obligations of Order Entry Firms. Order Entry Firms shall:

(1) Comply with all applicable Exchange options trading rules and procedures;

(2) Provide written notice to all Users regarding the proper use of AUTO-X; and

(3) Neither enter nor permit the entry of multiple orders in call options and/or put options in the same option within any 15-second period for an account or accounts of the same beneficial owner.

(iii) Quotations Interacting With Limit Orders on the Book.

(A) Respecting non-Streaming Quote Options, when a bid or offer that is: (1) generated by the Exchange's Auto-Quote system (or by a proprietary quoting system provided for in Commentary .01(b) of this Rule called "Specialized Quote Feed" or "SQF"); and (2) priced at the National Best Bid or Offer ("NBBO"), and therefore would result in an execution at the NBBO (a "Book Sweep Quote"), matches or crosses the Exchange's best bid or offer in a particular series as established by an order on the limit order book, orders on the limit order book in that series will be automatically executed and allocated among crowd participants signed onto the Wheel. This feature of AUTOM is known as "Book Sweep." If Book Sweep is not engaged at the time the Book Sweep Quote matches or crosses the Exchange's best bid or offer represented by a limit order on the book, the specialist may manually initiate the Book Sweep feature. Book Sweep shall be engaged when AUTO-X is engaged, and shall be disengaged when AUTO-X is disengaged in accordance with Rule 1080(c)(iv) and Rule 1080(e). Eligible orders on the limit order book will be automatically executed up to the size associated with the quote that matches or crosses such limit orders.

(B) Respecting Streaming Quote Options, when the bid or offer generated by the Exchange's Auto-Quote system, SQF, or by an SQT or RSQT (as defined in Rule 1014(b)(ii)) matches or crosses the Exchange's best bid or offer in a particular series as established by an order on the limit order book, orders on the limit order book in that series will be automatically executed and automatically allocated in accordance with Exchange rules. If Book Sweep is not engaged at the time the Auto-Quote, SQF, RSQT or SQT bid or offer matches or crosses the Exchange's best bid or offer represented by a limit order on the book, the specialist, RSQT, or SQT may manually initiate the Book Sweep feature.

(iv) Except as otherwise provided in this Rule, in the following circumstances, an order otherwise eligible for automatic execution will instead be manually handled by the specialist:

(A) the Exchange's disseminated market is crossed (i.e., 2.10 bid, 2 offer), or crosses the disseminated market of another options exchange;

(B) the AUTOM System is not open for trading when the order is received (which is known as a pre-market order);

(C) the disseminated market is produced during an opening or other rotation;

(D) When the Exchange's best bid or offer is represented by a limit order on the book (except with respect to orders eligible for "Book Sweep" as described in Rule 1080(c)(iii) above, and "Book Match" as described in Rule 1080(g)(ii) below);

(E) if the Exchange's bid or offer is not the NBBO;

(F) when the price of a limit order is not in the appropriate minimum trading increment pursuant to Rule 1034; and

(G) respecting non-Streaming Quote Options, when the number of contracts automatically executed within a 15 second period in an option (subject to a Pilot program through April 30, 2005) exceeds the specified disengagement size, a 30 second period ensues during which subsequent orders are handled manually. If the Exchange's disseminated size exceeds the specified disengagement size and an eligible order is delivered for a number of contracts that is greater than the specified disengagement size, such an order will be automatically executed up to the disseminated size, followed by an AUTO-X disengagement period of 30 seconds. If the specialist revises the quotation in such an option prior to the expiration of such 30-second period, eligible orders in such an option shall again be executed automatically.

The Exchange's systems are designed and programmed to identify the conditions that cause inbound orders to be ineligible for automatic execution. Once it is established that inbound orders are ineligible for automatic execution, Exchange staff has the ability to determine which of the above conditions occurred.

(v) In situations in which the Exchange receives a market order that is not eligible for automatic execution because of any of the conditions described in Rule 1080(c)(iv), such market order, if not already executed manually by the specialist, will nonetheless be executed automatically when: (A) a limit order resting on the limit order book or a quotation that was not priced at the NBBO at the time such market order was received, becomes priced at the NBBO; or (B) an inbound limit order or quotation priced at or better than the NBBO is received before the specialist has manually executed such market order. In each case, the AUTOM System will automatically execute the market order against such resting limit order or quotation, or against such inbound limit order or quotation, at or better than the NBBO price.

(vi) When the Exchange's disseminated quotation is not the NBBO (and, pursuant to Rule 1080(c)(iv)(E), inbound orders otherwise eligible for automatic execution are instead handled manually by the specialist):

(A) (1) Marketable public customer limit orders will be exposed to the trading crowd and to participants in Phlx XL for a period of three seconds following receipt. At the end of the three-second exposure period: (a) if the Exchange's disseminated price is not the NBBO, any unexecuted contracts remaining in such an order will be automatically sent as a P/A Order through the Intermarket Option Linkage to any other exchange whose disseminated price is the NBBO, subject to the provisions contained in Rules 1083-1087; or (b) if the Exchange's disseminated price is the NBBO, any unexecuted contracts remaining in such an order will be automatically executed up to the Exchange's disseminated size. Any remaining contracts will be sent as P/A Order(s) to the exchange(s) displaying the NBBO.

(2) For each option in which a specialist is assigned, such specialist shall submit to the Exchange prior written instructions for the routing of any P/A orders the specialist may send through AUTOM to the Intermarket Option Linkage in accordance with Rules 1083-1087. The Exchange's AUTOM System will route P/A Orders on the basis of these written instructions.

(B) Marketable limit orders for the proprietary account(s) of a broker-dealer, or any account in which a broker-dealer or an associated person of a broker-dealer has any direct or indirect interest, will be automatically cancelled, and a message indicating the cancellation will be automatically sent to the sender of the order.

(d) Hours --The AUTOM System accepts orders beginning at 8:00 A.M. (ET). Orders received by the close of trading, as determined electronically by the AUTOM System, are eligible for execution. Orders received after such time will be rejected and returned to the order entry firm.

(e) Extraordinary Circumstances --In the event extraordinary circumstances with respect to a particular class of options exist, two Floor Officials may determine to disengage AUTO-X with respect to that option, in accordance with Exchange procedures. Five minutes subsequent to the disengagement of AUTO-X for extraordinary circumstances (and every 15 minutes thereafter as long as AUTO-X is disengaged), the requesting specialist or his/her designee, two Floor Officials, and a designated surveillance staff person, shall re-evaluate the circumstances to determine if the extraordinary circumstances still exist. AUTO-X will be re-engaged when either: (i) the specialist or his/her designee determines that the conditions supporting the extraordinary circumstances no longer exist, at which time the specialist or his/her designee shall inform the Market Surveillance staff that the extraordinary circumstances no longer exist and that the specialist is re-engaging AUTO-X; or (ii) when two Floor Officials and the designated surveillance staff person determine that the conditions supporting the extraordinary circumstances no longer exist. In the event extraordinary conditions exist floor-wide, two Exchange Floor Officials and the Chairperson of the Options Committee or his/or her designee may determine to disengage the AUTO-X feature floor-wide. Five minutes subsequent to a floor-wide disengagement of AUTO-X for extraordinary circumstances (and every 15 minutes thereafter as long as AUTO-X is disengaged), two Floor Officials, the Chairperson of the Options Committee or his/her designee and a designated Market Surveillance staff person shall re-evaluate the circumstances to determine if the extraordinary circumstances still exist. AUTO-X will be re-engaged when either: (1) the specialist determines that the conditions supporting the extraordinary circumstances no longer exist for their particular class of options at which time the specialist or his/her designee will inform Market Surveillance staff that the extraordinary circumstances no longer exist for their particular class of options and that the specialist is re-engaging AUTO-X; or (2) when two Floor Officials, the Chairperson of the Options Committee or his/her designee and the designated Market Surveillance staff person determine that the extraordinary circumstances no longer exist. The NBBO Feature is always disengaged when AUTO-X is disengaged.

Extraordinary circumstances include market occurrences and system malfunctions that impact a specialist's ability to accurately price and disseminate option quotations in a timely manner. Such occurrences include fast market conditions such as volatility, order imbalances, volume surges or significant price variances in the underlying security; internal system malfunctions including the Exchange's Auto-Quote system; or malfunctions of external systems such as specialized quote feed, or delays in the dissemination of quotes from the Option Price Reporting Authority; or other similar occurrences.

The Exchange shall document any action taken to disengage AUTO-X pursuant to this Rule 1080(e), and shall notify all AUTOM Users of each instance in which AUTO-X is disengaged due to extraordinary circumstances. Such documentation shall include: identification of the option(s) affected by such action (except in a case of floor-wide disengagement); the date and time such action was taken and concluded; identification of the Floor Officials who approved such action, the reasons for which such action was taken; identification of the specialist and the specialist Unit (or in the case of floor-wide disengagement, identification of the Option Committee Chairperson or his/her designee); and identification of the Market Surveillance staff person monitoring the situation. The Exchange will maintain these documents pursuant to the record retention requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder.

(i) The Exchange's Emergency Committee, pursuant to Rule 98, may take other action respecting

AUTOM in extraordinary circumstances.

(f) Specialist Obligations --A specialist must accept eligible orders delivered through AUTOM. A specialist must comply with the obligations of Rule 1014, as well as other Exchange rules, in the handling of AUTOM orders.

(i) A specialist is responsible for engaging AUTO-X with respect to an assigned option within three minutes after completing an opening or reopening rotation of that option. However, where extraordinary circumstances exist, an exemption may be obtained pursuant to paragraph (e) above.

(ii) A specialist must respond promptly to all messages communicated through AUTOM, including order entry, execution and cancellation and replacement of orders as well as administrative messages.

(iii) A specialist is responsible for the remainder of an AUTOM order where a partial execution occurred.

(iv) A specialist is responsible for the visibility to the trading crowd of both the screens displaying incoming AUTO-X orders as well as bids/offers for the at-the-money strike prices in displayed options.

(v) To ensure proper notification to AUTOM users, a specialist must promptly notify the Surveillance Post of any AUTOM-related Floor Official approval in order for such approval to be valid.

(g) AUTO-X Contra-Party Participation --The contra-side to automatically executed orders may be: (i) a Wheel Participant; or (ii) a booked customer limit order.

(A) The Wheel --With respect to non-Streaming Quote Options, contra-party participation for AUTO-X automatic execution shall rotate among Wheel Participants (which are specialists and ROTs signed-up on the Wheel for that listed option) in each option in accordance with procedures established by the Exchange. The Wheel will be activated each trading day within three minutes following the completion of the opening rotation for that listed option. An ROT must be present in his Wheel assignment area to participate in Wheel executions. Specialists on the Options Floor are required to participate on the Wheel in assigned issues.

No two associated or dually affiliated ROTs may be on the Wheel for the same option at the same time. Regardless of an ROT's total assigned issues, and ROT may only sign-on the Wheel in one assignment area at any given time. In order to be placed on the Wheel for an entire trade day, the respective ROT must sign-on, in person on the trading floor for that listed option.

AUTO-X participation shall be assigned to Wheel Participants on a routine basis, beginning at a random place on the rotational Wheel each day, from those participants signed-on in that listed option. The Wheel shall rotate and assign contracts in accordance with procedures established by the Exchange.

(B) Book Match --For purposes of this sub-paragraph, the contra-side to automatically executed inbound marketable orders shall be a limit order on the book or specialist, RSQT and/or SQT electronic quotes ("electronic quotes") at the disseminated price where: (1) the Exchange's disseminated size includes limit orders on the book and/or electronic quotes at the disseminated price; and (2) the disseminated price is the National Best Bid or Offer. This feature is called Book Match.

(h) Responsibility for AUTOM Orders --A member organization who initiates the transmission of an order message to the floor (the "initiating member") through AUTOM is responsible for that

order message up to the point that a legible and properly formatted copy of the order message is received on the trading floor by the specialist unit. Thereafter, the specialist who is registered in the option specified in the order message is responsible for the contents of the order message received and is responsible for the order until one of the following occurs: (i) an execution report for the entire amount of the order is properly sent; (ii) a cancellation acknowledgement is properly sent; or (iii) an order properly expires.

For the convenience of members using AUTOM, the Exchange provides an AUTOM Service Desk to assist on the trading floor in the operation of AUTOM. In accordance with Exchange By-Law Article XII, Section 12-11, the Exchange shall not be liable for any loss, expenses or damage resulting from or claimed to have resulted from the acts, errors or omissions of its agents, employees or members in connection with AUTOM, or the AUTOM System.

(i) Zero-bid option series. The AUTOM System will convert market orders to sell a particular option series that are received when the bid price in such option series is zero, to limit orders to sell with a limit price of \$.05. Such orders will be automatically placed on the limit order book in price-time priority.

(j) Limitations on Orders. Members shall not enter, or facilitate entry into AUTOM, as principal or agent, limit orders in the same options series from off the floor of the Exchange, for the account or accounts of the same or related beneficial owners, in such a manner that the off floor member or the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. In determining whether an off floor member or beneficial owner effectively is operating as a market maker, the Exchange will consider, among other things: the simultaneous or near-simultaneous entry of limit orders to buy and sell the same options contract; the multiple acquisition and liquidation of positions in the same options series during the same day; and the entry of multiple limit orders at different prices in the same options series.

(k) Electronic Streaming Quotations. The Options Committee may, on an issue-by-issue basis, determine the specific issues in which SQTs may generate and submit option quotations if such SQT is physically present on the Exchange floor, and RSQTs may generate and submit option quotations from off the floor of the Exchange, electronically. Such issues shall be known as "Streaming Quote Options."

(l) Directed Orders. For a one-year pilot period, beginning on the date of approval of this Rule by the Securities and Exchange Commission, respecting Streaming Quote Options traded on Phlx XL, specialists, RSQTs and SQTs may receive Directed Orders (as defined in this Rule) in accordance with the provisions of this Rule 1080(l).

(i) (A) The term "Directed Order" means any customer order to buy or sell which has been directed to a particular specialist, RSQT, or SQT by an Order Flow Provider, as defined below. To qualify as a Directed Order, an order must be delivered to the Exchange via AUTOM.

(B) The term "Order Flow Provider" ("OFP") means any member or member organization that submits, as agent, customer orders to the Exchange.

(C) The term "Directed Specialist, RSQT, or SQT" means a specialist, RSQT, or SQT that receives a Directed Order.

(ii) When the Exchange's disseminated price is the NBBO at the time of receipt of the Directed Order, and the Directed Specialist, SQT or RSQT is quoting at the Exchange's disseminated price, the Directed Order shall be automatically executed and allocated in accordance with Rule 1014(g)(viii).

(iii) When the Exchange's disseminated price is the NBBO, and the quotation disseminated by the

Directed Specialist, RSQT, or SQT on the opposite side of the market from the Directed Order is inferior to the NBBO at the time of receipt of the Directed Order, the Directed Order shall be automatically executed and allocated to those quotations and orders at the NBBO in accordance with Exchange Rule 1014(g)(vii).

(iv) If the Exchange's disseminated price is not the NBBO at the time of receipt of the Directed Order, the Directed Order shall be handled by the specialist in accordance with Exchange rules.

●●● **Commentary:** ...

.01 (a) Automatic Quotation (Auto-Quote) is the Exchange's electronic options pricing system, which enables specialists to automatically monitor and instantly update quotations.

(b) (i) The Auto-Quote System includes three commonly used options pricing algorithms: the Black Scholes Option Pricing Model; the Cox, Ross and Rubenstein Binomial Option Pricing Model; and the Barone, Adesi and Whaley American Option Pricing Model. In addition, a specialist or SQT may separately employ other pricing models, by establishing a specialized connection by-passing the Exchange's Auto-Quote System, which is known as a specialized quote feed.

(ii) Respecting non-Streaming Quote Options, specialists determine which model to select per option and may change models during the trading day. Each pricing model requires the specialist to input various parameters, such as interest rates, volatilities (delta, vega, theta, gamma, etc.) and dividends. The specialist may, but is not required to (a) consult with and/or (b) agree with the trading crowd in setting these parameters or selecting a model, but the members of the trading crowd are not required to provide input in these decisions, and in all cases, the specialist has the responsibility and authority to make the final determination.

(c) With respect to non-Streaming Quote Options, the disseminated market (whether by Auto-Quote or specialized quote feed) is deemed to represent the quotations of all ROTs in that option unless a ROT has expressly indicated otherwise in a clear and audible manner, respecting either a specific series, the class or the option (specifying LEAPS), and with sufficient time for the specialist to take action to update the quote if necessary.

(d) If options trading systems throttle quotations for at least three minutes, the Chairman of the Board of Governors or his designee may, for capacity management purposes, mandate that the Auto-Quote or specialized quote feed be set to update quotations based on a certain minimum movement in the underlying security for: (i) all options; (ii) index options only; or (iii) certain specified options, taking into account certain factors that may include, but are not limited to, the price of the underlying security, volatility in the underlying security, or whether there has been any trading volume over the last two trading days. Such mandated minimum setting may continue for a period of 15 minutes, and may be continued every 15 minutes thereafter, provided that the Exchange's options trading systems are throttling quotations at the end of each such 15-minute period.

.02 The Electronic Order Book is the Exchange's automated limit order book, which automatically routes all unexecuted AUTOM orders to the book and displays orders real-time in order of price/time priority.

(a) (i) Except as provided in sub-paragraph (a)(ii) below, the AUTOM System will immediately

display the full price and size of any limit order that establishes the Exchange's disseminated price or increases the size of the Exchange's disseminated bid or offer.

The AUTOM System will not display:

(A) An order executed upon receipt;

(B) An order where the customer who placed it requests that it not be displayed, and upon representation of such order in the trading crowd the Floor Broker announces in public outcry the information concerning the order that would be displayed if the order were subject to being displayed;

(C) A customer limit order for which, immediately upon receipt, a related order for the principal account of the specialist, reflecting the terms of the customer order, is routed to another options exchange;

(D) Orders received before or during a trading rotation, however, such limit orders will be displayed immediately upon conclusion of the applicable rotation if they represent the Exchange's best bid or offer;

(E) The following order types as defined in Rule 1066: Contingency Orders; One-Cancels-the-Other Orders; Hedge Orders (e.g., spreads, straddles, combination orders); Synthetic Options;

(F) Immediate or Cancel ("IOC") orders.

(b) Limit orders may only be placed on the limit order book by: (i) An ROT via electronic interface with AUTOM pursuant to Rule 1014, Commentary .18; (ii) a Floor Broker using the Options Floor Broker Management System (as described in Commentary .06 below); or (iii) the AUTOM System for eligible customer and off-floor broker-dealer limit orders.

(c) A limit order to be executed manually by the specialist pursuant to Rule 1080(c)(iv) will be displayed automatically by the AUTOM System until such limit order is executed or cancelled. If such limit order is partially executed, the AUTOM System will automatically display the actual number of contracts remaining in such limit order.

.03 The Exchange entered into an agreement with the American Stock Exchange, L.L.C. ("Amex") licensing its options technology ("Amex technology") for purposes of trading and processing certain options on the Phlx trading floor. In connection with member or member organization use of such Amex technology on the Exchange trading floor, Amex, the National Association of Securities Dealers, Inc. or any of their respective officers, directors, employees, agents, affiliates or members shall not be liable for any damages sustained by a member or member organization growing out of the use or enjoyment of such Amex technology. Member organizations using such Amex technology shall not copy (except for backup and archival purposes), modify, disclose, damage, improve or create derivative works from, sublease, assign or in any other way permit use by any other third party of such Amex technology. Any such act shall result in liability to the Amex parties.

.04 *ROT Limit Orders.* Respecting Streaming Quote Options, on-floor orders for the proprietary accounts of non-SQT ROTs may be entered for delivery through AUTOM, through the use of Exchange approved proprietary systems to interface with AUTOM ("interface") to be placed on the limit order book. Respecting non-Streaming Quote Options, on-floor orders for the proprietary account(s) of ROTs or specialists may also be entered

through the interface. Such orders shall be for a minimum of 10 contracts in both Streaming Quote Options and non-Streaming Quote Options.

Respecting non-Streaming Quote Options, inbound orders eligible for execution against price-improving ROT orders entered into AUTOM via electronic interface and orders that match such orders via electronic interface with AUTOM, shall be executed by the specialist and shall be allocated by the person required to do so pursuant to Exchange Rule 1014(g)(vi). Respecting Streaming Quote Options, inbound AUTOM orders or electronic quotations eligible for execution against non-SQT ROT limit orders entered into AUTOM via electronic interface shall be automatically executed and shall be allocated automatically pursuant to Exchange rules. The Exchange will make electronic interface with AUTOM available to member firms, and will notify all members on the Options Floor when it has completed the development of appropriate interfaces for such proprietary systems on the Options Floor, and when the use of such electronic interfaces may commence. Thereafter, ROTs and specialists must connect with these interfaces with their own proprietary devices.

Not later than ten days following approval by the Securities and Exchange Commission of the rules applicable to the Exchange's electronic trading platform, Phlx XL, the Exchange will commence the initial deployment of Phlx XL by allowing specialists and ROTs who are Streaming Quote Traders ("SQTs," as defined in the Phlx XL rules) to submit electronic quotations in Streaming Quote Options (as defined in the Phlx XL rules), and ROTs who are not SQTs to submit limit orders onto the limit order book via electronic interface with AUTOM. Eligible incoming orders and quotations will automatically execute against quotations of specialists and SQTs and orders of ROTs in accordance with the functionality of the Phlx XL system, as set forth in the Phlx XL rules.

Over a period following the commencement of operation of the Phlx XL system, the Exchange expects to gradually increase the number of Streaming Quote Options eligible to be traded via Phlx XL. If the Phlx XL system is in operation on April 30, 2005, but less than all of the options traded on the Exchange are Streaming Quote Options, then the Exchange shall, as of April 30, 2005, ensure that the AUTOM system automatically executes eligible incoming orders in options that are not then Streaming Quote Options against Phlx Price Improving ROT and specialist price improving orders and orders matching such price-improving orders entered via the electronic interface with AUTOM described in this Commentary .04 and that are resting on the limit order book.

If the Exchange for any reason determines not to deploy Phlx XL, or if, following the initial deployment of the Phlx XL system, the deployment of Phlx XL is terminated for any reason, then the Exchange shall, within 30 days of such determination not to deploy Phlx XL or termination, ensure that the AUTOM system (or any successor thereto) automatically executes eligible incoming option orders against Phlx Price Improving ROT and specialist price improving orders and orders matching such price-improving orders entered via the electronic interface with AUTOM described in this Commentary .04 and that are resting on the limit order book. In such event, the Exchange shall, at the time of such termination, identify to the Commission and to members and member organizations the options subject

to such automatic execution, and shall cause all options to be subject to automatic execution by April 30, 2005.

.05 Off-floor broker-dealer limit orders delivered through AUTOM must be represented on the Exchange Floor by a floor member. Off-floor broker-dealer orders delivered via AUTOM shall be for a minimum size of one (1) contract. Off-floor broker-dealer limit orders are subject to the following other provisions:

- (i) The restrictions and prohibitions concerning off-floor market makers set forth in Rule 1080(j).
- (ii) Off-floor broker-dealer limit orders entered via AUTOM establishing a bid or offer may establish priority, and the specialist and crowd may match such a bid or offer and be at parity, except as provided in Exchange Rule 1014(g)(i)(A).
- (iii) Off-floor broker-dealer limit orders that are eligible for automatic execution entered via AUTOM for the account(s) of the same beneficial owner may not be entered in options on the same underlying security more frequently than every 15 seconds.

.06 *Options Floor Broker Management System.* The Options Floor Broker Management System is a component of AUTOM designed to enable Floor Brokers and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The Options Floor Broker Management System also is designed to establish and electronic audit trail for options orders represented and executed by Floor Brokers on the Exchange, such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. The Exchange will begin deployment of the Options Floor Broker Management System on July 31, 2003, with floor-wide deployment to be completed not later than November 14, 2003.

.07 The specified disengagement size set forth in Rule 1080(c)(iv)(I) is subject to the approval of the Options Committee. The specified disengagement size for each option shall be posted on the Exchange's web site.

Adopted.

June 30, 1997 (97-24).

Amendments.

June 30, 1997.

December 4, 1998 (98-54).

November 10, 1999 (99-37).

November 16, 1999 (99-22).

November 3, 2000 (99-32).

December 6, 2000 (00-93).

December 19, 2000 (00-62).

September 28, 2000 (00-79).

January 17, 2001 (01-05).

June 11, 2001 (01-51).

July 12, 2001 (01-26).

August 13, 2001 (01-58).

March 15, 2002 (01-25).

May 8, 2002 (01-24).

May 8, 2002 (02-25).

May 15, 2002 (00-93).

May 15, 2002 (01-27).

May 15, 2002 (01-35).

May 15, 2002 (01-40).

July 29, 2002 (02-05).

August 1, 2002 (02-37).

August 2, 2002 (02-43).

August 8, 2002 (02-15).

September 23, 2002 (02-47).

October 15, 2002 (02-50).

November 1, 2002 (02-04).

November 22, 2002 (02-39).

February 12, 2003 (03-03).

March 20, 2003 (03-11).

April 8, 2003 (03-18).

May 30, 2003 (03-2003).

July 31, 2003 (03-56)

August 29, 2003 (03-60).

September 3, 2003 (03-52).

September 12, 2003 (03-64).

September 10, 2003 (02-86).

September 29, 2003 (03-30).

October 16, 2003 (03-37).

November 26, 2003 (03-77).

January 29, 2004 (04-01).

July 27, 2004 (03-59).

November 29, 2004 (04-71).

December 22, 2004 (04-89).

January 4, 2005 (04-93).

January 28, 2005 (04-73).

February 2, 2005 (04-90).

April 14, 2005 (05-03).

May 27, 2005 (04-91).

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