

MEMORANDUM

TO: Members, Member Organizations, Participants, Participant Organizations

FROM: Richard S. Rudolph, Vice President and Counsel
Legal Department

DATE: June 4, 2007

RE: Automatic Sending of Linkage P/A Orders
Reduced Exposure Period

The Exchange has filed, **for immediate effectiveness**, an amendment to Exchange Rule 1080(c)(vi)(A)(1) to reflect a system change that is intended to specify when orders that are not executed automatically on the Exchange would be routed through the Intermarket Option Linkage (“Linkage”).

Specifically, the new rule reduces the exposure period for marketable customer limit orders on the Exchange’s limit order book that are eventually sent automatically to away markets as Linkage Principal Acting as Agent (“P/A”) Orders¹ when the Exchange’s disseminated market is not the National Best Bid or Offer (“NBBO”). **Beginning Wednesday, June 6, 2007, this exposure period will be reduced from the current three seconds to one second.**

The text of the new rule is set forth below. Questions concerning the new rule may be addressed to Richard S. Rudolph, Vice President and Counsel, at (215) 406-5074. Questions concerning the system change may be addressed to Doug Schafer, First Vice President, Options Trading Systems, at (215) 496-5628.

¹ A P/A Order is an order for the principal account of a specialist (or equivalent entity on another Participant Exchange that is authorized to represent Public Customer orders), reflecting the terms of a related unexecuted Public Customer order for which the specialist is acting as agent. *See* Exchange Rule 1083(k).

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

Rule 1080. (a) – (b) No change.

(c) *****

(i) –(v) No change.

(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] one second[s] following receipt. At the end of the [three] one-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) No change.

(B) No change.

(d) – (l) No change.

Commentary: No change.