

Exhibit A
Text of the Proposed Rule Changes:¹

**Rules of
Pacific Exchange, Inc.**

Rule 1

Definitions

Rule 1.1. Whenever and wherever used herein, unless the context requires otherwise, the following terms shall be deemed to have the meanings indicated:

Affiliate

[Rule 1.1](a) [*Affiliate:*] An "affiliate" of, or person "affiliated" with a specific person, is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified.

Allied [Member] Person

[Rule 1.1] (b) [*Allied Member:*] The term "[a]Allied Person [member]" shall refer to an individual [non-member], who is:

- (1) an employee of an OTP Firm [member firm] who controls such [member] firm, or
- (2) an employee of an OTP Firm [member firm] corporation who is a director or a principal executive officer of such corporation, or
- (3) an employee of an OTP Firm [member firm] limited liability company who is a manager or a principal executive officer of such limited liability company, or
- (4) a general partner in an OTP Firm [member firm] partnership;

and who has been approved by the Exchange as an Allied Person [allied member].

Approved Person

¹ New text is underscored; deleted text is in brackets.

[Rule 1.1] (c) [*Approved Person:*] The term " [a]Approved [p]Person" shall refer to a person who is not an OTP Holder, nor an employee or an Allied Person of an OTP Firm [nor a member nor an allied member of a member firm], and who:

- (1) is a director of an OTP Firm [member firm], or
- (2) controls an OTP Firm [member firm], or
- (3) beneficially owns, directly or indirectly, 5% or more of the outstanding equity securities of an OTP Firm [member firm], or
- (4) has contributed 5% or more of the partnership capital,

and who has been approved by the Exchange as an [a]Approved [p]Person.

Associated Person

[Rule 1.1] (d) [*Associated Person:*] The term "[a]Associated [p]Person" shall refer to a person who is a partner, officer, director, member of a limited liability company, trustee of a business trust, employee of an OTP Firm [member organization] or any person directly or indirectly controlling, controlled by or under common control with an OTP Firm [member organization].

[Control

Rule 1.1] (e). Reserved [*Control:* The term "control" shall mean the power, directly or indirectly, to direct the management or policies of a person, whether through ownership of securities, by contract, or otherwise. A person shall be presumed to control another person if such person:

- (1) is a director, general partner or officer exercising executive responsibility (or having similar status or functions);
- (2) directly or indirectly has the right to vote 25% or more of a class of a voting security or has the power to sell or direct the sale of 25% or more of a class of voting securities;
- (3) is entitled to receive 25% or more of the net profits; or
- (4) in the case of a partnership, has the right to receive upon dissolution, or has contributed, 25% or more of the capital of the other person.

Any person who does not so own voting securities, participate in profits or function as a director, general partner or principal executive officer of another person, shall be presumed not to control such other person. Any presumption may be rebutted by evidence, but shall continue until a determination to the contrary has been made by the Exchange.]

[Floor Member

Rule 1.1(f) *Floor Member*: The term “floor member” shall refer to an individual, approved as a member of the Exchange, who meets the qualification requirements for the purpose of exercising full trading privileges on the Exchange's options trading facilities on behalf of a member organization. Equity Trading Permits ("ETPs") and Equity Automated System Access Permits ("Equity-ASAPs") issued by PCX Equities, Inc. will not confer any rights to trade on the options facilities.]

Board

(f) The term "Board" shall mean Board of Directors of Pacific Exchange, Inc.

Control

(g) The term "control" shall mean the power, directly or indirectly, to direct the management or policies of a person, whether through ownership of securities, by contract, or otherwise. A person shall be presumed to control another person if such person:

- (1) is a director, general partner or officer exercising executive responsibility (or having similar status or functions);
- (2) directly or indirectly has the right to vote 25% or more of a class of a voting security or has the power to sell or direct the sale of 25% or more of a class of voting securities;
- (3) is entitled to receive 25% or more of the net profits; or
- (4) in the case of a partnership, has the right to receive upon dissolution, or has contributed, 25% or more of the capital of the other person.

Any person who does not so own voting securities, participate in profits or function as a director, general partner or principal executive officer of another person, shall be presumed not to control such other person. Any presumption may be rebutted by evidence, but shall continue until a determination to the contrary has been made by the Exchange.

[Good Standing

Rule 1.1(g). *Good Standing*: The term "good standing" shall refer to a member who is not in violation of any of its agreements with the Exchange or any of the

provisions of the Rules or Constitution of the Exchange, and who has maintained all of the conditions for approval of his or her membership.]

[Inactive Lessor

Rule 1.1(h) *Inactive Lessor*: The term "inactive lessor" shall refer to a natural person, firm or other such entity as the Board may approve, who owns or inherits a membership for the sole purpose of acting as a lessor.]

Exchange

(h) The term "Exchange" shall mean the Pacific Exchange, Inc., a Delaware corporation as described in the company's Certificate of Incorporation and Bylaws. The Pacific Exchange, Inc. is a national securities exchange as that term is defined by Section 6 of the Securities Exchange Act of 1934, as amended.

[Member

Rule 1.1(i). *Member*: The term "member" shall refer to the natural person in whose name the membership is held and who is in good standing.]

Floor

(i) The term "Floor" shall mean the options trading floor.

[Member Firm

Rule 1.1(j) *Member Firm*: The term "member firm" shall refer to a partnership, corporation, limited liability company or other organization in good standing who owns or leases a membership or upon whom a member has conferred privileges of membership pursuant to and in compliance with Article VIII of the PCX Constitution.]

Freely Transferable Security

(j) The term "Freely transferable security" means any security which, on its face, may be transferred without it being necessary that the Board of Directors of the Exchange approved the transferee.

[Member Organization

Rule 1.1(k). *Member Organization*: The term "member organization" shall refer to a sole proprietor, partnership, corporation, limited liability company or other organization in good standing who owns or leases a membership or upon whom a member has conferred privileges of membership pursuant to and in compliance with Article VIII of the Constitution.]

Good Standing

(k) The term "good standing" shall refer to an OTP Holder or OTP Firm who is not in violation of any of its agreements with the Exchange or any of the provisions of the Rules or Bylaws of the Exchange, and who has maintained all of the conditions for approval of the OTP.

[Nominee

Rule 1.1(l). *Nominee*: The term "nominee" shall have the meaning specified in Article VIII, Section 2(a) of the Constitution.]

(l) – Reserved.

[Non-Resident Member Organization

Rule 1.1(m): *Non-Resident Member Organization*: The term "non-resident member organization" shall mean:

- (1) in the case of an individual, one who resides in or has their principal place of business in any place not subject to the jurisdiction of the United States;
- (2) in the case of a corporation, one incorporated in or having its principal place of business in any place not subject to the jurisdiction of the United States; or
- (3) in the case of a partnership or other unincorporated organization or association, one having its principal place of business in any place not subject to the jurisdiction of the United States.]

Listed

(m) The terms "Listed" or "Listed Securities" means securities admitted to dealings on the Exchange.

[Parent

Rule 1.1(n). *Parent*: A "parent" of a specified person is an affiliate controlling such person directly, or indirectly through one or more intermediaries.]

Nominee

(n) The term "Nominee" means an individual who is authorized by an OTP Firm, in accordance with Rule 2.4, to conduct business on the Exchange's Trading Facilities and to represent such OTP Firm in all matters relating to the Exchange. As long as a nominee remains effective, the nominee will have status as a "member" of the Pacific

Exchange, Inc. as that term is defined in Section 3 of the Securities Exchange Act of 1934, as amended. A nominee shall agree to be bound by the Bylaws and Rules of the Exchange, and by all applicable rules and regulations of the Securities and Exchange Commission.

[Person

Rule 1.1(o). *Person*: The term "person" shall refer to a natural person, corporation, partnership, limited liability company, association, joint stock company, trustee of a trust fund, or any organized group of persons whether incorporated or not.]

Non-Resident Organization

(o) The term "non-resident organization" shall mean:

- (1) in the case of an individual, one who resides in or has their principal place of business in any place not subject to the jurisdiction of the United States;
- (2) in the case of a corporation, one incorporated in or having its principal place of business in any place not subject to the jurisdiction of the United States; or
- (3) in the case of a partnership or other unincorporated organization or association, one having its principal place of business in any place not subject to the jurisdiction of the United States.

[Wholly Owner Subsidiary

Rule 1.1(p). *Wholly Owned Subsidiary*: The term "wholly owned subsidiary" means a subsidiary substantially all of whose outstanding voting securities are owned by its parent and/or the parent's other wholly owned subsidiaries.]

OTP

(p) The term "OTP" shall refer to an Options Trading Permit issued by the Exchange for effecting approved securities transactions on the Exchange's Trading Facilities. An OTP may be issued to a sole proprietor, partnership, corporation, limited liability company or other organization which is a registered broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934, as amended, and which has been approved by the Exchange.

OTP Holder

(q) The term "OTP Holder" shall refer to a natural person, in good standing, who has been issued an OTP, or has been named as a Nominee. An OTP Holder must be a registered broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934, or a nominee or an associated person of a registered broker or dealer that has been approved by the Exchange to conduct business on the Exchange's Trading Facilities. An OTP Holder shall agree to be bound by the Bylaws and Rules of the Exchange, and by all applicable rules and regulations of the Securities and Exchange Commission.

An OTP Holder shall not have ownership or distribution rights in the Exchange. An OTP Holder will have limited voting rights to nominate an OTP Holder to the Exchange's Board of Directors pursuant to Rule 3.2(b)(2)(C). An OTP Holder will have status as a "member" of the Pacific Exchange, Inc. as that term is defined in Section 3 of the Securities Exchange Act of 1934, as amended.

OTP Firm

(r) The term "OTP Firm" shall refer to a sole proprietorship, partnership, corporation, limited liability company or other organization in good standing who holds an OTP or upon whom an individual OTP Holder has conferred trading privileges on the Exchange's Trading Facilities pursuant to and in compliance with these Rules. An OTP Firm must be a registered broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934. An OTP Firm shall agree to be bound by the Certificate of Incorporation, Bylaws and Rules of the Exchange, and by all applicable rules and regulations of the Securities and Exchange Commission.

An OTP Firm shall not have ownership or distribution rights in the Exchange. An OTP Firm will have limited voting rights to nominate an OTP Holder to the Exchange's Board of Directors pursuant to Rule 3.2(b)(2)(C). An OTP Firm will have status as a "member" of the Pacific Exchange, Inc. as that term is defined in Section 3 of the Securities Exchange Act of 1934, as amended.

Parent

(s) A "parent" of a specified person or organization is an affiliate controlling such person or organization directly, or indirectly through one or more intermediaries.

Participant

(t) The term "Participant" shall mean any OTP Holder, Allied Person, partner, approved person, stockholder associate, registered employee or other full-time employee of an OTP Firm.

PCX

(u) The term "PCX" shall have the same meaning as "Exchange" as that term is defined in Rule 1.1(h).

Person

(v) The term "person" shall refer to a natural person, corporation, partnership, limited liability company, association, joint stock company, trustee of a trust fund, or any organized group of persons whether incorporated or not.

Registered Employee

(w) The term "Registered Employee" shall mean any person soliciting or conducting business in securities on behalf of a member organization.

Security

(x) The term "security" shall mean any security as defined in Rule 3(a)(10) under the Securities Exchange Act of 1934.

Self-Regulatory Organization ("SRO")

(y) The terms "self-regulatory organization" and "SRO" shall have the same meaning as set forth in the provisions of the Securities Exchange Act of 1934 relating to national securities exchanges.

(z) Reserved.

Trading Facilities

(aa) The term "Trading Facilities" shall refer to the Exchange's facilities for the trading of options, office space provided by the Exchange to OTP Holders and OTP Firms in connection with their floor trading activities, and any and all electronic or automated order execution systems and reporting services provided by the Exchange to OTP Holders and OTP Firms.

Wholly Owned Subsidiary

(bb) The term "wholly owned subsidiary" means a subsidiary substantially all of whose outstanding voting securities are owned by its parent and/or the parent's other wholly owned subsidiaries.

[Public Securities Business

Rule 1.2(a). Every member or member organization shall have as the principal purpose of its member the conduct of a public securities business.

(b) A membership shall be deemed to have such a purpose if and so long as:

(1) the member or member organization has qualified and acts in respect of its business on the Exchange in an approved capacity pursuant to these Rules; and all transactions are in compliance with Section 11(a) of the Securities Exchange Act of 1934 as amended and the Rules and regulations adopted thereunder; or

(2) the member or member organization is a lessor; or

(3) the member is a general partner, executive officer or nominee of a member organization who has conferred privileges of membership upon that organization.

(c) No member or member organization shall utilize any scheme, device, arrangement, agreement or understanding designed to circumvent or avoid, by reciprocal means or in any other manner, the provisions of this Rule 1.2.

RULE 1.3. Reserved.

QUALIFICATIONS AND APPLICATION FOR MEMBERSHIP

Qualifications of Individual Members

RULE 1.4(a). A membership may be owned or leased by a natural person who is at least 18 years of age or older and who, except for an inactive lessor, is:

(1) registered as a broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934, as amended, or

(2) associated with a registered broker or dealer, and who meets the qualifications for membership in accordance with these Rules.

Qualifications of Member Organizations

RULE 1.5(a). A membership may be owned or leased by an entity which is a registered broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934, as amended, including sole proprietors, partnerships, corporations, and limited liability companies. Broker-dealer registration may not be required for an entity acting solely as an inactive lessor on the Exchange. A corporation must be organized under the laws of one of the states of the United States or under other laws as the Board of Governors shall approve.

(b) A member firm who owns or leases a membership must designate a natural person as the Exchange member.

(c) A member firm upon whom privileges of membership have been conferred by a member shall designate that member as its representative. Such member may not represent more than one member organization.

Application Procedures

RULE 1.6(a). Every individual or organization applying to become the owner or lessee of a membership, every individual applying to become a nominee of a member organization, and every organization upon whom the owner of a membership has conferred privileges of his or her membership, shall complete an application on a form prescribed by the Exchange and shall file it with the Membership Department. The application shall be filed with such application fees and such documents as may be required by the Exchange. Application fees are not refundable.

(b) Within a reasonable period of time following receipt of an application for membership, the name of the proposed member of the organization shall be distributed to all members and shall be posted on the bulletin board on the trading floors of the Exchange for ten (10) calendar days.

(c) Every individual applicant and, in the case of applicant organizations, all persons associated with the member organization, may be investigated by the Exchange. The applicant shall file with the Membership Department such additional documents that may be required by the Exchange.

(d) Upon completion of the application process, the Membership Committee shall consider and vote on the approval or disapproval of the application, unless there is just cause for delay. Individual applicants and persons associated with applicant organizations may be required to appear in person before the Membership Committee. The Membership Committee may also require any member or person associated with a member organization who may possess information relevant to the applicant's suitability for membership to provide information or testimony.

(e) Approval of an application requires a vote of the majority of the members of the Membership Committee. The Membership Committee shall approve an application for membership if it finds that the applicant meets all of the conditions for membership. The Membership Committee shall disapprove an application for membership if it does not make such a finding or if it finds that, if the application were approved, the member would be subject to suspension or expulsion under the provisions of these Rules.

(f) Written notice of the action of the Membership Committee, specifying in the case of disapproval of an application the grounds therefor, shall be given promptly to the applicant.

(g) In the event that an application for membership is disapproved by the Membership Committee, the applicant shall have an opportunity to be heard upon the specific grounds for the disapproval, in accordance with the provisions of Rule 11. A disapproved applicant desiring to be heard shall so notify the Exchange, by certified mail, within fifteen (15) calendar days of the applicant's receipt of notice of such disapproval, and file with the Exchange a Petition for Review of such disapproval.

Denial of and Conditions to Membership

RULE 1.7(a). The Exchange may deny (or may condition) membership to a registered broker-dealer or may bar a natural person from becoming associated (or may condition an association) with a member for the same reasons that the Securities and Exchange Commission may deny or revoke a broker-dealer registration and for those reasons required or allowed under the Securities Exchange Act of 1934, as amended.

(b) The Exchange may deny (or may condition) membership, or may prevent a natural person from becoming associated (or may condition an association) with a member, when an applicant, directly or indirectly:

(1) is unable to satisfactorily demonstrate its present capacity to adhere to all applicable Exchange or SEC policies, Rules and regulations, including those concerning record-keeping, reporting, finance and trading procedures;

(2) has previously violated, and there is a reasonable likelihood such applicant will again engage in acts or practices violative of, any applicable Exchange or SEC policies, Rules and regulations, including those concerning record-keeping, reporting, finance and trading procedures or those Rules of other self-regulatory organizations of which such applicant is or was a member;

(3) has engaged, and there is a reasonable likelihood such applicant will again engage, in acts or practices inconsistent with just and equitable principles of trade;

(4) has a negative net worth, or has financial difficulties involving an amount that is more than 5% of the applicant's net worth;

(5) is subject to any unsatisfied liens, judgments or unsubordinated creditor claims of a material nature, which, in the absence of a reasonable explanation therefor, remain outstanding for more than sixty (60) calendar days (the term "material" means any amount which equals more than 5% of the total assets of the broker or dealer);

(6) owes an undisputed debt to a member or member organization arising out of the securities business. The Exchange may condition membership upon the execution of an agreement regarding repayment of the debt. If the debt is disputed, and the applicant's membership is approved and activated, such debt shall be submitted to arbitration pursuant to Rule 12 at the request of the member or member organization;

(7) has been itself, or is the successor to an entity which has been subject to any bankruptcy proceeding, receivership or arrangement for the benefit of creditors within the past three years;

(8) has engaged in an established pattern of failure to pay just debts;

(9) does not successfully complete such written proficiency examinations as required by the Exchange to enable it to examine and verify the applicant's qualifications to function in one or more of the capacities applied for;

Series 7 Requirement for Off-Floor Traders

(A) Traders of member organizations for which the Exchange is the Designated Examining Authority ("DEA") must successfully complete the General Securities Registered Representative Examination Test, Series 7, if the primary business of the member organization involves the trading of securities that is unrelated to the performance of the functions of a registered specialist, a registered market maker or a registered floor broker. The following are exempt from the requirement to successfully complete the Series 7 Examination: Exchange members who are performing the function of a registered specialist, registered market maker or registered floor broker (pursuant to Rules 5.27(a), 6.33 or 6.44, respectively) and associated persons of member firms who facilitate the execution of stock transactions for the accounts of options market makers.

For purposes of this Rule:

(i) The term "trader" means a person who is directly or indirectly compensated by an Exchange member organization and who trades, makes trading decisions with respect to, or otherwise engages in the proprietary or agency trading of securities; and

(ii) The term "primary business" means greater than 50% of the member organization's business.

(B) Each member organization for which the Exchange is the DEA must complete, on an annual basis, and on a form prescribed by the Exchange, a written attestation as to whether the member organization's primary business is conducted in the performance of the function of a registered specialist, a registered market maker or a registered floor broker (pursuant to Rules 5.27(a), 6.33 or 6.44, respectively).

(C) The requirement to complete the Series 7 Examination will apply to current Traders of member organizations that meet the criteria of subsection (A), above, as well as to future Traders of member organizations that meet the criteria of subsection (A), above, at a later date. Traders of member organizations that meet the criteria of subsection (A), above, at the time of SEC approval of this Rule, must successfully complete the Series 7 Examination within six months of notification by the Exchange.

(10) does not meet such other standards of training, experience, and competence as may be established by the Exchange;

(11) would bring the Exchange into disrepute; or

(12) for such other cause as the Membership Committee reasonably may decide.

The Membership Committee may waive or modify a required examination for any applicant if, within two years of the date such applicant applied to the Exchange for

membership, such applicant has successfully completed a comparable examination administered by a self-regulatory organization or the Securities and Exchange Commission.

(c) The Exchange shall regard the failure by any applicant to carry out any contract or honor any financial commitment with another member or member firm as a violation of just and equitable principles of trade, and an indication of a broker or dealer applicant's inability to meet such standards of financial responsibility as may be set by the Exchange.

(d) When an applicant is the subject of an investigation conducted by any self-regulatory organization or government agency, the Membership Committee is under no obligations to act on the application until the matter has been resolved.

(e) The Exchange's Ethics and Business Conduct Committee may take action against a member under Rule 10 when any of the above reasons for denying or conditioning membership come into existence after a member has been approved and has become effective.

Approved: September 17, 1999.

Effectiveness of Membership Applications

RULE 1.8(a). If an approved application is not activated within six (6) months, through purchase of a membership, execution of lease agreement, or through an inter-firm or intra-firm transfer, the approval shall be withdrawn.

(b) With respect to each membership that becomes effective in accordance with Rule 1.8(a) above, the Membership Department shall promptly distribute a notice thereof to all members and shall post a copy of such notice on the bulletin board of the trading floors.

RULE 1.9. Reserved.

REQUIREMENTS OF MEMBERSHIP

Member Organizations

RULE 1.10(a). A sole proprietor may not carry public customer accounts.

(b) A sole proprietor may not register a membership in the name of a nominee pursuant to Article VIII, Section 2(a) of the Constitution.

(c) A member may not represent more than one member organization except in the execution of orders on an agency basis for the account of the member organization represented.

Member Firm-Partnerships, Corporations, Limited Liability Companies

RULE 1.11(a). Allied members and approved persons, as defined in Rule 1.1, shall be subject to Exchange approval. Any member firm which proposes to admit any allied member or approved person shall notify the Exchange in writing before any such admission, shall pay any applicable fees and shall submit such information as may be required by the Rules of the Exchange or which the Exchange may reasonably require.

(b) No member firm shall remain a member firm unless all persons required to be approved are so approved and such member firm continues to meet the standards prescribed in the Constitution and the Rules of the Exchange.

(c) Each member firm shall promptly give to the Exchange notice in writing on such form as may be required by the Exchange of the death, retirement, or other termination of any member, allied member, or approved person, and of the dissolution of the member firm.

(d) Each member firm corporation shall designate "principal executive officers" of such corporation who must be members or allied members and who must exercise supervision and control over the various areas of the business of such corporation in such areas as the Rules of the Exchange may prescribe.

(e) Each member firm corporation shall include the word "Incorporated" or the abbreviation thereof, "Inc." or the word "Corporation," in its name.

(f) The Exchange may require each applicant becoming a general partner, officer, voting stockholder, limited liability company member, or director of a member firm to pass an examination to demonstrate that they have adequate experience and knowledge of the securities business before undertaking any active duties with the firm. Compliance with this requirement may be waived if the principal is a member of a member firm belonging to another national securities exchange having comparable requirements.

(g) Each member firm shall submit to the Exchange, at such times as the Exchange may require, an affidavit listing, to the best of its knowledge and belief, the name of each party directly or indirectly beneficially owning 1% or more of its outstanding voting stock and showing the percentage of such ownership.

(h) No parent or person controlling any parent of a member firm may engage in any transaction or action for the purpose of circumventing Exchange Rules governing the activities of a member firm

(i) Member firms must comply with such additional requirements as the Board of Governors may from time to time prescribe.

Partnerships

RULE 1.12(a). Each limited partnership member firm which has only one general partner shall provide in its agreement that:

(1) The partnership shall be dissolved upon the death or incapacity of the general partner in which event the limited partner shall wind up the affairs of the partnership. (Such other events causing dissolution and persons to wind up partnership affairs may be designated as the parties shall choose.)

(2) The partnership shall at all times, in addition to the general partner, authorize at least one other person associated with the partnership business by individual signatures to sign checks, perform clearing transactions and handle all other routine business matters for the partnership. This authorization may be contingent upon terms acceptable to the Exchange. The person so appointed as authorized agent shall continue to have such authority upon the death or incapacity of the general partner for the purpose of winding up the affairs of the partnership as agent of the limited partner subject to revocation of authority thereafter by the limited partner.

(b) Upon the death or withdrawal of any partner, if the partnership business is continued by the surviving partners, the continuing partnership will not be recognized as a member firm if the unsubordinated claim of the deceased or withdrawing partner to a return of such deceased or withdrawing partner's capital contribution would result in a net capital impairment of the continuing partnership. The continuing partnership will ordinarily be recognized as a member firm during the period of subordination of such claim if subordination provisions substantially as follows are included in the partnership agreement:

Upon the death or withdrawal of any partner, if the surviving partners desire to continue the partnership business, the capital contribution of such deceased or withdrawing partner shall remain at the risk of the business and shall be considered capital of such continuing firm for a period of ---- calendar days to the extent necessary to comply with the net capital requirements of the Exchange. Any claim of the withdrawing partner or of the personal representative of the deceased partner to the repayment of such deceased or withdrawing partner's capital contribution during such period shall be subordinated to the payment in full of such claims of all present and future creditors of the continuing partnership arising out of any matters occurring before the end of such period.

Electronic Mail Address

RULE 1.13. Each member organization must maintain with the PCX an Internet electronic mail account for communication with the PCX. Each member organization must update its member firm contact information via the electronic mail account or such other means as prescribed by the PCX. The PCX will use the electronic mail account to provide member organizations with regulatory bulletins, rule adoption notices, and other official notices.

Approved: January 29, 2001 (PCX-01-02)

"Automated System Access Privileges (ASAP)"

Electronic Access Membership

RULE 1.14(a). The Membership Committee shall approve automated system access to certain authorized registered brokers or dealers ("ASAP Member") on the following terms and conditions:

- (1) The ASAP Member must be a broker-dealer registered under Section 15 of the Securities Exchange Act of 1934, as amended;
- (2) The ASAP Member agrees to abide by the Constitution, Rules, and procedures of the Exchange, and consents to disciplinary and arbitration jurisdiction of the Exchange, to the extent that such jurisdiction related to the dealings of the ASAP Member on the Exchange;
- (3) The ASAP Member shall be entitled to access to POETS, and any other systems approved by the Board of Governors;
- (4) At least 80% of an ASAP Member's total PCX options trades effected through its ASAP trading privileges (per calendar quarter) and at least 80% of an ASAP Member's total PCX options volume (per calendar quarter) must be executed electronically through POETS, or other system approved by the Board of Governors. The Board of Governors may grant exemptions to the 80% requirements on a case-by-case basis. Whenever an ASAP Member sends an order directly to the options trading facilities, if the order is not entered electronically through POETS, or other approved system, it must be entered by telephone to a Floor Broker;
- (5) The ASAP Member may receive the access described above for a non-refundable, non-transferable annual fee, which the Board may set each year at its discretion. If an ASAP Member becomes a regular member at the Exchange, however, the fee paid for the current year shall be subject to rebate prorated to the date of approval as a full member. Such annual fee shall be paid prior to the approval by the Exchange of an applicant for ASAP Membership, and prior to renewal of such membership at the end of the period for which such fee has been paid;
- (6) ASAP Members will be subject to all applicable transaction and comparison fees, as well as all applicable capital requirements; and
- (7) ASAP Members will be entitled to enjoy the rights and privileges provided in the Rules and Constitution of the Exchange, except those set forth in Article III, Sections 1(c) and 2(b) (no voting rights or eligibility for Governor), and Article V, Sections 2 and 3 (definition of Privileges and Member), of the Constitution, and in Section 4 of the Exchange's Articles of Incorporation (distribution of assets to members). ASAP Members may identify themselves as PCX Member Firms.

Approved: December 19, 1997; May 5, 2000 (PCX-99-39).

Year 2000 Testing Requirements

RULE 1.15(a)(1) Each member not associated with a member organization and each member organization that has either direct electronic order flow or electronic clearing connections with the Exchange must participate in testing of computer systems designed to prepare for year 2000 in a manner and frequency as prescribed by the Exchange, and shall provide reports related to such testing as requested by the Exchange.

(2) The Exchange may exempt a member or member organization from this requirement if that member or member organization cannot be accommodated in the testing schedule by the organization conducting the test or if the member or member organization does not have or use computer systems in the conduct of their business (other than those supplied by the Exchange), or for other good reasons.

(3) A member or member organization that is subject to this rule and fails to participate or provide requested reports may be subject to disciplinary action pursuant to PCX Rule 10.

(4) Every member or member organization that clears securities transactions on behalf of other broker-dealers must take reasonable measures to ensure that each broker-dealer for which it clears securities transactions conducts testing with such member.

Adopted: January 7, 1999.

Approved: June 30, 2000 (PCX-00-17)

RULE 1.15(b). Reserved.

Responsibilities of Non-Resident Member Organizations

RULE 1.16(a). A member organization which does not maintain an office in the United States responsible for preparing and maintaining financial and other reports required to be filed with the Securities and Exchange Commission and the Exchange must:

(1) prepare all such reports, and maintain a general ledger chart of accounts and any description thereof, in English and U.S. dollars.

(2) reimburse the Exchange for any expenses incurred in connection with examinations of the member or member organization to the extent that such expenses exceed the cost of examining a member organization located within the continental United States in the

geographic location most distant from the principal office of the Exchange or, in such other amount as the Exchange may deem to be an equitable allocation of such expenses,

(3) ensure the availability of an individual fluent in English and knowledgeable in securities and financial matters to assist representatives of the Exchange during examinations, and

(4) utilize, either directly or indirectly, the services of a broker/dealer registered with the Securities and Exchange Commission, a bank or a clearing agency registered with the Securities and Exchange Commission located in the United States in clearing all transactions involving members of the member organization, except where both parties to a transaction agree otherwise.

Amendments to Member Firm Documents

RULE 1.17(a). All member firm formation documents, such as articles of incorporation, by-laws, partnership agreements, limited liability company agreements, and all amendments thereto, now in effect or adopted in the future, shall be filed with the Exchange and shall be subject to Exchange approval.

(b) Each member must submit to the Exchange any amendment to any document submitted as part of their membership application, including but not limited to amendments to documents required by 1.6, amendments to the member's Form BD, and changes to the member's home or business address, within fifteen (15) business days of such amendment or change.

Member & Member Organization Charges

RULE 1.18(a). *S.E.C. Registration Fee*: Section 31 of the Securities Exchange Act of 1934 imposes upon every national securities exchange the payment of a fee of 1/300th of 1 percentum of the aggregate dollar amount of the sales of securities transacted on such exchange, except in respect of transactions in securities which are direct obligations of or guaranteed as to principal or interest by the United States, or such securities issued, or obligations guaranteed by corporations in which the United States has a direct or indirect interest as may be designated for exemption therefrom by the Secretary of the Treasury.

There shall be paid to the Exchange by each member or member firm in such manner and at such times as the Exchange shall direct, the sum of one cent for each \$300 or fraction thereof of the dollar volume of the sales upon the Exchange.

Such sum shall be paid by the selling member as appearing on the comparison ticket of each transaction effected on the Exchange, and such selling member shall charge and collect such sum from the person for whom he was acting in making such transaction. Specialists shall pay such sum on both odd lots and round lots which they sell on the Exchange.

(b) *Member Charges*: In addition to transaction fees and the SEC registration fee, the Board of Governors may from time to time fix and impose other charges or fees to be paid to the Exchange or its subsidiaries by members or member organizations for the use of equipment or facilities or for services or privileges granted.

Exemption from Member Organization Registration Requirements

RULE 1.19. A member organization shall be exempt from such registration requirements as the Exchange may designate if it is a member organization of another self-regulatory organization which is the appointed Designated Examining Authority ("DEA") for such member organization by the Securities and Exchange Commission.

RULE 1.20. Reserved.

PURCHASE, SALE, TRANSFER OR LEASE OF MEMBERSHIP

Purchase of Membership

RULE 1.21(a). A membership may be purchased by an approved applicant, or by an existing member organization, through the Membership Department in accordance with Exchange procedures. A bid stating the price to be paid shall be submitted in writing by an approved applicant or by an existing member organization to the Membership Department. Any bid shall be in increments of one hundred dollars (\$100). The prospective purchaser may be required to post the full amount of the bid or a percentage thereof with the Exchange as evidence of good faith.

(b) The Membership Department will file all bids according to the highest price and the earliest submission date. The highest bid with the earliest submission date will be posted on the Exchange bulletin board. All bids remain in effect for six months unless written revocation thereof is received by the Membership Department. When a bid filed in accordance with the provisions of this Rule 1.21 is matched with an offer filed in accordance with the provisions of Rule 1.22, neither can be changed or withdrawn.

(c) Not later than the tenth calendar day following the matching of the bid and offer, the purchaser shall deliver a certified or cashier's check to the Membership Department, made payable to the Exchange, covering the purchase price of the membership.

(d) No person, associated person or group of associated persons may directly or indirectly beneficially own, or control the voting rights of, more than 15% of the number of authorized memberships of the Exchange unless expressly authorized by the Board through a two-thirds majority of those Governors voting at a meeting at which a quorum is present, provided that such authorization must be approved by not less than a majority

of all Governors. In the event that a person, associated person or group of associated persons acquires beneficial ownership of, or control the voting rights of, memberships in excess of this 15% limit as a result of a merger or acquisition of a member firm, then the following will apply: (i) such person, associated person or group of associated persons will not be entitled to exercise any voting rights attached to any memberships in excess of 15% of the number of authorized memberships; and (ii) such person, associated person or group of associated persons must reduce the number of memberships beneficially owned to comply with this Rule within two years.

Approved: June 20, 2002 (PCX-02-11).

Sale of Membership

RULE 1.22(a). *Sale by Owner:* A membership may be sold by the owner through the Membership Department in accordance with Exchange procedures. A written offer for sale stating the acceptable price shall be submitted to the Membership Department. Any offer shall be in increments of one hundred dollars (\$100). The Membership Department will file all such offers according to the lowest price and the earliest submission date. The lowest offer with the earliest filing date will be posted on the Exchange bulletin board. All offers remain in effect for six months unless written revocation thereof is received by the Membership Department. After an offer filed in accordance with the provisions of this Rule is matched with a bid filed in accordance with the provisions of Rule 1.21, neither can be changed or withdrawn. A member who has filed an offer of sale, and who remains in good standing, shall continue to have all the rights and privileges, and shall remain subject to all of the duties and obligations, of membership, until the purchase price has been paid.

(b) *Sale by Exchange:* Whenever one or more of the following conditions exist with respect to a membership, the Exchange may offer the membership for sale:

(1) The expulsion of a member, or the suspension of a member where such member has failed to be reinstated at the expiration of the period of suspension, including any extension of such period which may have been granted by the Exchange;

(2) The dissolution of a member organization, formally or informally, and no transfer of its membership(s) has been accomplished within six (6) months of the dissolution or within such extended time as may have been granted by the Exchange;

(3) The death of a member or inactive member leaving no eligible transferee under Section 8(a) or 8(b) of Article VII of the Constitution, or leaving no natural person or broker dealer as heir, or where the legal representative of such member has failed to consummate a transfer of the membership(s) within six (6) months of the member's death or within such extended time as may have been granted by the Exchange.

(4) the legal declaration of incompetence of a member, and the legal representative of such member has failed to consummate a transfer of the membership(s) within six (6)

months of the declaration of incompetence or within such extended time as may have been granted by the Exchange.

(c) *Confirmation of Sale by the Exchange:* The sale of an Exchange membership shall be deemed negotiated at the time the formal bid and offer are matched in price and confirmed by the Exchange, and shall be considered consummated upon the prompt payment by the purchaser of any unpaid balance due on the purchase price of the membership and the initial fee. In the event the Exchange has not received final payment of any such amounts due on the purchase of such membership within ten calendar days after constructive notice of an arranged sale is given by the Exchange, the arranged sale shall be automatically canceled and purchaser and seller restored thereby to their respective status existing before such arranged sale. Neither the purchaser nor the seller shall have, assert or maintain any rights, privileges or claims of any nature whatsoever against each other or against the Exchange or its subsidiaries, its members, member organizations, officers or employees, arising or resulting, directly or indirectly, from or by such cancellation.

(d) *Private Sale Void:* A member who offers a membership for sale privately, without having filed such offering with the Exchange, or who makes such private offer at a lower price than that stipulated in the offering, may be adjudged guilty of conduct detrimental to the interest and welfare of the Exchange, and any purported sale effected as a result of such a private offer will be absolutely void and will confer no rights upon the purchaser.

(e) *Obligations of Terminating Members:* Every member who sells or transfers their membership pursuant to the provisions of these Rules must be current in all filings and payments of dues, fees and charges relating to that membership, including filing fees and charges required by the Securities and Exchange Commission and the Securities Investor Protection Corporation. If a member fails to make all such filings, or to pay all such dues, fees and charges, the Secretary of the Exchange may, notwithstanding other applicable provisions of these Rules, withhold distribution of the proceeds of the sale of said membership, or delay the effectiveness of the membership of the transferee, until such time as the failures have been remedied.

(f) *Non-Responsibility of the Exchange:* The Exchange and its officers, members and employees shall be subject to no liability in connection with any bid or offer of a membership whether or not filed formally with the Exchange as provided herein, unless such liability results from negligence of the Exchange.

Transfer of Membership

RULE 1.23(a). The owner of a membership who is in good standing may transfer such membership to a person approved by the Exchange, by intra-firm or inter-firm transfer, subject to and in accordance with such Rules as may be adopted from time to time by the Board of Governors, as follows:

(1) *Intra-Firm Transfer.* A membership may be transferred by intra-firm transfer when a member transfers their membership to an individual within the same member organization.

(2) *Inter-Firm Transfer.* A membership may be transferred by inter-firm transfer as follows:

(A) Transfer to a new member organization. A membership may be transferred by a member from one member organization to another member organization (the "new member organization") in connection with the member joining the new member organization.

(B) Acquisition of a member organization. A membership may be transferred from a member organization to an acquiring organization, by merger or otherwise, upon approval of the Exchange.

(C) Succession of a member organization. A membership may be transferred from a member organization to an organization which succeeds, through statutory merger, exchange of stock or acquisition of assets to the business of the transferring membership organization, upon approval by the Exchange.

(D) Transfers to wholly-owned subsidiaries, parents or affiliates. A membership may be transferred from a member organization to a wholly-owned subsidiary, to its parent, or to any subsidiary of the parent, upon approval by the Exchange.

Lease of Membership

RULE 1.24(a). The owner of a membership who is in good standing may lease such membership to a person approved by the Exchange through the execution of a PCX Membership Lease Agreement approved by the Board of Governors, and subject to and in accordance with such Rules as may be adopted from time to time by the Board of Governors. The PCX Membership Lease Agreement must be executed by both the member leasing the membership ("lessor"), and the member to whom the membership is leased ("lessee").

(b) A Membership Lease Agreement continues in effect until terminated upon thirty (30) calendar days notice given by either party. The thirty (30) calendar day notice may be waived in writing by both the lessor and lessee. A copy of the notice or waiver of notice must be filed with the Exchange. The Exchange may extend the time for such termination for up to sixty (60) additional calendar days if such an extension is needed for the orderly closing of the lessee's business or the business of the member organization on which lessee has conferred the privileges of membership or the orderly transfer of such business to another member organization. The Executive Committee of the Exchange will make the final decision with respect to the extension of time.

(c) A suspended member shall not be permitted to lease their membership. When a lessor or lessee becomes suspended, the Exchange shall give a thirty (30) calendar day notice to the other party or parties to terminate the Membership Lease Agreement. The thirty (30) calendar day termination notice shall be issued on the date of any PCX, SEC, or any other self-regulatory organization action which suspends, expels, or bars either party from membership. Upon termination, any rental payments owed by a lessee to a lessor may be collected by the Exchange.

(d) In the event a lessee intends to join another broker or dealer, a new Membership Lease Agreement must be executed by the lessor, the lessee, and the broker or dealer upon whom the privileges of membership will be conferred.

(e) A Membership Lease Agreement that confers the privileges of the leased membership onto a member organization will terminate when the named lessee ceases to be an employee of the member organization. In that event, the member firm may nominate another employee who may simultaneously enter into a new Membership Lease Agreement as lessee, with the lessor's approval, under the same terms and conditions that existed in the previous Membership Lease Agreement. The member firm upon whom the privileges of the leased membership are conferred shall continue to be responsible for all Exchange obligations, including but not limited to, Exchange dues, fees, and charges.

RULE 1.25. Reserved.

EMPLOYEES OF MEMBER ORGANIZATIONS

Registration

RULE 1.26(a). Every employee, including branch office managers, of a member organization who is compensated directly or indirectly for the solicitation or handling of business in securities, including trading in securities for the account of the member organization, whether such securities are those dealt in on the Exchange or those dealt in over-the-counter, must be registered with and approved by the Exchange.

The Exchange may waive compliance with the requirements of Rule 1.26(a) in the event a member organization is also a member organization of another national securities exchange having comparable requirements.

(b) Registration of registered employees shall be in such form as the Exchange shall prescribe and the continuance of any registered employee in that capacity shall at all times be in the sole discretion of the Exchange.

(c) The Exchange may require each applicant for employment as a registered employee to pass such examinations as the Exchange may prescribe to establish the applicant's qualification for such registration.

(d) A registered employee may not be engaged in any other business or be employed by another employer in any capacity or receive compensation, without the prior written and continuing approval of his or her member or member organization, and such registered employee shall devote a substantial portion of the business day to the activities of his or her firm.

(e) No member of the Exchange may employ any employee of the Exchange during the hours of regular employment by the Exchange. No member of the Exchange may employ any employee of the Exchange outside the hours of regular employment by the Exchange without having first obtained the approval therefor of the Board of Governors and registering therewith the name of said employee, the nature of the services rendered and the amount of said compensation.

(f) No member shall give any compensation or gratuity in any one calendar year in excess of \$100 to any employee or any other member of the Exchange, or to any employee of a non-member broker or dealer, bank or institution, without the prior consent of the employee's employer.

No member shall give any compensation to any employee of the Exchange without the prior written consent of the Exchange. No member shall give any gratuity or gift in any one calendar year in excess of \$100 to any employee of the Exchange without the prior written consent of the Exchange. All requests for Exchange consent should contain the following information: (1) name and position of the Exchange employee; (2) nature of the gratuity or gift; (3) dollar amount of compensation or gratuity; (4) reason for the compensation, gift or gratuity; and (5) any other details which may be useful to the Exchange in considering the request.

(g) Termination of the employment of a registered employee shall be reported to the Exchange, and the Exchange shall be notified in writing of the specific grounds for termination immediately when the employment of any person is terminated by a member or a member firm under circumstances involving misconduct, fraud or unethical practices.

Floor Employees of Member Organizations

RULE 1.27(a). No employee of a member organization shall be admitted to the Floor of the Exchange unless such employee is approved by the Exchange, and upon compliance of both the employer and the employee with such requirements as the Exchange may determine. The privilege of admission to the Floor of the Exchange of any such employee may be revoked by the Exchange for cause it deems to be sufficient.

(b) All Floor employees of members and member organizations and all employees of members and member organizations who have submitted registration applications for admission to the Floor are required to be fingerprinted and to submit, or cause to be

submitted, such fingerprints to the Exchange for identification and appropriate processing.

(c) Each member organization shall take reasonable care to determine the existence of a statutory disqualification as defined in Section 3(a)(39) of the Securities Exchange Act of 1934 prior to employing any prospective employee. If a person already employed by a member or member organization thereafter becomes subject to a statutory disqualification, the member firm shall promptly send notice to the Exchange.

(d) A member firm with an employee on an Exchange trading floor must have at least one member present on one of the trading floors at all times. Such members shall be responsible for all floor employees of the member firm.]