Equity # 0386-07

To: All PHLX XLE Participants

From: PHLX Equities Surveillance Department

Date: February 16, 2007

Subject: Qualification of Contingent Orders

The Equities Surveillance Department reminds all XLE Participants that orders marked as "Qualified Contingent" must comply with PHLX Rule 185(d) that states in part that a "Qualified Contingent Trade" is a transaction consisting of two or more component orders, executed as agent or principal, where:

(1) at least one component order is in an NMS Stock;

(2) all components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent;

(3) the execution of one component is contingent upon the execution of all other components at or near the same time;

(4) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined at the time the contingent order is placed;

(5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled (Transactions involving securities of participants in mergers or with intentions to merge that have been announced would meet this aspect of the requested exemption. Transactions involving cancelled mergers, however, would constitute Qualified Contingent Trades only to the extent they involve the unwinding of a pre-existing position in the merger participants' shares. Statistical arbitrage transactions, absent some other derivative or merger arbitrage relationship between component orders, would not satisfy this element of the definition of a Qualified Contingent Trade.);

(6) the IOC Cross Order marked as Qualified Contingent Trade is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade (A XLE Participant may demonstrate that an IOC Cross Order marked as Qualified Contingent Trade is fully hedged under the circumstances based on the use of reasonable risk-valuation methodologies.); and

(7) the IOC Cross Order marked as Qualified Contingent Trade involves at least 10,000 shares or has a market value of at least $200,000.

The Equities Surveillance Department directs your attention specifically to item seven above. Please contact Christine McMaster, Director of Equities Surveillance, at (215) 496-1486 or christine.mcmaster@phlx.com should you have any questions regarding this memorandum.