

Regulatory Memorandum

TO: Members and Member Organizations
FROM: Market Surveillance Department
DATE: June 11, 2007
RE: **Open Outcry Quoting Obligations**

The Market Surveillance Department of the Philadelphia Stock Exchange, Inc. ("PHLX") would like to remind in-crowd Members of their quoting obligations with respect to PHLX Rule 1014 (c), PHLX Rule 1014 (c)(i)(A)(1), and PHLX Rule 1014 Commentary .05(c), as contained below.

Obligations and Restrictions Applicable to Specialists and Registered Options Traders Rule 1014. (c) *Continuous Open Outcry Quoting Obligation:*

In response to any request for quote by a Floor Broker, specialist, Options Exchange Official, or other ROT (including an SQT), non-SQT ROTs must provide a two-sided market complying with the quote spread parameter requirements contained in Rule 1014(c)(i) (in the case of equity options and U.S. dollar-settled FCOs) or Rule 1014(c)(ii) (in the case of physical delivery FCOs). Such non-SQT ROTs shall provide such quotations with a size of not less than 10 contracts.

Rule 1014(c)(i)(A)(1) *Quote Spread Parameters (Bid/Ask Differentials)*

(a) Options on Equities Bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2; no more than \$.40 where the prevailing bid is \$2 or more but less than \$5; no more than \$.50 where the prevailing bid is \$5 or more but less than \$10; no more than \$.80 where the prevailing bid is \$10 or more but less than \$20; and no more than \$1 where the prevailing bid is \$20 or more, provided that the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded up to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

Commentary:05 (c) Non-Electronic Orders states:

The specialist and/or SQTs participating in a trading crowd may, in response to a verbal request for a market by a floor broker, state a bid or offer that is different than their electronically submitted bid or offer, provided that such stated bid or offer is not inferior

to such electronically submitted bid or offer, except when such stated bid or offer is made in response to a floor broker's solicitation of a single bid or offer as set forth in Rule 1033(a)(ii).

Below is an example of an open outcry interaction:

A floor broker enters the trading crowd and requests a verbal market in the SUNW Aug 45 puts.

The electronically disseminated PBBO is 1.10 (50) x 1.25 (15).

Please note, in crowd participants are not necessarily required to equal or improve the disseminated PBBO. The PBBO represents the consolidated best available bid and offer from all PHLX market participants including orders on the book.

The PHLX electronic marketplace is comprised of the following quotes:

Participant	Type	In-crowd	Bid (Size)	Offer (Size)
221	SPEC	Y	1.10 (50)	1.30 (50)
145-B	RSQT	N	1.05 (15)	1.25 (15)
987-D	SQT	Y	.10 (50)	4.80 (50)

In the above scenario, the Specialist (221) and the SQT (987-D) are both required to respond to the floor broker's request. Both must state a market that is equal to or tighter than their individual electronic markets at widths that comply with parameter standards and for a size of at least 10 contracts.

Since the Specialist's (221) electronic market is compliant with the auction market quote width parameter requirements, the Specialist has the choice of re-stating the electronic quote or stating a verbal market that is superior to his electronically disseminated quote at that time. The Specialist states a quotation of 1.15 (250) x 1.20 (250) that improves the electronic quotation of 1.10 (50) x 1.30 (50).

The SQT's only option is to state a verbal quotation that complies with the open outcry parameter width requirements because the electronic quotation for SQT (987-D) would not meet the open outcry standards. The SQT must state a quotation that is no greater than .25 wide and for a size of 10 contracts or greater. An example of an acceptable response from the SQT would be to state a quotation of 1.00 (100) x 1.25 (100).

Any questions regarding this Memorandum can be addressed to Ed Deitzel, Vice President of Options Surveillance at Ed.Deitzel@PHLX.com or by phone at 215-496-5295.