



RULE
ADOPTION
NOTICE

RAN-04-20
June 16, 2004

TO: All PCX OTP Holders and OTP Firms

FROM: Department of Regulatory Policy

**SUBJECT: Extension of \$1 Strike Pilot Program
(File No. SR-PCX-2004-39)**

On June 3, 2004, the Exchange filed with the Securities and Exchange Commission a proposed rule to extend the pilot program under which it lists options on selected stocks trading below \$20 at \$1 strike price intervals until August 4, 2004. On June 4, 2004 the Exchange filed Amendment No. 1 to the proposed rule change. The Commission approved the proposed rule change on June 4, 2004.

The following is the text of the rule change. Questions regarding this bulletin may be directed to Steven Matlin at (415) 393-4084.

EXHIBIT A
Text of the Proposed Rule Change:¹

**Rules of the
Pacific Exchange, Inc.**

**Rule 6
Options Trading**

Series of Options Open for Trading

Rule 6.4(a) - (e) - No change.

Commentary .01 - .03 - No change.

.04 The Exchange may select a limited number of its listed options on individual stocks for which the interval of stock prices will be \$1.00 (“\$1 strike prices”) provided the strike price is \$20.00 or less, but not less than \$3. The listing of \$1 strike prices will be limited to options issues overlying no more than five (5) individual stocks (the “\$1 Strike Pilot Program”)

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

as specifically designated by the Exchange. The Exchange may list \$1 strike prices on any other option issues if those issues are specifically designated by other securities exchanges that employ a \$1 Strike Pilot Program under their respective rules. To be eligible for inclusion into the \$1 Strike Pilot Program, an underlying stock must close below \$20 in its primary market on the previous trading day. After a stock is added to the \$1 Strike Pilot Program, the Exchange may list \$1 strike prices from \$3 to \$20 that are no more than \$5 from the closing price of the underlying on the preceding day. For example, if the underlying stock closes at \$13, the Exchange may list strike prices from \$8 to \$18. The Exchange may not list series with \$1.00 intervals within \$0.50 of an existing \$2.50 strike price (e.g., \$12.50, \$17.50) in the same series, and may not list \$2.50 intervals (e.g. \$12.50, \$17.50) below \$20 under Commentary .03 of this Rule for any issue included within the \$1 Strike Pilot Program if the addition of \$2.50 intervals would cause the issue to have strike price intervals that are \$.50 apart. Additionally, the Exchange may not list long-term option series ("LEAPS") at \$1 strike price intervals for any option class selected for the \$1 Strike Pilot Program.

A stock shall remain in the \$1 Strike Pilot Program until otherwise designated by the Exchange. The \$1 Strike Pilot Program shall expire on [June 5]August 4, 2004.

.05 - No change.

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