

September 13, 2006

PennMont Securities  
83 E. Lancaster Ave.  
Paoli PA 19301

C. Robert Paul, Esquire  
Chief Counsel  
Philadelphia Stock Exchange  
1900 Market Street  
Philadelphia, PA 19103

Re: PHLX Proposal to Eliminate Equity Specialists

Dear Mr. Paul:

On behalf of PennMont Securities, I would like to bring to your attention my concerns about, and objections to, a proposal which has been advanced by the Board and management of the Philadelphia Stock Exchange (“PHLX” or the “Exchange”) to eliminate PHLX equity specialists. What we understand to be the most recent version of the proposal was filed with the United States Securities and Exchange Commission (“SEC”) on August 16, 2006, has been identified by the SEC as File No. SR-PHLX-2006-43 and was published by the SEC as Release No. 34-54329.

PennMont Securities has served as a specialist on the PHLX equity floor since 1981 and I personally have served since 1968. We operate under the provisions of §220 of Regulation T of National Association of Securities Dealers relating to specialists and under the supervision of the SEC. We are afforded particular benefits available under the Internal Revenue Code with respect to certain types of specialist activities.

From PennMont’s perspective, forcing equity specialists from PHLX would risk irreparable damage to PennMont and its partners, materially interfere with its ability to do business and otherwise offer the prospect of severely compromising its prospects for survival as a going concern in the securities industry.

When I first mentioned the likely grievous effect of PHLX’s actions to its senior management and consultants, my comments were met with dismissive replies of “It has already been decided,” and “We don’t give tax advice.” Such “responses” show both a disregard for members of the Exchange, the investing public they serve, and a lack of understanding of the consequences of PHLX’s proposed actions. No opportunity for input was provided, and none was allowed, as management has moved ahead with what seems to be a *fait accompli* attitude. The members of the Exchange have not voted on or otherwise been allowed to contribute to the decision-making process.

Both the responses from management and the process itself fall short of what is expected of an organization that exercises significant powers – and has substantial responsibilities – under the securities laws and regulations.

Elimination of equity specialists in favor of “Market Makers” would end a long-standing system which has served investors well, not only in Philadelphia but among all of the national securities exchanges. Floor-based trading and specialist activities continue to be efficient and equitable processes, even on the largest and busiest exchanges (including the New York Stock Exchange). Assuming, without agreeing that elimination of specialists is the appropriate option, that the Exchange has had a recent history of abuse of trading privileges, and it believes simple elimination is the remedy, that approach is far too simplified, and attempts to transfer the obligations of management to the floor. While any system may be abused, effective oversight and enforcement by an exchange minimize the risk of such occurrences. To the extent PHLX has had problems with its equity trading floor, the cause has been its obvious and often-cited inadequacies as a self-regulatory organization, not the specialist system itself.

The stated intention of PHLX to both terminate the current process and put a new and unproven system in place – to my knowledge for the first time by any national securities exchange – without any alternative specialist system running parallel to it, offers huge risks to PHLX, its members and customers, and to the investing public at large. PHLX is gambling with its future, and placing its credibility as both a national securities exchange and an SRO in great peril.

PHLX is currently presenting a plan which totally eliminates equity specialists - ostensibly to comply with the new National Market System mandate - almost as if NMS requires PHLX to eliminate equity specialists while simultaneously creating a market-maker-only platform, nearly tripling the number of tradable equity stocks, and abandoning the critically important "affirmative responsibility" aspects of Exchange performance. Such an approach is not necessary to comply with NMS and will likely generate a myriad of new technical difficulties, and add to PHLX's long list of compliance failures, if it plunges headlong into new trading systems where it has neither experience nor expertise.

The plan proffered by PHLX threatens the very existence of member organizations. I strongly urge the Exchange to set the concept of specialist elimination aside in favor of a more measured approach such as the hybrid system presently being contemplated by the New York Stock Exchange.

Sincerely,

PennMont Securities

Joseph D. Carapico, G.P.