



LEAPS[®]

Long-term Equity AnticiPation Securities[™]



How to put your
long-term market
opinions to work
with LEAPS



The Chicago Board Options Exchange (CBOE) is the world's largest options marketplace and one of the largest securities exchanges in the United States. For more information, visit www.cboe.com.

LEAPS® —

Long-term Equity AnticipaTion Securities™

An overview of the advantages of Equity LEAPS.

Long-term Equity AnticipaTion Securities or LEAPS are long-term exchange traded options that offer you a way to participate in the price movement of a stock for a longer time than traditional options and tie up less money than actually owning the stock.


Because LEAPS let you lock in positions up to three years they enable you to focus on long-term opportunities. LEAPS are currently listed on over 377 widely followed equities and a variety of key domestic and international indexes such as the Standard & Poor's 100 Index® (OEX®) and the Dow Jones Industrial AverageSM (DJX)

LEAPS offer flexibility, leverage and a long-term market position. This brochure briefly explains some of the benefits of LEAPS. For more information contact your investment advisor, call **1-877-THECBOE**, or visit our website **www.cboe.com**.


Equity LEAPS

LEAPS, like all options, are available in two types, calls and puts, with expiration dates up to 39 months in the future. Equity LEAPS calls can provide stock market investors an opportunity to benefit from the long-term growth of large capitalization companies without having to make outright stock purchases. Equity LEAPS puts can provide a hedge for stock investors against substantial declines in the equities in their portfolio.

Benefits to Investors.



LEAPS Calls. If you believe a stock represents a solid long-term buy, LEAPS calls might be considered. A LEAPS call purchase allows you to imitate the purchase of a stock for a fraction of its price, and hold that option for up to three years before it expires. You participate in the price movement of the stock but do not retain any dividends or voting rights.



LEAPS Puts. If you're concerned with the downside of a particular stock that you own, LEAPS puts might be considered. A LEAPS put purchase gives you the comfort of knowing that the underlying stock can be sold at a predetermined price for the life of the option.

Your Risk is Limited.

The buyer of a call or put option pays the seller of the option a price known as the *premium*. The options premium for LEAPS are stated in decimals. The prices are multiplied by \$100 to determine total cost. For example, if the option price is quoted at 4.50, the premium paid is \$450. The risk for the buyer of an option is limited to the amount of the premium. So the risk is both known and limited. Like any option, LEAPS may expire worthless and may fluctuate more than stock.

LEAPS Choices.

LEAPS can be purchased or sold with expiration dates that are as far as three years in the future. Equity LEAPS are American-style which means they can be exercised anytime up to the expiration date. The expiration date is the Saturday following the third Friday in the expiration month. During the life of the option you may have choices to make depending on the price of the underlying compared to the strike price of the call or put you purchase. The choices involve the decision to exercise the option or to sell the LEAPS in the open market any time up to the expiration date.

How Equity LEAPS Trade.

Equity LEAPS trade in units of 100 shares. For example, if you would like to purchase LEAPS corresponding to 500 shares of ZYX stock, you would purchase five contracts through your broker or online trading firm. When the price of the

underlying equity rises, LEAPS calls will generally, but not always, increase in value. When the price of the underlying falls, LEAPS puts will generally, but not always, increase in value.

Equity LEAPS Strategies

For the sake of simplicity, taxes, commissions and other transaction costs are not included but must be taken into account when calculating the actual net returns.

1 Buying LEAPS Calls

Stock Assumption: Bullish

Time Frame: Stock will rise over the next two years

An investor anticipates that the price of ZYX stock will rise during the next two years. This investor would like to profit from the increase without having to purchase shares of ZYX.

Example: ZYX is currently trading at 50.50 and a ZYX LEAPS call option, with a two-year expiration and a strike price of 50, is trading for a premium of 8.50 or \$850 per contract. The investor buys five contracts for a total cost of \$4,250, which represents the total risk of the call position. The calls give the investor the right to on exercise, then be wortha ting

buy 500 shares of ZYX between now and expiration at \$50 per share regardless of how high the price of the stock rises. To be profitable, though, at expiration, the stock must be trading for more than 58.50, the total of the option premium, 8.50 and the strike price of 50. This is known as the breakeven point. The buyer's maximum loss for this strategy is equal to the total cost of the options or \$4,250. The following are possible outcomes of this strategy at expiration.

Stock above the breakeven point.

If ZYX advances to 65 at expiration, the LEAPS will have a value of approximately 15 (the stock price of 65 less the strike price of 50). The investor may choose to exercise the calls and take delivery of the stock at a price of 50, or may sell the LEAPS calls for a profit.

Stock below the strike price.

If ZYX, at expiration, is trading for less than the strike price, or below 50 in this example, the unexercised calls will expire worthless. In this case, the investor will incur the maximum loss of \$4,250.

Stock between the strike price and the breakeven point.

If ZYX advances to 56 at expiration, the calls will be valued at approximately 6 (the stock price of 56 less the strike price of 50) and will represent a partial loss given the breakeven point of 58.50. The calls purchased by the investor for 8.50 will, upon exercise, then be worth approximately 6, creating

a loss of 2.50 points or \$250 per contract. If the investor does not exercise or sell these options, the investor will lose all of the initial investment, or \$850 per contract.

Prior to expiration, the LEAPS may trade at a price that is somewhat higher than the difference between the 50 strike price and the actual stock price. This difference is due to the remaining time value of the contract and the possibility that the stock price may increase by expiration. Time value is one of the components of an option premium and generally decreases as expiration approaches.

2 Buying LEAPS Puts

Stock Assumption: Bearish

Time Frame: Prices on certain stocks will decline over the next two years

The purchase of LEAPS puts to hedge a stock position may provide investors protection against declines in stock prices. This strategy is often compared to purchasing insurance on one's home or car, and may give investors the confidence to remain in the market. The amount of protection provided by the put and the cost of the protection, sometimes evaluated as a percentage of the stock's cost, should be considered.

Example: ZYX is trading at 45 and a ZYX LEAPS put with a three-year expiration and a strike price of

42.50 is selling for 3.50 or \$350 per contract. These puts provide protection against any price decline below the breakeven point, which for this strategy is 39 (strike price less the premium). The investor's risk or maximum loss is limited to the total amount paid for the put options or \$350 per contract. The following are possible outcomes of this strategy at expiration.

Stock above the strike price.

If ZYX is trading at 48 at expiration, the unexercised put would generally expire worthless, representing a loss of the option premium or \$350 per contract.

Stock below the breakeven point.

The put would be profitable if the stock closed below 39 at expiration. If ZYX is trading at 37.50 at expiration, the 42.50 put, upon exercise, would have a value of 5 or \$500, representing a profit of 2.50 points or \$250 per contract. This profit will partially offset the decline in the value of the stock.

Stock between the strike price and the breakeven point.

If ZYX is trading at 41.50 at expiration, the 42.50 put would be valued at approximately 1. This means that, upon exercise, a portion of the option premium would be retained and the loss would then be 2.50 points or \$250 per contract. If the contract is not exercised or sold, the investor will lose all of the initial investment, or \$350 per contract.

3 LEAPS as a Stock Alternative

Buying deep in-the-money LEAPS calls can represent an alternative to owning stock. Purchasing a LEAPS call can lower cost, reduce risk, and provide a return similar to owning shares outright. There are important differences, discussed below.

Example: Say an investor wishes to buy shares of stock XYZ, which is trading at 56. In order to conserve capital, he thinks about buying the shares on margin, putting up half the cost of 100 shares (\$2800) and borrowing the balance (\$2800) at a margin rate of 9%. Instead the investor could think about purchasing a LEAPS call on XYZ expiring in 18 months with a strike price of 35, paying an option premium of \$24.25 (\$2425). *See chart for comparison.*

LEAPS as a Stock Alternative	Alternative 1: Buy 100 XYZ (on margin) @ \$56	Alternative 2: Buy 1 XYZ 18 month LEAPS 35 call @ 24.25
Cash Down	\$2,800	\$2,425
Borrow	\$2,800	\$0
Carry Cost	\$388 <small>(\$2800 x 9% x 80 wk.)</small>	\$325 <small>(LEAPS time premium)</small>
Less Dividends	\$198	\$0
Net carry cost	\$190	\$325
Breakeven	\$57.90/share	\$59.25/share
RISK	\$5,600 <small>(plus margin interest less dividends)</small>	\$2,425

If held to expiration, these two LEAPS strategies show the following:

- a) The deep in-the-money LEAPS call on XYZ the investor now owns should perform almost the same as owning the shares. The total risk of owning the LEAPS call is \$2,425 (without commission) versus total risk of stock ownership of \$5,600.
- b) The “carry cost” of buying a LEAPS is \$135 more than the “carry cost” of purchasing the stock on margin. But the “cash down” payment for the LEAPS is lower.
- c) Breakeven stock price for the LEAPS call ($\$56 + 3.25 = \59.25) is slightly higher than that of the margined stock purchase ($\$56 + 1.90 = \57.90).
- d) Remember: LEAPS provide no dividends or voting rights, unlike stock. LEAPS expire, shares do not.

Conclusion

You’ve seen three brief examples of how LEAPS can be used in your portfolio. Please discuss these and other strategies with your investment advisor to learn how LEAPS can be part of your overall investment strategy.

LEAPS Contract Specifications

Product Description: Equity LEAPS are long-dated options on common stock or ADRs of companies that are listed on securities exchanges or trade over-the-counter. Equity LEAPS expire in approximately three years from the date of initial listing; equity LEAPS roll into the standard option after the May, June or July expiration depending upon whether the standard option associated with the LEAPS is on the January, February or March expiration cycle.

Symbol: Visit www.cboe.com for the most recent LEAPS symbols.

Underlying: Generally, 100 shares of common stock or American Depository Receipts (“ADRs”) of companies that are listed on securities exchanges or trade over-the-counter.

Strike Price Intervals: 2½ points when the strike price is between \$5 and \$25, 5 points when the strike price is over 25, and 10 points when the strike price is over \$200. Strikes are adjusted for splits, recapitalizations, etc.

Strike (Exercise) Prices: In-, at- and out-of-the-money strike prices are initially listed.

Premium Quotation: Stated in decimals. One point equals \$100. Minimum tick for series trading below 3 is 0.05 (\$5.00) and for all other series, 0.10 (\$10.00).

Exercise Style: *American* - Equity LEAPS generally may be exercised on any business day before the expiration date.

Last Trading Day: Trading in equity LEAPS (after the rollover to the standard option on the underlying) will ordinarily cease on the business day (usually a Friday) preceding the expiration date.

Expiration Date: Saturday immediately following the third Friday of the expiration month.

Expiration Months: May be up to 3 years from the date of initial listing, January expiration only.

Settlement of Option Exercise: Exercise notices properly tendered on any business day will result in delivery of the underlying stock on the third business day following exercise.

Position and Exercise Limits: Limits vary. Visit www.cboe.com for position limits.

Margin: Uncovered writers must deposit 100% of the option proceeds plus 20% of the aggregate contract value (current equity price multiplied by \$100) minus the amount by which the option is out-of-the-money, if any. Minimum margin is 100% of the option proceeds plus 10% of the aggregate contract value. Long puts or calls must be paid in full.

Trading Hours: 8:30 a.m. - 3:10 p.m. Central Time (Chicago time).

Additional Information

For a comprehensive overview of equity options, index options and LEAPS, download The Options Toolbox at www.cboe.com

Chicago Board Options Exchange
400 S. LaSalle Street
Chicago, IL 60605
investor_services@cboe.com
1-877-THE-CBOE

Glossary

American-Style option: An option contract that may be exercised at any time between the date of purchase and the expiration date. Most exchange-traded options are American-style.

Assignment: The receipt of an exercise notice by an option writer (seller) that obligates him to sell (in the case of a call) or purchase (in the case of a put) the underlying security at the specified strike price.

At-the-money: An option is at-the-money if the strike price of the option is equal to the market price of the underlying security.

Call: An option contract that gives the holder the right to buy the underlying security at a specified price for a certain, fixed period of time.

Equity options: Options on shares of an individual common stock.

European-style options: An option contract that may be exercised only during a specified period of time just prior to its expiration.

Exercise: To implement the right under which the holder of an option is entitled to buy (in the case of a call) or sell (in the case of a put) the underlying security.

Exercise price: See Strike price.

Expiration cycle: An expiration cycle relates to the dates on which options on a particular underlying security expire.

Expiration date: Date on which an option and the right to exercise it, cease to exist.

Holder: The purchaser of an option.

In-the-money: A call option is in-the-money if the strike price is less than the market price of the underlying security. A put option is in-the-money if the strike price is greater than the market price of the underlying security.

Intrinsic value: The amount by which an option is in-the-money (see above definition).

LEAPS: LEAPS are long-term stock or index options with expiration dates up to three years in the future.

Long position: A position wherein an investor's interest in a particular series of options is as a net holder (i.e., the number of contracts bought exceeds the number of contracts sold).

Open interest: The number of outstanding option contracts in the exchange market or in a particular class or series.

Out-of-the-money: A call option is out-of-the-money if the strike price is greater than the market price of the underlying security. A put option is out-of-the-money if the strike price is less than the market price of the underlying security.

Premium: The price of an option contract, determined in the competitive marketplace, which the buyer of the option pays to the option writer for the rights conveyed by the option contract.

Put: An option contract that gives the holder the right to sell the underlying security at a specified price for a certain fixed period of time.

Short position: A position wherein a person's interest in a particular series of options is as a net writer (i.e., the number of contracts sold exceeds the number of contracts bought).


Strike price: The stated price per share for which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.

Time value: The portion of the option premium that is attributable to the amount of time remaining until the expiration of the option contract. Time value is whatever value the option has in addition to its intrinsic value.


Underlying security: The security subject to being purchased or sold upon exercise of the option contract.



400 S. LaSalle Street
Chicago, Illinois 60605
1-877-THE-CBOE
www.cboe.com



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