

**PENN MONT SECURITIES**

83 E. LANCASTER AVE. • PAOLI, PA 19301 • (215) 563-7921



November 4, 2007

Nancy M. Morris, Secretary  
United States Securities and Exchange Commission  
100 F street, NE  
Washington, DC 20549-1090

Re: Philadelphia Stock Exchange – File Number SR-PHLX – 2007-78

Dear Mrs. Morris:

I have attached a letter I have sent to C. Robert Paul, Esquire, Executive Vice President and General Counsel of the Philadelphia Stock Exchange expressing the objections of PennMont Securities to actions taken by the Board of the Exchange with respect to the matter noted above.

PennMont requests that you accept this letter and the attachment as a comment submitted to the Commission with respect to such matter, as well as a request that the Commission reject the proposed change for the reasons stated in my correspondence with Mr. Paul.

Please feel free to contact me should you need anything further.

Thank you for your attention.

Sincerely,

PENNMONT SECURITIES

A handwritten signature in cursive script that reads "Joseph D. Carapico".

Joseph D. Carapico  
Managing Partner

**PENN MONT SECURITIES**

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November 14, 2007



C. Robert Paul, Esquire  
Executive Vice President and General Counsel  
Philadelphia Stock Exchange, Inc.  
1900 Market Street  
Philadelphia, Pennsylvania 19103

Dear Mr. Paul:

I attended the special meeting of shareholders of the Philadelphia Stock Exchange held on October 5, 2007. At that meeting a vote was held to amend Article IV of the Restated Certificate of Incorporation of the Exchange to modify the definition of "Related Person" stated in that Article. Specifically, the following changes to Subsection (b)(iii)(B) of that Article (shown below as underscored text) were proposed:

In the event that any Person, either alone or together with its Related Persons (as hereinafter defined), at any time owns of record or beneficially, whether directly or indirectly, more than 20% of the then outstanding shares of Common Stock (such shares of Common Stock in excess of such 20% limit being hereinafter referred to as "Excess Shares"), such Person and its Related Persons shall have no right to vote, or to give any consent or proxy with respect to, such Excess Shares, and such Excess Shares shall be deemed not to be present for the purposes of determining whether a quorum is present at any meeting or vote of the stockholders of the Corporation or entitled to vote in determining the number of shares required to be voted for approval of or to give consent with respect to any matter presented to the stockholders of the Corporation. For the purposes of this Certificate, "Related Persons" shall mean (1) with respect to any Person, all "affiliates" and "associates" of such Person (as such terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (2) with respect to any natural person constituting a "member" (as such term is defined in the Exchange Act) of the Corporation, any broker or dealer with which such member is associated and (3) any two or more Persons that have any agreement, arrangement or understanding (whether or not in writing) to act together for the purpose of acquiring, holding, voting or disposing of shares of Common Stock, other than any such agreement, arrangement or understanding pertaining to any of the following (each, an "Exempted Matter"): a merger, sale, acquisition or other corporate affiliation of or by the Corporation or any subsidiary; the sale of all or substantially all of the assets of the Corporation; the issuance, offer or sale by the Corporation and/or one or more shareholders (whether in one or more public or private transactions) of Common Stock of the Corporation; the preparation, filing with the SEC (as hereinafter defined) or dissemination of a registration, proxy or information statement in respect of any of the

C. Robert Paul, Esquire  
November 4, 2007  
Page two

foregoing; any proposal or plan to do any of the foregoing; or any step that is required for, or specifically and directly related to, any of the foregoing. As to any matter that is not an Exempted Matter, in determining whether two or more persons are "Related Persons" under clause (3) of the definition thereof, neither (1) communications by or among any persons (or their officers, agents or representatives) for the purpose of understanding, considering or communicating the advisability, desirability or feasibility of any matter concerning the interests of the Corporation or its shareholders nor (2) the fact that two or more persons (or their officers, agents or representatives) may have expressed or communicated common views as to the advisability, desirability or feasibility of any matter concerning the interests of the Corporation or its shareholders nor (2) the fact that two or more persons (or their officers, agents or representatives) may have expressed or communicated common views as to the advisability, desirability or feasibility of any matter concerning the interests of the Corporation or its shareholders (including, in either such case, by way of voting or otherwise acting as Governors, members of standing or other committees or shareholders) shall create any presumption or inference that such persons have an agreement, arrangement or understanding (whether or not in writing) to act together for the purpose of acquiring, voting, holding or disposing of shares of Common Stock.

The amendment (particularly the open-ended language in (B)(3)(3) drastically reduces the protections for holders of smaller amounts of PHLX stock by largely neutering the restrictions placed on joint action by larger holders, a provision regarded as critical by the Securities and Exchange Commission in its consideration of the demutualization of the Exchange in 2004. The provision, as amended, would create substantial opportunities for collusion among large holders at the expense of smaller ones, offer opportunities for the Exchange's SRO function to be severely compromised and generally establish an atmosphere in which members, staff and others could believe themselves to be exposed to retaliatory actions should they criticize any actions by management or anyone affiliated with any of the Strategic Investors which might be adverse to the interests of the investing public. That surely was not what the SEC had in mind when it required the provision restricting joint action to be included in the Exchange's Articles of Incorporation.

In response to a question which I posed to the Exchange's First Vice President and Associate General Counsel, Scott M. Donnini, Esquire, as to actions taken by the Board of Governors at its meeting on September 11, 2007, he initially stated that the Board had acted "unanimously" and then revised his statement to say that there had been one abstention, but that he did not recall the identity of the person who had not voted. As you know, Kevin Carroll (Vice President, Citigroup Derivatives Markets Inc.), Christopher R. Carter (Managing Director, Credit Suisse), Gary E. Yetman (Managing Director, Merrill Lynch, Pierce, Fenner & Smith Inc.) and Michael Juneman (Manager, U.S. Exchange Operations, Citadel Investment Group) are all members of the Board.

C. Robert Paul, Esquire  
November 4, 2007  
Page three

At the October 5 meeting, the Exchange's six "Strategic Investors" (Citadel Derivatives Group LLC, Merrill Lynch Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston Next Fund, Inc., Citigroup Financial Products, Inc./Citigroup Global Markets, Inc./Citigroup Derivative Markets, Inc., Morgan Stanley & Co., Inc., and UBS Securities LLC) all were allowed to vote their shares, and the reported results indicate that they supported the changes.

Members of the Board who had affiliations with the Strategic Investors should not have been permitted to vote at the Board meeting to recommend revision of Article IV. The revisions clearly and inequitably advantage the Strategic Investors (and other large shareholders), who seem to have found the constraints which existed at the time they made their investment, inconvenient or too restrictive to allow them to do exactly what they want to do. The Strategic Investors' Board representatives' votes in support of the amendment were absolutely in conflict with their fiduciary responsibilities to shareholders as well as with their role as regulators and guardians of the investing public, and were fatally tainted by those interests.

Allowing the Strategic Investors to vote their shares in a self-dealing manner at the October 5 meeting compounded the problem created by allowing the interested Board members to act to recommend the changes, and ensured that the Strategic Investors would get their way.

Both actions violated the intent of the Certificate of Incorporation and should be invalidated.

PennMont Securities demands that the shareholder vote taken on October 5, 2007, as to the amendment of Article IV be voided, and that the Board's September 11, 2007, action with respect to such action also be voided. Further, should the Board determine to consider amendments to that Article in the future, PennMont insists that Board members affiliated in any way with any of the Strategic Investors be barred from participating in such vote, and (should the Board thereafter determine to recommend an amendment to shareholders) that shares owned by the Strategic Investors (as well as any affiliate, associate or related person to any such investor) also be barred from being voted.

Apart from the actions taken being in conflict with the Exchange's own governing documents, PennMont believes that they also violate SEC Regulation FD, which provides for full and fair disclosure and representation of all material events to shareholders.

C. Robert Paul, Esquire  
November 4, 2007  
Page four

The fundamental protections of small investors and the investing public have been placed at risk by the Board's self-interested and imprudent actions. There is no alternative but to invalidate all of those actions and give the Exchange's shareholders a fair opportunity to consider whatever might be proposed free of the taint of undue influence and conflict of interest.

Sincerely,

PENNMONT SECURITIES

A handwritten signature in cursive script that reads "Joseph D. Carapico". The signature is written in black ink and is positioned above the printed name and title.

Joseph D. Carapico  
Managing Partner

cc: Board of Governors, Philadelphia Stock Exchange, Inc.

Daniel M. Hawke  
District Administrator for Enforcement  
Securities and Exchange Commission