




A Floor Without A Ceiling



Chicago Board Options Exchange
Annual Report 2000



Limitless Numbers

312,182,108

contracts traded—41% increase from Fiscal Year 1999

44,947,915

contracts in open interest—90% increase from Fiscal Year 1999

1,229,063

contracts per day: Average Daily Volume—40% increase from Fiscal Year 1999



Endless Opportunities

Leadership

Ever since it invented the options marketplace in 1973, CBOE has continued to lead and define the industry. Driven by a determination to provide the best possible service to customers, CBOE captured the largest market share among options exchanges of total options business in FY 2000.

Technology

Operator of the most technologically-advanced options trading floor in the world, CBOE's team of technical experts is recognized as much for invention as for innovation. CBOE offers all the advantages of the open outcry system, supported by milestone technological achievements.

Customer Service

The Exchange is committed to providing the best customer service in the business. CBOE builds productive relationships that enable customers to communicate their needs and have those needs met quickly and effectively.

CBOE



Service: It Starts With Members

The foundation of CBOE's ongoing success is its active commitment to developing and fortifying mutually-beneficial, service-oriented relationships with member firms and other customers.

Business Development Division

This new division focuses on building relationships with member firms and other customers. Its ongoing goal is to partner with member firms to satisfy customer needs, while promoting a better understanding of and increased participation in

options trading. The Business Development Division draws upon such CBOE resources as marketing, member trading services and The Options Institute, the educational arm of CBOE.

Designated Primary Market Maker (DPM) Program

To offer immediate access to a floor contact and to provide a single point of accountability for customers, CBOE members voted on June 29, 1999 to expand the DPM system. All equity options now trade under the DPM system.

Elimination of Fees

Effective May 1, 2000, CBOE eliminated all Exchange fees for public customer stock option orders regardless of size or routing method. Continuing record volume and increased automation allowed CBOE to pass on savings to customers.



550,000

customer contacts

Customer Contacts

Service of existing customers and expansion of CBOE's customer base are top priorities. CBOE realizes that satisfied customers are the cornerstone of every successful business, and answers all inquiries regarding options promptly and completely.

70,000 telephone inquiries
20,000 e-mail inquiries

All answered by CBOE's investor services call center.

550,000+ investor contacts are maintained in CBOE's database.

Marketing Program

In response to changing market conditions and in order to compete effectively, CBOE decided to impose a marketing fee on market maker and DPM transactions in all equity option classes.

The purpose of the marketing fee is to provide a fund to be made available to DPMs for marketing purposes, including payment for customer order flow.

Innovation: Expanding Possibilities

CBOE has always been and still remains the technological leader among options exchanges.

Best Execution

Assurance ProgramSM

On August 1, 2000, CBOE enhanced its execution quality programs through its new Best Execution Assurance Program. The program utilizes technological

applications to provide member firms and other customers with best execution documentation.

Trading via Technology

94% of all customer orders are routed electronically to CBOE and executed on electronic systems.

12 seconds is the average turnaround time for all Order Routing System (ORS) customer orders.

37% of orders are executed instantaneously electronically.

Automatic Book Priority

(ABP): Another CBOE innovation in FY 2000 automatically matches and executes orders with the Customer Book.



1st

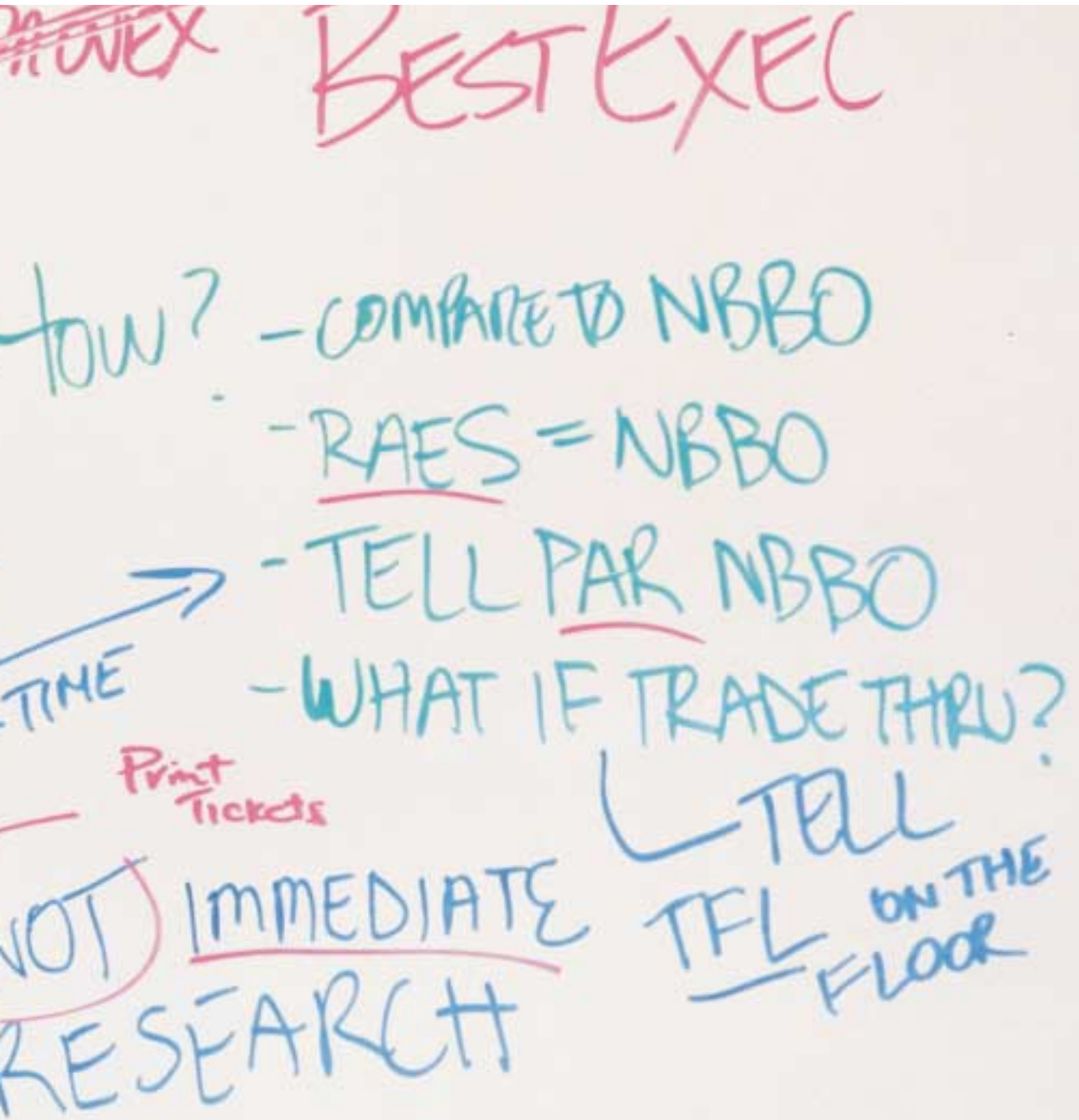
CBOE has the most technologically-advanced trading floor in the options marketplace. Progress through innovation is the key to CBOE's strategic philosophy.

Screen-Based Trading

In line with CBOE's Strategic Plan of offering customers a vast array of trading opportunities and choices, CBOEdirect™, the Exchange's new screen-based trading system is ready to launch.

Scheduled for "take-off" in 2001, the system achieves the unprecedented goal of putting the entire options universe onto a single platform. In addition, CBOE is actively defining the

parameters of a hybrid trading floor, with the intent of continually integrating technological advancements with open outcry to best service the customer.





Education: Envisioning Our Future

Educating new and existing customers is a critical CBOE priority. As more and more investors enter the investment marketplace, understanding the benefits of options as a risk management tool grows even more important.

Web Site

Traffic on the CBOE web site, www.cboe.com, skyrocketed as a growing number of investors took advantage of the easy access to comprehensive, diversified options market information and educational materials.

300% increase in page views from 31 million at the end of FY 1999 to 130 million in FY 2000.

120% more visits to the site occurred, rising from 8.3 million to 18.7 million during the same period.

Features include: the least expensive real-time options quotes on the Internet, a timely electronic newsletter and enhanced symbol and statistical information. *Forbes.com* magazine selected the web site as a "Best of the Web" honoree.

16th Annual Risk Management Conference

CBOE and the Chicago Board of Trade (CBOT) jointly hosted this conference in January 2000. Nearly 300 institutional investment professionals attended to discuss the latest information on risk management policy formation.



18,700,000

visits to www.cboe.com

International Expansion

109 international offices were visited by representatives from CBOE to stimulate interest in options investing. A significant development was the preparation for the opening of Taiwan to 32 CBOE options products.

The Options Institute

In FY 2000, The Options Institute conducted three interactive online seminars to provide intermediate and advanced education for investors interested in options. Additionally, CBOE continues to partner with brokers to provide special

education programs to familiarize their clients and prospects with both the Exchange and the benefits of options investment.

20 Bridge events, hosted by retail brokers, helped them introduce their clients to CBOE and options trading.

4 High-Net-Worth programs, specifically designed to fill the needs of brokers with high-net-worth clients and prospects, were conducted.

17,000 people attended Options Institute seminars.

Advocacy: Positioning Our Industry

A strong advocate for fairness and integrity within the industry, CBOE strives to protect member firms' and customers' rights.

Single-Stock Futures

Significant progress has been made, furthering CBOE's stance regarding pending legislation to amend the Shad-Johnson Accord to permit single-stock futures. CBOE has worked

tirelessly to communicate to Congress that concerns about equal regulation and oversight for both futures and options must be satisfactorily addressed.

Market Linkage

Creating a plan to link options markets as mandated by the SEC was a major challenge in FY 2000. Ultimately, the SEC approved the linkage plan submitted by the CBOE along with two other options

exchanges. The exchanges will be electronically linked, allowing market makers, DPMs and specialists to access the other exchanges when a better bid or offer is displayed.



27 years

of protecting customers

Section 31 Fees

Proposed legislation which would reduce Section 31 fees is another major consideration. These fees fund the SEC and are levied on stock and option

transactions. CBOE supports this legislation. Currently, the U.S. government collects five to seven times the SEC's budget from Section 31 fees.

Political Action Committee

50% approximate increase in Political Action Committee (PAC) contributions occurred over last year. About \$425,000 has been donated in FY 2000 to CBOE's PAC.

These funds were especially critical during an election year when so many critical issues affecting the options marketplace are at stake.





Product Expansion: Increasing Opportunities

CBOE continually expands its product base to attract new investors and provide current customers with additional choices to meet their portfolios' objectives.

CBOE Mini-NDX (MNXSM)

Launched in August 2000, one of CBOE's most successful new products is an index option based on one-tenth of the Nasdaq-100 Index[®]. Escalating volume quickly distinguished MNX as the third most actively traded index at CBOE.

CBOE flex.netTM

On May 1, 2000, CBOE announced a partnership with Trading Edge, Inc. to build a highly customized web-based system for trading CBOE's FLEXible EXchange[®] (FLEX[®]) Options. The new system, scheduled to debut

early in 2001, will allow high-net-worth individuals and institutions to meet their investment objectives by customizing certain terms of an option contract.

Decimalization

CBOE began trading in decimals on August 28, 2000 in selected classes. Changes from fractions to decimals are being made in conjunction with trading in decimals in the underlying stocks at the New York Stock Exchange (NYSE).



1,470 Equity Options

312 LEAPS® Options

104,000 Series

34 Indices

Growth: No Limits

CBOE experienced its best year ever in FY 2000—with total option volume, stock option volume, average daily volume and open interest all skyrocketing to record levels.

41% jump in total volume

Exchange-wide total trading volume soared to a record 312,182,108 contracts over the FY 1999 record of 221,256,576 contracts.

35,176,764: Monthly volume record

Set in March 2000, this was a 64% increase in contracts traded from the previous monthly record in April 1999.

1,229,063: New average daily volume record

This end of FY 2000 record was an increase of 40% from FY 1999 average daily volume record of 878,002 contracts. This vast increase demonstrates that investors continue to find deep, liquid markets at CBOE.

1,529,425: Monthly average daily volume record

This record was set in March 2000.

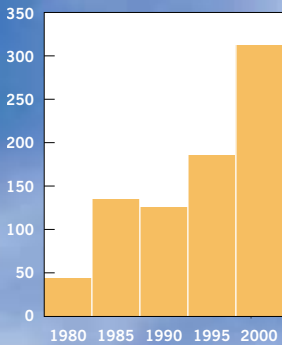
Single day trading record:

2,388,759 contracts

Friday, April 14th, was the day that volume hit an all-time high.

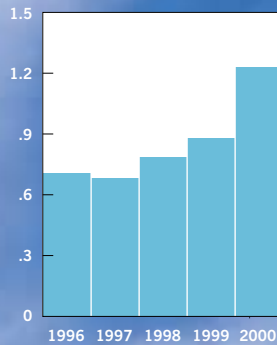
Total Volume

In Millions, Fiscal Year



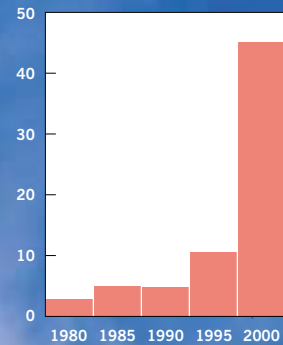
Average Daily Volume

In Millions, Fiscal Year



Open Interest

In Millions, Fiscal Year End



Total Options Market Share

Fiscal Year 2000



CBOE 48.8% PHLX 8.5%
AMEX 27.3% ISE 0.1%
PCX 15.3%

Equity Options Market Share

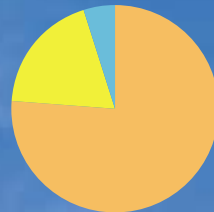
Fiscal Year 2000



CBOE 45.5% PHLX 8.8%
AMEX 28.4% ISE 0.1%
PCX 17.2%

Index Options Market Share

Fiscal Year 2000



CBOE 76.2% PHLX 4.9%
AMEX 18.9%
(PCX, ISE 0%)

312,182,108

contracts traded

258,007,668: Stock options contracts record

This record number was a 64% increase over the previous fiscal year's record total of 157,635,456 stock options contracts.

47,571,410: Open interest all-time record

Total open interest continued to set new records month after month, reaching this peak number of contracts in December 1999.

44,947,915: Open interest new record for FY end

Set in FY 2000, this new record was an incredible 90% increase over the year-ago level of 23,669,551 contracts.

78,558,351: Total volume for second quarter 2000

Volume in the fiscal year finished strong. Average daily volume in the second quarter reached 1,246,958 contracts, a 35% increase over second quarter 1999.

41%

increase in volume

90%

increase in open interest

64%

increase in stock options volume



William J. Brodsky
Chairman and CEO



Thomas A. Bond
Vice Chairman



Edward J. Joyce
President and COO

Letter from the Office of the Chairman

In Fiscal Year 2000, the Chicago Board Options Exchange (CBOE) moved aggressively ahead on many critical initiatives outlined in the CBOE Strategic Plan. The CBOE Strategic Plan was formulated based on a comprehensive examination of key forces impacting the dynamic options industry. In support of its strategy for the new millennium, CBOE developed programs that strengthened its relationships with customers, member firms and liquidity providers to facilitate growth of the options trading universe.

CBOE has consistently assumed a leadership position—both as an advocate in Washington, D.C. for the options trader and the options investor, and also as an exemplary service provider within the industry. Among the year's many accomplishments were the implementation of programs to convert the equity options trading floor to a Designated Primary Market Maker (DPM) system, fee elimination for customers, new reporting methodologies to document best execution and screen-based trading.

Exchange-wide total trading volume in FY 2000 soared to a record 312,182,108 contracts, an increase of 41% over the previous exchange-wide total trading volume record of 221,256,576 contracts set in FY 1999. During FY 2000, CBOE also broke records in monthly volume, average daily volume, single-day trading, stock option trading and total open interest. All of these new benchmarks attest to the growing popularity of options among investors as well as to CBOE's longstanding reputation as the premier provider of best execution and service.

Among its many notable accomplishments in FY 2000:

- CBOE was the *first* options exchange to average over a million contracts per day
- CBOE was the *first* options exchange to eliminate all Exchange fees for public customer options orders regardless of size and routing method
- CBOE was the *first* options exchange to provide customers with a broad selection of the highest volume option classes by listing options previously listed on another exchange
- CBOE, along with two other options exchanges, jointly submitted the *first and only* market linkage plan approved by the Securities and Exchange Commission (SEC). The linkage plan that was approved allows member firms to continue to make their own routing decisions based on many factors including market liquidity, turnaround time, technological innovation, transaction fees and other services.

In the spirit of relationship building as stressed in the CBOE Strategic Plan, at the beginning of FY 2000, CBOE members underscored their commitment to customer service by voting to approve a proposal to expand the DPM system floorwide in equity options, to provide customers with a single point of contact and accountability for trading in each option class.

Additionally, to assist customers in obtaining best execution, CBOE enhanced its execution quality programs through a new Best Execution Assurance ProgramSM effective August 1, 2000. The program provides member firms direct assurance that customer orders will receive best execution, which means that, in most circumstances, orders will be filled at the composite best bid or price offer (NBBO). This will be accomplished by a number of systems enhancements intended to ensure that members are fully aware of the NBBO at the time of the execution of an order in a multiply-listed option class. By providing direct price protection and the means with which to evaluate the quality of order executions on CBOE, the Best Execution Assurance Program gives member firms the tools necessary to satisfy their best execution obligations when deciding to route order flow to CBOE.

Shortly after the century turned, CBOE members made one of the most critical decisions affecting their future in the new millennium. On March 28, CBOE voted in favor of a "Proposed Strategy for Technology and Market Development," which was developed with substantial member input. The strategy consists of a hybrid trading system, which combines the best advantages of technology and a floor auction environment, and a screen-based trading system for extended hours trading. CBOE*direct*SM, scheduled to launch in 2001, is CBOE's new, stand-alone, screen-based trading system. The system, developed in-house by CBOE's team of technological experts, will allow CBOE to better compete with both floor-based and screen-based trading systems, and will create a special platform for extended hours trading.

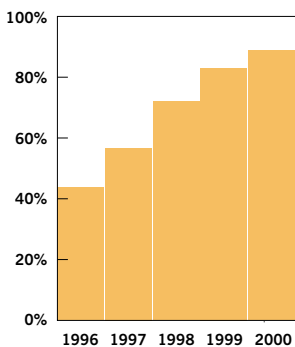
Although the impact of evolving technology on trading systems and procedures cannot be overstated, FY 2000 also saw a flurry of significant activity in the legislative and regulatory arenas with the potential to reconfigure options industry operations.

The switch to decimalization mandated by the SEC required extensive planning and technological preparations in FY 2000. On August 28, 2000, CBOE successfully launched the transition with options trading in selected classes. Changes from fractions to decimals are being made in conjunction with the commencement of trading in the underlying stocks at the New York Stock Exchange.

Perhaps the most dramatic legislative development with the potential to impact the options industry long-term is the possible repeal of the Shad-Johnson Accord. Congress' repeal of the Accord could open the door for exchanges to list futures on individual stocks without traditional securities regulation. Over the past year, CBOE has expended tremendous effort in conjunction with the U.S. Securities Markets Coalition to demonstrate to Congress the serious consequences such an action would have on the U.S. financial markets. We have emphasized repeatedly that, if single-stock futures would be subject to less stringent regulation and oversight than stock options, the newly-created single-stock futures market would enjoy a significant and unfair competitive advantage over the options market.

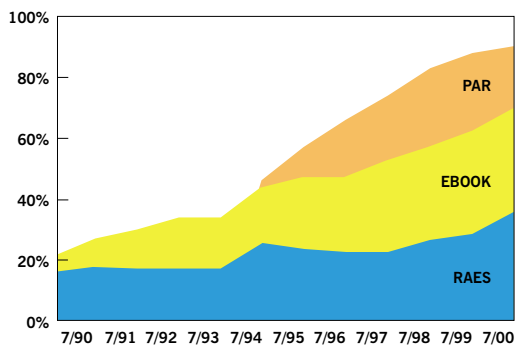
Paperless Automation

Percentage of Total CBOE Trades
Fiscal Year End



Growth of CBOE Automated Systems

Percentage of All CBOE Orders

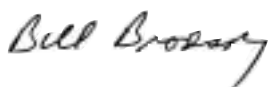


Early in September, 2000, CBOE, along with other options exchanges, reached a settlement with the U.S. Department of Justice (DOJ) and the U.S. Securities and Exchange Commission (SEC). The settlement concluded the DOJ's and SEC's investigations into past listing decisions and other SEC regulatory issues involving U.S. options exchanges. In addition, CBOE, along with AMEX and certain market maker firms, reached an agreement in principle to resolve a private class action lawsuit related to past listing decisions. Under the terms of the settlement, CBOE will obtain a release on behalf of CBOE and all CBOE market makers except those that were named in the lawsuit, but who chose not to participate in the settlement. CBOE is pleased to resolve the government investigations and private lawsuit to reduce the costs and disruption of these matters.

Another major issue developed during Fiscal Year 2000 with the announcement by the Chicago Board of Trade (CBOT) of its plan to restructure, which CBOE maintained would extinguish the right of CBOT members to trade on the CBOE floor. CBOT disagreed and contended that the Exercise Right would remain intact. Many discussions between CBOT and CBOE ensued in an attempt to resolve the issue, including examination of the feasibility of a merger between the two Exchanges. Although we will continue discussions regarding the Exercise Right, it was eventually determined that the Exchanges' business models were too incompatible to facilitate a merger at this time.

Although many of the past year's decisions were difficult to make and often required sacrifices on the part of the CBOE membership, all steps were taken and all decisions made with the ultimate goal of attracting order flow by providing best price as well as best service to customers.

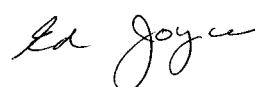
Within a marketplace where the competitive landscape offers trades without paper, the possibilities for growth are limitless. At CBOE, we welcome both the challenges and the opportunities the future will bring.



William J. Brodsky
Chairman and CEO



Thomas A. Bond
Vice Chairman



Edward J. Joyce
President and COO

Good Luck, Chuck!



Charles J. Henry
Former President and
Chief Operating Officer

Charles J. (Chuck) Henry retired as president and chief operating officer of the Chicago Board Options Exchange in June, 2000. Chuck had served as president and chief operating officer for 21 years. Not one to opt for an easy retirement, Chuck promptly accepted an offer from Enermetrix.com, a leader in Internet commerce for energy. Chuck now serves as that company's president and chief operating officer.

During his tenure, CBOE saw six-fold growth in volume and revenues and development of the most advanced technology in the industry. In many ways, Chuck made a huge contribution to building CBOE from the fledgling Exchange of the '70s into the world's largest options Exchange it is today.

On a personal note, those of us who worked with him miss his kindness and his unwavering dedication to excellence. We thank him for the gift of his friendship, and we wish him well in all his future endeavors.