STATE OF THE EXCHANGE
FY 2002: A YEAR OF CHALLENGES AND STRATEGIC INITIATIVES
Letter from the Office of the Chairman

During the past year, the U.S. equity market struggled to find a bottom amidst the ongoing threat of terrorism and war. The highly publicized reports of corporate misconduct and accounting abuses further undermined investor confidence. The Chicago Board Options Exchange® (CBOE®), the world leader among options exchanges, was buffeted by the effects of the market’s tumult as well as by increasing competitive pressures.

Competitive Environment
Against the backdrop of a difficult macroeconomic environment, CBOE and its members faced intense competition from other exchanges. Increased electronic competition had a profound effect on CBOE’s business as well as on the business of other floor-based exchanges. CBOE members’ profitability suffered and many smaller Designated Primary Market Makers (DPMs) merged or consolidated with larger firms.

The Exchange continued to lead the market in options volume in FY 2002, with overall market share of 37% of all options contracts traded. Exchange volume in FY 2002, however, was off 14% from the record-breaking levels set in the previous fiscal year. CBOE continued to lead the industry in equity options trading, although market share in equity options was down 5.5 percentage points from FY 2001 to 33% in FY 2002. Volume in index options was a bright spot as market share climbed from 54% in FY 2001 to 56% in FY 2002 when investors sought the broad protection provided by index options as market volatility increased.

Throughout the year, CBOE’s membership, Board of Directors and staff worked to address losses in market share and member profitability, and to productively chart the future course for the Exchange. In light of the changing competitive landscape, our first priority was the development of a hybrid trading model, which will merge the best features of both screen- and floor-based trading. The development of this unique, “best of both worlds” trading model is well under way.
New Trading Model
CBOE’s trading floor has the greatest concentration of market-making expertise and the deepest pool of liquidity of any options exchange. The CBOE hybrid trading model will preserve these floor-based advantages while enhancing CBOE’s ability to capture screen-based business. The hybrid model will offer customers the best elements of both trading environments—the speed and functionality of screen-based systems combined with the market depth, ability to execute complex strategies, and opportunity for price improvement found on the trading floor.

More than two dozen enhancements were built and effectively integrated into the evolving hybrid model during FY 2002. Two of the most important elements of the hybrid were rolled out over the past six months.

In May 2002, CBOE introduced “Dynamic Quotes with Size.” This new technology allows investors to see, in real time, the number of contracts that are available to be traded at a given price. The “dynamic size” feature is continually updated throughout the trading day, providing investors with an understanding of the liquidity available in every options series.

In July 2002, CBOE unveiled a second major component of the hybrid model—the Large Order Utility (LOU). LOU offers “point and click” convenience, instantaneous reports on any order up to the size displayed, and exposure to the trading floor’s centralized pool of liquidity for price improvement. This combination of instantaneous reporting with continued exposure to the market for possible price improvement is not available through any other options marketplace.

CBOE’s goal in developing the hybrid trading model is to offer customers convenience, liquidity and price improvement opportunity that is unparalleled in the options industry.

CBOEdirect
The cornerstone of the CBOE hybrid trading model is CBOEdirect, CBOE’s screen-based trading system, launched on October 26, 2001. A milestone technological achievement for the Exchange, CBOEdirect replicates CBOE’s trading floor on a screen. CBOEdirect currently supports the trading of some of CBOE’s most popular index products during extended trading hours (7 a.m.–8:15 a.m.).

CBOEdirect was developed as a hedge against screen-based competition. Although designed to be a stand-alone system, key components of CBOEdirect have been used as the foundation of the hybrid.
INCREASED ELECTRONIC COMPETITION HAD A PROFOUND EFFECT ON CBOE’S BUSINESS AS WELL AS ON THE BUSINESS OF OTHER FLOOR-BASED EXCHANGES.
NEW TRADING MODEL

CBOE’s goal in developing the hybrid trading model is to offer customers convenience, liquidity and price improvement opportunity that is unparalleled in the options industry.
CBOE has a long legacy of technological innovation. With the introduction of CBOEdirect, the Exchange has once again redefined the state of the art in trading technology. In January 2002, CBOEdirect was chosen as the trade engine for OneChicago, an all-electronic exchange trading single stock futures and futures on narrow-based indexes. Additionally, in September 2002, the Chicago Board of Trade (CBOT®) purchased a license to use CBOEdirect software to support and enhance its trading floor.

New Products

To meet the needs of a growing and diverse customer base, CBOE added a wide range of products in FY 2002. Most notably, options on DIAMONDS® (DIA) began trading at CBOE on May 20, 2002 and quickly became one of CBOE’s top five most actively traded index products. Volume in options on DIAMONDS continues to post impressive gains, averaging more than 33,000 contracts traded per day. DIAMONDS are shares in an exchange-traded fund designed to track the performance of the Dow Jones Industrial Average® (DJIA®).

Additional new products listed include:

• S&P 100® Index option that does not carry the possibility of early assignment.

• Shares of the Nasdaq-100 Index Tracking Stock™ (QQQ). This exchange-traded fund began trading at CBOE on August 1, 2001, following the successful introduction of QQQ options on February 27, 2001. The QQQ shares are among the most actively traded contracts in the world.

• Three new Morgan Stanley sector index options launched on October 22, 2001—Morgan Stanley Biotech Index (MVB), Morgan Stanley Oil Services Index (MGO), and Morgan Stanley Retail Index (MVR).

• Standard & Poor’s® Depository Receipts (SPDRs®) became available at CBOE on November 23, 2001. This exchange-traded fund (CBOE ticker symbol SPY) represents units of beneficial interest in a unit investment trust that holds the component stocks of the S&P 500® Index.

A critical development in new products was realized on May 14, 2001 with the formation of OneChicago. CBOE, the Chicago Mercantile Exchange Inc. and the Chicago Board of Trade formed this joint venture to trade single stock futures and futures on narrow-based indexes. CBOE members are members of OneChicago, which is expected to begin trading in the fourth quarter, 2002.
Index Options
The uncertainty and volatility that characterized much of the stock market in FY 2002 contributed to a sharp increase in index options trading at CBOE. Index options, which allow investors to make investment decisions based on market segments or on the market as a whole, offer an efficient means of portfolio protection. CBOE pioneered the listing of index options in 1983.

Exchange-traded funds (ETFs) are index-linked baskets of stocks that trade on an exchange at a market price close to the underlying value of the securities in its portfolio. ETFs can be traded like stocks, yet mimic many of the characteristics of indexes. As such, they are also used to manage risk. For calendar year 2002, total ETF volume through September was up 32% when compared to September 2001, due in part to strong volume in the QQQs and SPDRs.

In FY 2002, total index options volume increased in ten of the twelve months when compared to the previous year. For calendar year 2002, total index volume at CBOE was up 23% through September when compared to September 2001, including: options on the Dow Jones Industrial Average® (DJX), up 37%; S&P 100® Index options (OEX®), up 25%; S&P 500® Index options (SPX®), up 19%; and options on the Nasdaq-100 Index Tracking Stock® (QQQ), up 17%. In July 2002, new records were established for monthly volume in DJX (1,485,582 contracts traded), SPX (3,859,734 contracts traded) and QQQ options (2,450,147 contracts traded).

CBOE renewed its licensing agreement with Dow Jones & Company, Inc. to trade Options on the Dow® (DJX) and other Dow Jones Indexes. Exclusively traded at CBOE since 1997, DJX options are one of the Exchange’s most actively traded index products. CBOE now lists seven Dow Jones products.

CBOE initiated a number of efforts in FY 2002 to promote its index products, including marketing programs aimed at institutional investors, new micro-websites at www.cboe.com dedicated to index products, new *Index Workbench*™ software posted on the same website, and distribution of CD-ROM versions of the *Index Workbench* to more than 35,000 institutional investors.

Another significant achievement was the Exchange’s development of the CBOE BuyWrite Monthly Index™ (BXM). The BXM is a benchmark measure of the popular buy-write strategy. CBOE believes that the introduction of the BXM will lead to more long-term customer interest in, and use of, CBOE index options.
A CRITICAL DEVELOPMENT IN NEW PRODUCTS WAS REALIZED ON MAY 14, 2001 WITH THE FORMATION OF ONECHICAGO. CBOE, THE CHICAGO MERCANTILE EXCHANGE INC. AND THE CHICAGO BOARD OF TRADE FORMED THIS JOINT VENTURE TO TRADE SINGLE STOCK FUTURES AND FUTURES ON NARROW-BASED INDEXES.

NEW PRODUCTS
INDEXES

IN FY 2002, TOTAL INDEX OPTIONS VOLUME INCREASED IN TEN OF THE TWELVE MONTHS WHEN COMPARED TO THE PREVIOUS YEAR.
During this past year’s turbulent markets, the widely quoted CBOE Volatility Index® (VIX®) achieved even greater recognition as the benchmark measure of U.S. market volatility. The VIX was created and launched by CBOE in 1993 as a measure of the implied volatility of S&P 100® Index options.

Education
Throughout bull and bear markets, CBOE has remained steadfast in its commitment to educational outreach programs.

The Options Institute, the educational arm of the Exchange, holds classes to educate individual investors, institutional investors, brokers, traders, trading floor and firm employees, and financial advisors. In FY 2002, The Options Institute introduced “Trade Like the Pros” seminars, which are available to the public and provide a special “hands-on” opportunity to learn the basics of options trading.

The Options Institute also expanded its Online Learning Center at www.cboe.com with the addition of a new interactive learning section, titled “Advanced Strategies.” The Options Institute Online Learning Center offers a wide variety of options tutorials for both novice and sophisticated investors, all free of charge.

CBOE’s website, www.cboe.com, is internationally recognized as one of the most valuable one-stop sources of options research, data and education available. In July 2002, CBOE debuted two new micro-websites in Chinese and Spanish to accommodate the growing number of international investors who are incorporating options into their investment portfolios. For the third straight year, CBOE’s website received a “Best of the Web” award from Forbes Magazine.

In January 2002, CBOE, the Chicago Board of Trade and Chicago Mercantile Exchange Inc. hosted the 18th annual Risk Management Conference in St. Petersburg, Florida. The Risk Management Conference is the main conference event for the options and futures industries, and provides an educational forum where end users of derivatives discuss the strategies, tools and systems they use to manage risk and enhance yields.

Advocacy
CBOE remained the leading advocate for the options industry in Washington, D.C. during FY 2002. CBOE worked with the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission to ensure that the margin rules and tax treatment governing single stock futures were fair, so that competition with other derivative products, including options, takes place on a level playing field.
Additionally, CBOE played a significant part in passage of the Investor and Capital Markets Fee Relief Act. This legislation repealed the Section 31 fees applicable to options on most broad-based indexes. Index options compete directly with futures and futures options based on stock indexes, which were not subject to comparable transaction fees. With the passage of this legislation, most index options are now exempt from these fees.

In recognition of CBOE’s role in championing this legislation, CEO William Brodsky was invited to the White House for President Bush’s signing of the Investor and Capital Markets Fee Relief Act in January 2002.

**Governance**

CBOE members overwhelmingly approved a plan to alter the composition of the CBOE Board of Directors to increase the role of public directors in Exchange governance. The composition of the Board will be modified so that CBOE governance is equally balanced between 11 industry (member) directors and 11 non-industry (public) directors, plus the Chairman. As a result of this vote, CBOE was commended by the SEC for “initiatives [which] evidence the CBOE’s strong commitment to the integrity of our marketplace and the strength of the self-regulatory function.”

**Moving Forward**

As the Exchange moves forward, several significant developments will occur during FY 2003, providing valuable benefits to the Exchange, its membership and customers.

Most significantly, we look forward to the completion of the hybrid trading model early in 2003. The hybrid will merge the best features of screen- and floor-based trading to offer an ideal trading environment, unmatched in the options industry.

We would like to thank our dedicated members, particularly those on the Equity Floor Procedure Committee, who have worked tirelessly to guide the development of CBOE’s hybrid trading model. Additional thanks to members of the Strategic Planning Task Force for their important work in forging CBOE’s response to changes in the competitive landscape.

After current implementation plans are realized, the hybrid will continue to evolve. Its open-ended design will enable the Exchange to integrate new technologies and compete effectively in a dynamic marketplace. Both the original construction of CBOE direct, and the modifications made to it to support OneChicago, are demonstrations of CBOE’s ability to continually advance and adapt its trading technology to address competitive challenges.
EDUCATION

THROUGHOUT BULL AND BEAR MARKETS, CBOE HAS REMAINED STEADFAST IN ITS COMMITMENT TO EDUCATIONAL OUTREACH PROGRAMS.
The hybrid trading model will preserve floor-based advantages while enhancing CBOE’s ability to capture screen-based business.
The implementation of market linkage represents another major technological undertaking at CBOE. We anticipate the first phase, linkage of orders eligible for automatic execution, to be in place early in 2003, and the second phase, for all other orders, to be in place shortly thereafter. By providing electronic access between markets, linkage will allow CBOE to guarantee our customers the best bid or offer available, with less risk to our traders.

Single stock futures are expected to be launched in the fourth quarter, 2002. CBOEdirect will be the trade engine for these new major products, which will be traded at OneChicago.

Although this past year has been both difficult and demanding, the future holds tremendous promise for the options industry. The Exchange and its membership have never shied away from a challenge. Critical steps have been taken this year to expand our business and to increase member profitability. With the continued efforts of our dedicated members, Board of Directors, and staff, we move forward with enthusiasm and determination to remain the leading options exchange in the world.
CBOE FINANCIALS FY 2002

FINANCIAL SUMMARY

The Exchange experienced disappointing results for the fiscal year ended June 30, 2002. In contrast to the two prior years when record trading volume was achieved, CBOE volume in FY 2002 declined by 14% to 1.1 million contracts per day. In addition, market share continued to decline in the wake of increased competition.

CBOE recorded a net loss of $5.6 million in FY 2002 compared to net income of $7.1 million in FY 2001.

Total Exchange revenues declined by $9.0 million or 6%, mainly due to lower transaction fee revenue ($6.7 million) and less revenue from the Options Price Reporting Authority (OPRA) due to less market share and lower OPRA net income ($2.7 million).

Total expenses were $6.3 million higher than the prior year, mainly due to an increase in non-cash depreciation and amortization expense ($5.1 million) and severance costs related to staff downsizing ($4.3 million). Increased expenses were also experienced in trading floor related systems expenses ($2.2 million) and royalty fees related to increased index trading volume ($1.6 million).

Contributing to the unfavorable results in FY 2002 was CBOE’s share of OneChicago, LLC (ONE) operating losses ($1.5 million). CBOE contributed $4.4 million in capital to ONE in FY 2002.

The Exchange invested $21.9 million in other capital spending during FY 2002. Most of these expenditures were for systems hardware and software related to capacity increases, single stock futures and various trading floor technology enhancements.

During the year, $5.3 million was paid into an escrow account, representing the third and final installment payment of a September 2000 consolidated civil class action settlement. In FY 2001 and FY 2002, a total of $16.0 million was paid by CBOE into the escrow account for our share of the settlement. Note 6 to the consolidated financial statements summarizes the status of the settlement.

Retained earnings decreased to $103.7 million and total members’ equity at June 30, 2002 was $124.6 million. At year’s end, the Exchange was debt-free with working capital of $17.1 million.
### CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

**Chicago Board Options Exchange, Incorporated and Subsidiaries**  
**For the Years Ended June 30, 2002 and 2001 (in thousands)**

<table>
<thead>
<tr>
<th>Revenues:</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction fees</td>
<td>$89,436</td>
<td>$96,165</td>
</tr>
<tr>
<td>Other member fees</td>
<td>24,641</td>
<td>24,613</td>
</tr>
<tr>
<td>Options Price Reporting Authority income</td>
<td>18,884</td>
<td>21,539</td>
</tr>
<tr>
<td>Regulatory fees</td>
<td>11,231</td>
<td>10,835</td>
</tr>
<tr>
<td>Interest</td>
<td>459</td>
<td>1,348</td>
</tr>
<tr>
<td>Equity in income of CSE</td>
<td>141</td>
<td>717</td>
</tr>
<tr>
<td>Other</td>
<td>4,031</td>
<td>2,597</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>148,823</strong></td>
<td><strong>157,814</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses:</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee costs</td>
<td>63,920</td>
<td>67,255</td>
</tr>
<tr>
<td>Severance expense</td>
<td>4,499</td>
<td>157</td>
</tr>
<tr>
<td>Outside services</td>
<td>13,458</td>
<td>17,451</td>
</tr>
<tr>
<td>Facilities costs</td>
<td>4,351</td>
<td>3,993</td>
</tr>
<tr>
<td>Communications</td>
<td>727</td>
<td>879</td>
</tr>
<tr>
<td>Data processing</td>
<td>17,492</td>
<td>15,264</td>
</tr>
<tr>
<td>Travel and promotional expenses</td>
<td>5,428</td>
<td>6,452</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>29,709</td>
<td>24,634</td>
</tr>
<tr>
<td>Royalty fees</td>
<td>8,989</td>
<td>7,397</td>
</tr>
<tr>
<td>Equity in loss of OneChicago</td>
<td>1,483</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>2,195</td>
<td>2,421</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>152,251</strong></td>
<td><strong>145,903</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(Loss) Income Before Income Taxes</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>(3,102)</td>
<td>(2,943)</td>
</tr>
<tr>
<td>Deferred</td>
<td>5,294</td>
<td>7,718</td>
</tr>
<tr>
<td><strong>Total Provision for Income Taxes</strong></td>
<td><strong>2,192</strong></td>
<td><strong>4,775</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net (Loss) Income</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>(5,620)</td>
<td>7,136</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Retained Earnings at Beginning of Year</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>$109,290</td>
<td>102,154</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Retained Earnings at End of Year</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>$103,670</td>
<td>$109,290</td>
<td></td>
</tr>
</tbody>
</table>

### CONSOLIDATED BALANCE SHEETS

**Chicago Board Options Exchange, Incorporated and Subsidiaries**  
**June 30, 2002 and 2001 (in thousands)**

<table>
<thead>
<tr>
<th>Assets</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$6,861</td>
<td>$9,740</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>17,207</td>
<td>22,212</td>
</tr>
<tr>
<td>Income taxes receivable</td>
<td>4,361</td>
<td>3,313</td>
</tr>
<tr>
<td>Prepaid medical benefits</td>
<td>1,028</td>
<td>927</td>
</tr>
<tr>
<td>Other prepaid expenses</td>
<td>4,406</td>
<td>4,186</td>
</tr>
<tr>
<td>Other current assets</td>
<td>673</td>
<td>554</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>34,536</strong></td>
<td><strong>40,932</strong></td>
</tr>
</tbody>
</table>

| Investments in Affiliates                  | 13,861   | 10,849   |

| Land                                        | 4,914    | 4,914    |

| Property and Equipment:                    |          |          |
| Building                                   | 57,609   | 57,609   |
| Furniture and equipment                    | 170,152  | 159,012  |
| **Less accumulated depreciation and amortization** | (157,621) | (139,434) |

| **Total Property and Equipment—Net**       | **70,140** | **77,187** |

| Other Assets:                               |          |          |
| Goodwill (less accumulated amortization—2002, $3,888; 2001, $3,130) | 1,388    | 2,145    |
| Software development work in progress       | 6,455    | 26,220   |
| Data processing software and other assets (less accumulated amortization—2002, $32,113; 2001, $21,762) | 34,412   | 14,783   |

| **Total Other Assets—Net**                  | **42,255** | **43,148** |

| **Total**                                   | **$165,706** | **$177,030** |

See notes to consolidated financial statements.
CONSOLIDATED BALANCE SHEETS (CONTINUED)

June 30, 2002 and 2001 (in thousands) 2002 2001

Liabilities and Members' Equity

Current Liabilities:
Accounts payable and accrued expenses $14,436 $13,643
Marketing fee payable 1,079 9,174
Unearned income 1,250 104
Membership transfer deposits 657 0
Other deposits 0 416
Total Current Liabilities 17,422 23,337

Long-term Liabilities:
Long-term settlement obligations 0 5,333
Unearned income 250 0
Deferred income taxes 23,430 18,136
Total Long-term Liabilities 23,680 23,469

Total Liabilities 41,102 46,806

Members' Equity:
Memberships 20,934 20,934
Retained earnings 103,670 109,290
Total Members' Equity 124,604 130,224

Total $165,706 $177,030

CONSOLIDATED STATEMENTS OF CASH FLOWS

Chicago Board Options Exchange, Incorporated and Subsidiaries
For the Years Ended June 30, 2002 and 2001 (in thousands) 2002 2001

Cash Flows from Operating Activities:

Net (loss) income $ (5,620) $7,136
Adjustments to reconcile net (loss) income to net cash flows from operating activities:
Depreciation and amortization 29,709 24,634
Long-term settlement obligations (5,333) (5,333)
Deferred income taxes 5,294 7,718
Equity in income of CSE (141) (717)
Equity in loss of OneChicago 1,483 0
Gain on disposition of property (277) 0
Changes in assets and liabilities:
Accounts receivable 5,005 (4,761)
Income taxes (1,048) 15
Prepaid medical benefits (101) (910)
Other prepaid expenses (220) 728
Other current assets (119) (39)
Accounts payable and accrued expenses 793 (5,813)
Marketing fee payable (8,095) 9,173
Unearned income 1,396 0
Settlement payable 0 (5,333)
Membership transfer deposits 657 (1,466)
Other deposits (416) 37
Net Cash Flows from Operating Activities 22,967 25,069

Cash Flows from Investing Activities:
Capital and other assets expenditures (21,871) (37,663)
OneChicago investment (4,385) 0
Proceeds from disposition of property 413 0
Investments available-for-sale:
Proceeds from maturities 0 115,752
Purchases 0 (95,619)
Net Cash Flows from Investing Activities (25,846) (17,530)

Net (Decrease) Increase in Cash and Cash Equivalents (2,879) 7,539
Cash and Cash Equivalents at Beginning of Year 9,740 2,201
Cash and Cash Equivalents at End of Year $ 6,861 $9,740

Supplemental Disclosure of Cash Flow Information
Cash paid for income taxes $0 $3

See notes to consolidated financial statements.
1. Summary of Significant Accounting Policies

Nature of Business – The Chicago Board Options Exchange ("the Exchange") is a registered securities exchange, subject to oversight by the Securities and Exchange Commission. The Exchange's principal business is providing a marketplace for trading equity and index options.

Basis of Presentation – The consolidated financial statements include the accounts and results of operations of Chicago Board Options Exchange, Incorporated, and its wholly owned subsidiaries, Chicago Options Exchange Building Corporation and, beginning in 2002, Chicago Board Options Exchange, LLC. Inter-company balances and transactions are eliminated.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include highly liquid investments with maturities of three months or less from the date of purchase.

Investments – All investments are classified as available-for-sale and are reported at cost which approximates their fair value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

Accounts Receivable – Accounts receivable consist primarily of transaction, marketing and other fees receivable from The Options Clearing Corporation ("OCC"), and the Exchange's share of distributable revenue receivable from The Options Price Reporting Authority ("OPRA").

Investments in Affiliates – Investments in affiliates represent investments in OCC, OneChicago, LLC ("ONE") and The Cincinnati Stock Exchange ("CSE"). The investment in OCC (20% of its outstanding stock) is carried at cost because of the Exchange's inability to exercise significant influence. The Exchange accounts for the investment in CSE (68% of its total certificates of proprietary membership) under the equity method due to the lack of effective control over the operating and financing activities of CSE. During 2002 the Exchange made an investment in ONE (40.3% of its outstanding stock). This investment is accounted for under the equity method.

Property and Equipment – Property and equipment are carried at cost. Depreciation on building, furniture and equipment is provided on the straight-line method. Estimated useful lives are 40 years for the building and five to ten years for furniture and equipment. Leasehold improvements are amortized over the lesser of their estimated useful lives or the remaining term of the applicable leases.

Data Processing Software – Data processing software is carried at cost and amortized over five to seven years using the straight-line method commencing with the date the software is put in service.

Goodwill – Goodwill is amortized over seven years to forty years for financial statement presentation and over fifteen years for income tax purposes.

Impairment of Long-Lived Assets – Management reviews long-lived assets and the related intangible assets for impairment of value whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. If the Exchange determines it is unable to recover the carrying value of the assets, the assets will be written down using an appropriate method. Management does not believe current events or circumstances provide evidence that suggests asset values have been impaired.

Income Taxes – Income taxes are determined using the liability method, under which deferred tax assets and liabilities are recorded based on differences between the financial accounting and tax bases of assets and liabilities.

Other Deposits – Other deposits include amounts received from members for telephones in the Exchange facility and amounts for Exchange sponsored conferences.

Unearned Income – Unearned income represents amounts received by the Exchange for which the contracted services have not been provided.

Fair Value of Financial Instruments – SFAS No.107, "Disclosures About Fair Value of Financial Instruments," requires disclosure of the fair value of certain financial instruments. The carrying values of financial instruments included in assets and liabilities are reasonable estimates of their fair value.

Reclassifications – Certain prior year amounts have been reclassified to conform with the current year presentation.

Adoption of New Accounting Policies – In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities," which requires recognition of all derivative instruments in the balance sheet as either assets or liabilities and the measurement of those instruments at fair value. SFAS No.133 also requires changes in the fair value of the derivative instruments to be recorded each period in current year earnings or comprehensive income depending on the intended use of the derivatives. In June, 2000, the FASB issued SFAS No.138, which amends the accounting and reporting standards of SFAS No.133 for certain derivative instruments and certain hedging activities. SFAS No.138 was adopted by the Exchange effective July 1, 2001. No transition adjustment was required.

Recent Accounting Pronouncement – In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" which is effective for the Exchange July 1, 2002. Under SFAS No.142, goodwill and separately identified intangible assets with indefinite lives will no longer be amortized but reviewed annually (or more frequently if impairment indicators arise) for impairment. Separately identified intangible assets not deemed to have indefinite lives will continue to be amortized over their useful lives. The Exchange has deemed the impact of adopting SFAS No. 142 to be immaterial.

of a segment of a business. The Statement also amends Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144, which is effective for the Exchange July 1, 2002, requires that long-lived assets held for sale be recorded at the lower of carrying value or fair value less cost to sell. An impairment loss is recognized only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value of the asset. Long-lived assets to be disposed of other than by sale are considered held and used until disposed of. The Exchange has determined the impact of adopting SFAS 144 to be immaterial.

2. Investment in the Cincinnati Stock Exchange
The investment in CSE is accounted for using the equity method. Condensed financial statements of the CSE as of and for the years ended June 30, 2002 and 2001 are as follows (in thousands):

<table>
<thead>
<tr>
<th>Balance Sheets</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$4,955</td>
<td>$434</td>
</tr>
<tr>
<td>Securities available-for-sale</td>
<td>2,090</td>
<td>2,569</td>
</tr>
<tr>
<td>Other current assets</td>
<td>9,007</td>
<td>2,624</td>
</tr>
<tr>
<td>Long-term securities available-for-sale</td>
<td>8,540</td>
<td>10,223</td>
</tr>
<tr>
<td>Other long-term assets</td>
<td>5,661</td>
<td>3,167</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>30,253</strong></td>
<td><strong>19,017</strong></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>14,543</td>
<td>4,276</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>1,252</td>
<td>558</td>
</tr>
<tr>
<td>Members’ equity</td>
<td>14,458</td>
<td>14,183</td>
</tr>
<tr>
<td><strong>Total liabilities and members’ equity</strong></td>
<td><strong>30,253</strong></td>
<td><strong>19,017</strong></td>
</tr>
</tbody>
</table>

| The Exchange’s share of members’ equity | $10,308 | $10,200 |

<table>
<thead>
<tr>
<th>Statement of Operations</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction revenue</td>
<td>$2,971</td>
<td>$4,078</td>
</tr>
<tr>
<td>Other revenue</td>
<td>5,011</td>
<td>4,925</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>7,982</strong></td>
<td><strong>9,003</strong></td>
</tr>
<tr>
<td>Employee costs</td>
<td>2,622</td>
<td>2,955</td>
</tr>
<tr>
<td>Other expenses</td>
<td>5,152</td>
<td>4,991</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>7,774</strong></td>
<td><strong>7,946</strong></td>
</tr>
<tr>
<td>Net income</td>
<td>208</td>
<td>1,057</td>
</tr>
</tbody>
</table>

| The Exchange’s equity in net income | $141 | $717 |

3. Related Parties
The Exchange’s equity in the net assets of OCC exceeded its cost by approximately $8.6 million and $10.0 million at June 30, 2002 and 2001, respectively. The Exchange collected transaction and other fees of $123.4 million and $202.4 million for the years ended June 30, 2002 and 2001, respectively, by drawing on accounts of the Exchange’s members held at OCC. For the years ended June 30, 2002 and 2001, respectively, the amount collected includes $19.3 million and $80.1 million of marketing fees (see note 8). The Exchange had a receivable due from OCC of $11.1 million and $15.8 million at June 30, 2002 and 2001, respectively.

The Exchange incurred reimbursable expenses on behalf of CSE, for expenses such as employee costs, computer equipment and office space of $2.6 million and $2.3 million for the years ended June 30, 2002 and 2001, respectively. The Exchange had a receivable from CSE of $485 thousand and $462 thousand at June 30, 2002 and 2001, respectively.

OPRA is a committee administered jointly by the five options exchanges and is authorized by the Securities and Exchange Commission to provide consolidated options information. This information is provided by the exchanges and is sold to outside news services and customers. OPRA’s operating income is distributed among the exchanges based on their relative volume of total transactions. Operating income distributed to the Exchange was $18.9 million and $21.5 million for the years ended June 30, 2002 and 2001, respectively. The Exchange had a receivable from OPRA of $4.5 million and $5.6 million at June 30, 2002 and 2001, respectively.

The Exchange, the Chicago Mercantile Exchange and the Chicago Board of Trade are partners in ONE, a joint venture created to trade single stock futures. Certain ONE employees also have minority interests in the joint venture. ONE is a for-profit entity with its own management and board of directors, and is separately organized as a regulated exchange. As of June 30, 2002, the Exchange has contributed $4.4 million in capital to ONE. The Exchange had a receivable due from ONE of $391 thousand at June 30, 2002.

4. Leases
The Exchange leases office space with lease terms of six months and five years. Rent expenses related to leases during FY 2002 and FY 2001 were $1.8 million and $2.0 million, respectively. Future minimum lease payments under these noncancelable operating leases are as follows at June 30, 2002 (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Rent Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$661</td>
</tr>
<tr>
<td>2004</td>
<td>652</td>
</tr>
<tr>
<td>2005</td>
<td>669</td>
</tr>
<tr>
<td>2006</td>
<td>627</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,609</strong></td>
</tr>
</tbody>
</table>
5. Employee Benefits

Eligible employees participate in the Chicago Board Options Exchange SMART Plan (the “SMART Plan”). The SMART Plan is a defined contribution plan, which is qualified under Internal Revenue Code Section 401(k). The Exchange contributed $3.4 million and $3.2 million to the SMART Plan for the years ended June 30, 2002 and 2001, respectively.

Eligible employees participate in the Supplemental Employee Retirement Plan (the “SERP Plan”). The SERP Plan is a defined contribution plan that is nonqualified by Internal Revenue Code regulations. The Exchange contributed $579 thousand and $1.1 million to the SERP Plan for the years ended June 30, 2002 and 2001, respectively.

The Exchange also has a Voluntary Employees’ Beneficiary Association (“VEBA”). The VEBA is a trust, qualifying under Internal Revenue Code Section 501(c)(9), created to provide certain medical, dental, severance, and short-term disability benefits to employees of the Exchange. Contributions to the trust are based on reserve levels established by Section 419(a) of the Internal Revenue Code. During fiscal 2002 and 2001, the Exchange contributed $1.8 million and $1.7 million, respectively, to the trust.

6. Commitments

The Exchange reached a settlement in September 2000 with the Securities and Exchange Commission and the Antitrust Division of the Department of Justice concerning their investigations into the past listing of certain options and other SEC regulatory issues. The Exchange was not fined, but as part of these settlements, agreed to expend an amount on options-related surveillance, regulation and enforcement that equals or exceeds $170 million in each of calendar years 2000 and 2001. The Exchange has satisfied this obligation.

In September 2000, the Exchange reached an agreement in principle to settle a consolidated civil class action lawsuit filed against the Exchange and the other U.S. options exchanges and certain market maker firms. The Exchange agreed to pay $16.0 million in three equal installments on or before October 16, 2000, July 1, 2001, and July 1, 2002. All payments have been made, and are being held in escrow pending approval of the settlement agreement by the U.S. District Court for the Southern District of New York. Approval of the settlement agreement is currently pending appellate review of the district court’s February 2001 order granting summary judgment in favor of the defendants.

7. Income Taxes

A reconciliation of the statutory federal income tax rate to the effective income tax rate, for the years ended June 30, 2002 and 2001, is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory federal income tax rate</td>
<td>34.0%</td>
<td>35.0%</td>
</tr>
<tr>
<td>State income tax rate, net of federal income tax effect</td>
<td>4.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Equity in income of CSE</td>
<td>(98.0)</td>
<td>(22)</td>
</tr>
<tr>
<td>Meals and entertainment</td>
<td>(4.4)</td>
<td>1.4</td>
</tr>
<tr>
<td>Political contributions</td>
<td>(1.4)</td>
<td>0.4</td>
</tr>
<tr>
<td>Lobby expenses</td>
<td>(5.4)</td>
<td>1.7</td>
</tr>
<tr>
<td>Other, net</td>
<td>6.6</td>
<td>(1.0)</td>
</tr>
<tr>
<td><strong>Effective income tax rate</strong></td>
<td><strong>(63.9%)</strong></td>
<td><strong>40.0%</strong></td>
</tr>
</tbody>
</table>

At June 30, 2002 and 2001, the net deferred income tax liability approximated (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets</td>
<td>9,261</td>
<td>8,887</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>32,691</td>
<td>27,023</td>
</tr>
<tr>
<td><strong>Net deferred income tax liability</strong></td>
<td><strong>$ 23,430</strong></td>
<td><strong>$ 18,136</strong></td>
</tr>
</tbody>
</table>

Deferred income taxes arise principally from temporary differences relating to the use of accelerated depreciation methods for income tax purposes, capitalization of software, licensing fees, funding of the VEBA trust, and beginning in 2002, undistributed earnings from the Exchange’s investment in CSE.

Through 2001, consistent with the requirements of FASB Statement No.109, CBOE has measured the difference between the book and tax basis of its investment in CSE using a deferred tax liability rate of zero. This rate was reflective of the expected tax-free means of recovering the investment in CSE through the ultimate purchase of the shares necessary to effectuate a statutory merger.

Due to continued interest by several outside parties in the potential purchase of the Exchange’s investment in CSE and CBOE’s refined strategy of possibly selling the CSE investment, management now believes that CBOE’s expected realization of its investment in CSE will most likely be through the sale of its investment in CSE, which will trigger a capital gain at CBOE’s normal tax rate. Therefore, beginning in 2002, CBOE has modified the deferred tax liability rate to match the changed disposition strategy.

8. Marketing Fee

On July 1, 2000 the Exchange imposed a $.40 per contract marketing fee on market makers and DPMs when executing transactions with non-Exchange market makers. This fee was suspended effective August 1, 2001, however the Exchange still facilitates the collection of payment for order flow funds from DPMs and distributes order flow funds to order provider firms, as directed by the DPMs each month. As of June 30, 2002 and 2001 amounts held by CBOE on behalf of others included accounts receivable balances of $1.1 million and $5.6 million, respectively and a cash balance of $15 million as of June 30, 2001.
9. Litigation
In May 2001, in an action entitled Cathedral Trading, L.L.C. et al v. CBOE et al, the Exchange was sued by six individuals and two corporations, who described themselves as retail customers, claiming that the Exchange made false representations about the operation of various Exchange systems and engaged in fraudulent practices in connection with plaintiffs' options transactions. The complaint also alleged that they were harmed by a regulatory inquiry that the Exchange initiated. Plaintiffs alleged that the Exchange thereby violated certain sections of the Securities Exchange Act of 1934, the Securities Act of 1933, the antitrust laws and various Illinois statutes concerning fraudulent practices and that the Exchange defrauded them, breached contractual obligations, defamed plaintiffs and interfered with their contractual relations. The complaint sought damages in the amount of $100.0 million, plus treble damages for the alleged antitrust violations, attorneys' fees, costs, and interest. On April 30, 2002, the court granted defendants' motion to dismiss the complaint and entered judgment in favor of the Exchange. Plaintiffs did not appeal from that decision.

On September 27, 2001, in an action entitled Kundrat et al. v. CBOE et al, the Exchange was sued by four individuals, who described themselves as retail customers, claiming that the Exchange refused to execute plaintiffs' options transactions at the disseminated quote, improperly faded quotes, failed to send timely trade and cancellation confirmations and improperly busted trades. Plaintiffs' amended complaint claims that the Exchange's alleged actions violated the Securities Exchange Act of 1934, the antitrust laws, and breached contracts that the Exchange supposedly had with plaintiffs. Plaintiffs also allege that they were harmed by an Exchange regulatory inquiry and that the inquiry interfered with other purported contractual relations. The amended complaint seeks damages in excess of $75 thousand, plus treble damages in connection with the antitrust claims, interest, attorneys' fees and costs. The Exchange's motion to dismiss has been fully briefed and is pending before the Court.

The Exchange believes that it has meritorious defenses and intends to vigorously defend itself in the Kundrat action. However, the Exchange cannot presently estimate the amount of loss, if any, that may result. The ultimate outcome of this litigation cannot presently be determined and no allowance for loss has been made in these financial statements.

10. Subsequent Events
Effective July 1, 2002 the Exchange entered into an unsecured revolving credit agreement providing for borrowings up to $10.0 million. Borrowings under the agreement bear interest based on LIBOR or prime interest rates. The agreement, which will expire on June 30, 2003, is intended to meet short-term working capital requirements if the need were to occur. The agreement requires the Exchange to maintain certain net worth and financial ratios.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of the Chicago Board Options Exchange, Incorporated:

We have audited the accompanying consolidated balance sheets of the Chicago Board Options Exchange, Incorporated and subsidiaries (the "Exchange") as of June 30, 2002 and 2001, and the related consolidated statements of income and retained earnings and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Exchange's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of The Cincinnati Stock Exchange ("CSE") for the years ended June 30, 2002 and 2001, the Exchange's investment in which is accounted for by use of the equity method. The Exchange's equity of $10.3 million and $10.2 million in the CSE's net assets at June 30, 2002 and 2001, respectively and of $141 thousand and $717 thousand in that Exchange's net income for the respective years then ended are included in the accompanying financial statements. The financial statements of CSE were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CSE, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of the Exchange and its subsidiaries at June 30, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

August 21, 2002
BOARD OF DIRECTORS

William J. Brodsky
Chairman of the Board and Chief Executive Officer

Mark F. Duffy
Vice Chairman and Chairman of the Executive Committee

Robert J. Birnbaum
Former President
New York Stock Exchange
American Stock Exchange
Public Director

Thomas A. Bond
Independent Market Maker

David Johnson
Managing Director
Morgan Stanley

Silas Keehn
President (Retired)
Federal Reserve Bank of Chicago
Public Director

Leon T. Kendall
Professor of Finance and Real Estate
The Kellogg School of Management
Northwestern University
Public Director

Daniel P. Koutris
Vice President
Knight Financial Products

Duane R. Kullberg
Former Chief Executive Officer 1980-1989
Andersen Worldwide
Public Director

Richard F. Lynch
Senior Vice President
Equity Trading
Prudential Securities

James P. MacGillivray
Executive Vice President
UBS PaineWebber

R. Eden Martin
Partner
Sidley Austin
Brown & Wood
Public Director

Anthony D. McCormick
Vice President
Schwab Capital Markets

Craig C. Messinger
Executive Vice President
Fidelity Capital Markets

Roderick Palmore
Senior Vice President
Sara Lee Corporation
Public Director

Thomas H. Patrick, Jr.
Managing Director
Equity Linked Trading for the Americas
Merrill Lynch & Co., Inc.

Thomas A. Petrone
Managing Director
Global Equity Derivatives
Salomon Smith Barney

Susan M. Phillips
Former Governor
Federal Reserve Board
Dean
School of Business and Public Management
The George Washington University
Public Director

Roberta J. Birnbaum
Executive Committee
Chairman of the Executive Committee
Vice Chairman and Executive Officer

Mark F. Duffy,
Committee Chairman

William J. Brodsky

STANDING COMMITTEES OF THE BOARD

Audit Committee
Duane R. Kullberg, Chairman
Daniel P. Koutris
Roderick Palmore

Compensation Committee
Mark F. Duffy, Chairman
William J. Brodsky

Executive Committee
Mark F. Duffy, Chairman
William J. Brodsky

COMMITTEES OF THE MEMBERSHIP

Allocation/Special Product Assignment Committee
Licia J. Leslie, Chairman
David C. Adent
Terrence J. Andrews
Michael R. Benson
James D. Coughlan
Joseph A. Frehr
Stuart J. Kepnes
Gerald T. McNulty
John B. Niemann
William J. O’Keefe
Benjamin E. Parker
Steven N. Tumen

Appeals Committee
Patrick J. McDermott, Chairman
Orlando Alfonso
Matthew Arndt
Brett T. Benson

Timothy Benton
Frank Brodlo
Andrew H. Carolan
Michael T. Considine
Greg DeFalco
Bruce D. DiDominicis
David A. Filippini
James P. Fitzgibbons
Jonathan G. Flatow
Michael D. Friedman
James Gavis
Timothy P. Gill
Thomas A. Hamilton, Jr.
Mark A. Harmon
Michael P. Held
Andrew Hodgman
Paul J. Jiganti
B. Michael Kelly
Richard Kevin
John A. Lalowski
Kelly Luthringhausen
Daniel R. McCarthy
Patrick J. Naughton
John T. Nemeth
John B. Niemann
Renée P. O’Bryan
Daniel M. O’Donnell
Terrence M. O’Donnell
Daniel O’Grady
Daniel J. O’Shea
Peter Osborne
Douglas W. Prskalo
Gregg A. Prskalo
Sandra C. Rabin
W. Scott Schwanke
Neal Shamis
James David Short
Antanas Siurna
Svebor Smolic
James D. Sullivan
William Ullivieri
Wayne A. Weiss
Dennis M. Wetzel
Francis Wondracek

Arbitration Committee
Daniel A. Baldwin, Chairman
Thomas R. Beehler
Robert I. Chukerman
Richard M. Coplan
Michael D. Coyle
Christopher P. Cribari
David Doreff
Stephen F. Donahue
Douglas H. Edelman
Brian H. Egert
David A. Eglet
Jennifer Abrams Fisher
James P. Fitzgibbons
Jonathan G. Flatow
Theodicor Flemister
Mark R. Fluger
Ann Grady
Peter C. Guth
Thomas A. Hamilton
Michael P. Held
William G. Hohenadel
Paul J. Jiganti

Mark E. Kalam
Joseph G. Kinahan
John A. Koltes
John A. LaRusso
Michael Lyons
Patrick J. McDermott
Brock R. McNerney
Nina V. Mihalec
Joseph D. Mueller
Scott O’Connell
Charles W. Pahl
Donald F. Prati
Steven M. Quirk
Sonora C. Rabin
Peter V. Rogus
Scott E. Schram
William Shimaneck
Fred Teichert
John H. Waterfield
Patrick W. Wehr
Dennis M. Wetzel
James U. Wietes
Corey D. Zimmerman

Michael J. Post
President
Seats Exchange, Inc.

Robert A. Rosohl
Chief Financial and Investment Officer
Nationwide Mutual Insurance Company
Public Director

John E. Smollen
Managing Director
SLK/Hull Derivatives, LLC

John M. Streibich
Designated Primary Market Maker
Susquehanna Investment Group

Alvin G. Wilkinson
Market Maker
Wilkinson Management, LLC
COMMITTEE OF THE MEMBERSHIP (CONTINUED)

Business Conduct Committee
John F. Burnside, Chairman
David T. DeArment, Vice Chairman
Patrick J. Caffrey
Raymond P. Dempsey
Robert C. Enrico
Richard J. Fremgen
Maureen C. Guiffole
Peter C. Guth
Allen B. Holeman
Gary P. Lahey
Steven A. O'Malley
Joseph F. Saccetti
Margaret E. Wiermanski
J. Slade Winchester

CBOE/CBOT Joint Advisory Committee
John E. Callahan, Chairman
David Johnson
William J. Terman
Ex-Officio
Thomas Corbett
Norman Friedman
Ross G. Kaminsky
Brian A. Novak
Paul L. Richards
Gregg Rzepczynski
Robert C. Sheehan
James Sylkas
Jesse L. Stamer

Clearing Procedure Committee
Michael J. Ryan, Chairman
John E. O'Donnell, Vice Chairman
Mark A. Baumgardner
Gordon Baytala
John R. Beres
Mitchell R. Bialek
Patrick K. Blackburn
Louis G. Buttny
William F. Cari
Arthur Goldblum
John Athat, Sr.
John J. Kaminsky
Mathew Liszka
Anthony Monaco
Ralph Mueller
Maureen Pacocha
Frank Prins
Susan Shimmel
Thomas C. Smith
Michael E. Trees

Election Committee
Joan P. Mofic-Silver, Chairman
Nancy Nielsen
Raedelle Pancake

Equity Floor Procedure Committee
Edward T. Tilley, Chairman
Terrance G. Boyle
Anthony J. Carone
Daniel P. Carver
James D. Coughlan
Stephen M. Dillingern
Mark A. Esposito
Patrick S. Hamilton
Kevin J. Hincks
Paul J. Jiganti
Ross G. Kaminsky
Stuart J. Kipnes
Benjamin M. Klein
Licia J. Leslie
David F. Miller, Jr.
Kenneth D. Mueller
Ex-Officio
John E. Smollen, Jr.

Equity Market Development and Market Performance Committee
John M. Streibich, Chairman
Terrance J. Andrews
Susan C. Bannom
Michael R. Benson
Richard H. Bode
Edward G. Boyle
Terrance E. Cullen
Michael A. Dalesandro
Richard W. Fuller, Jr.
James Gaiser
Monte J. Henige
B. Michael Kelly
Jack Kennedy
Donald H. Klein, Jr.
John B. Niemann
John P. O'Grady
Joel A. Tenner
John H. Waterfield, III
Thomas G. Weston

Exemption Committee
Peter M. Najarjan, Vice Chairman
Jeffrey A. Cesaroni,
Vice Chairman
Patrick J. Caffrey
John W. Fickle
Corey L. Fisher
Daniel P. McCollor
Michael N. Suarez

Financial Planning Committee
Daniel P. Koutris, Chairman
Alan J. Dean
Stephen P. Donahue
Douglas H. Edelman
William J. Ellington
Corey L. Fisher
Fred O. Goldman
Jeffrey T. Kaufmann
Kevin J. Keller
Timothy G. Keller
John P. Robinson
Frank A. Roszkiewicz
Robert Silverstein
Timothy M. Sommerfield

Financial Regulatory Committee
Richard E. Schell, Chairman
Margaret E. Wiermanski,
Vice Chairman
Matthew Abraham
William F. Cari
Frank Catris
David T. DeArment
Mark Gannon
Fred O. Goldman
John Y. Hiatt, Sr.
Judith M. Kula
Steven O'Malley
Janice Rohr
Ex-Officio
Linda Haven
Andrew Naughton
Jacqueline Sloan

Floor Directors Committee
William J. Brodsky, Chairman
Thomas A. Bond
Mark F. Duffy
David Johnson
Daniel P. Koutris
Michael J. Post
John E. Smollen
John M. Streibich
Alvin G. Wilkinson

Floor Officials Committee
Raymond P. Dempsey, Chairman
Daniel C. Zandi,
Vice Chairman
Daniel A. Baldwin
Darryl A. Behm

Lessor Advisory Committee
Mark F. Duffy, Chairman

Index Floor Procedure Committee
Richard E. Tobin, Chairman
Jonathan G. Flatow,
Vice Chairman
Terrence J. Brown
Jeff Burianek
Terrence E. Burke
Richard Cichy
Michael F. Gallagher
Sean W. Haggerty
Kevin J. Kearns
Emmanuel L. Lontakas
John P. Mariner
Michael P. McGuire
Michael Mercucci
Robert C. O'Mullan
Michael R. Quaid
Keith G. Siemiaswki
Paul C. Stefanos
James D. Sullivan
Scott F. Timervia

Index Market Development and Market Performance Committee
Jonathan G. Flatow,
Chairman
Jeffrey S. Latham,
Vice Chairman
Dennis A. Carta
David A. Filipini
Matthew J. Filipovich
Francis P. Gleason
Jonathan M. Grodnick
I. Patrick Kernan
Jeffrey L. Klein
Todd A. Koster
Joseph A. Marenco
Christopher Nevins
Joshua G. Ortego
Daniel J. O'Shea
Douglas W. Paskalo
Steven M. Quirk
Joseph F. Saccetti
Peter H. Schulte

Lessor Advisory Committee
Mark F. Duffy, Chairman

Member Firm Operations Committee
Gerald T. McNulty, Chairman
John Berk, III
Jeffrey J. Bughman
Daniel P. Carver
Steven M. Chiolo
David Creagan
Raymond P. Dempsey
Robert E. Duddy
William J. Ellington
Joseph A. Frehr
Francis P. Gleason
Jeffrey S. Kantor
Jeffrey T. Kaufmann
Stuart Kipnes
Donald Klein
Jeffrey S. Latham
James C. Lavery
Nicholas L. Marovich
Bruce A. Martin
Patrick J. McDermott
David F. Miller
Mark T. Morse
John E. O'Donnell
Mark Oakley
Donald F. Prat
Michael Stowick
Michael Trees
J. Todd Weingart

Membership Committee
Robert B. Gianone, Chairman
Richard W. Fuller,
Vice Chairman
Anthony P. Arciero
Keir S. Collins
Matthew J. Filipovich
Ian R. Galleher
David C. Ho
Charles F. Imburgia
Kenneth M. Kennedy
Jeffrey H. Melgard
Lloyd William Montgomery
Andrew B. Newmark
Philip G. Oakley
Steven Padley
Gregg A. Paskalo

Bill Power,
Vice Chairman
Lawrence J. Blum
Peter C. Guth
Paul J. Jiganti
Ruth L. Kahn
Paul Liang
Raymond G. Meyer
Michael M. Mondrus
Robert Murtagh
Mark P. O'Connell
Michael J. Post
William S. Persky
Irwin Segal
Robert Silverstein
COMMITTEES OF THE MEMBERSHIP (CONTINUED)

James P. Rouzan  
Mary Rita Ryder  
Gregg Rzeczynski  
Stuart D. Saltzberg  
Thomas C. Smith, III  
Robert J. Wasserman

Modified Trading System (MTS) Appointments Committee  
William J. O'Keefe, Chairman  
Anthony P. Anciero  
Daniel P. Carver, St.  
Randy N. Chandra  
Mark F. Duffy  
Michael B. Frazier  
Joseph A. Frehr  
Kevin J. Keller  
Gerald T. McNulty  
James Meade  
John M. Streibich

New Product Development Committee  
Boris Furman, Chairman  
Martin O'Connell, Vice Chairman  
James Anstrand  
Richard Clarke  
Michael Gallagher  
Jason Knupp  
Brian Novak  
Dominic Salvino  
Matthew Shapiro  
Robert Sheehan  
Nominating Committee  
William C. McGowan, Chairman  
Bruce I. Andrews  
James J. Boyle  
Steven M. Chilow  
Jonathan G. Flatow  
Paul J. Jiganti  
Jeffrey J. Kirsch  
Newton N. Minow  
John R. Power  
Richard L. Thomas  
Screen-Based Trading Committee  
Paul J. Jiganti, Chairman  
John Favia, Vice Chairman  
Christine Bookmyer  
James J. Boyle  
Terrance G. Boyle  
Anthony J. Carone  
John L. Cowden  
J. David Fikejs  
James Gray  
Joseph G. Kinahan  
John Knuth  
Thomas M. O'Donnell  
Joseph Sellitto  
Antanas Siurina  
Phillip E. Teuscher  
SPX Floor Procedure Committee  
Richard T. Manneris, Chairman  
Jeffrey J. Kupets, Vice Chairman  
Salvatore J. Aiello  
Colin J. Barth  
Eoin T. Callery  
S. Mark Cavanagh  
Michael P. Cozzie  
Timothy P. Feeney  
Michael J. Hayes  
Thomas H. Jarck  
I. Patrick Kernan  
John J. Massarelli  
Michael M. Mayor  
Mark T. Morse  
Christopher Nevins  
Daniel J. Quinn  
David A. Scatena  
Timothy G. Weinand

Systems Committee  
John E. Smollen, Chairman  
Brian T. Bait  
Daniel Condon  
Thomas J. Corbett, Jr.  
Greg J. DeFalco  
Stephan M. Dillingham  
Samuel L. Eadie, Jr.  
George P. Hanley  
John T. Hayden  
John J. Kaminsky  
Mark J. Karrasch  
Jeffrey S. Latham  
David F. Miller, Jr.  
Kenneth D. Mueller  
Thomas J. Neil  
John E. O'Donnell  
William L. Patterson  
Steven J. Pettinato  
Johnston T. Thomas  
Ex-Officio  
Daniel P. Koutris  
Edward T. Tilly

SPECIAL COMMITTEES

Public Directors Governance Committee  
Robert J. Birnbaum, Chairman  
Duane R. Kullberg  
R. Eden Martin  
Susan M. Phillips  
Regulatory Oversight Committee  
Robert J. Birnbaum, Chairman  
Duane R. Kullberg  
R. Eden Martin  
Susan M. Phillips  
Governance Task Force  
Duane R. Kullberg, Chairman  
Robert J. Birnbaum  
Thomas A. Bond  
Michael J. Post  
Alvin G. Wilkinson

Task Forces

Strategy Implementation Task Force  
Edward J. Joyce, Chairman  
Thomas A. Bond  
Terrance G. Boyle  
William J. Brodsky

ADVISORY COMMITTEES

Compliance Advisory Panel  
Kevin Ahearn  
David A. DeMuro  
Robert C. Enrico  
Allen Hohman  
James Kehoe  
Anthony J. Leitner  
Mark Manning  
Michael Moran  
Michelle Morgan  
Lou Moschetta  
Robert Paleschi  
Luigi Ricciardi  
Gary Stegeland  
Mark Straubel  
Brian Underwood

Institutional Traders Group  
Alan Augarten  
John Brett  
Alvaro Desombre  
Jerry Donini  
Ralph Edwards  
Joseph Gahtan  
Kenneth MacKenzie  
Arthur Mbanefo  
Val Mihan  
Larry Motola  
Mark Neuberger  
Van Nguyen  
Brett Overacker  
Ralph Reynolds

Regional Firm Advisory Committee  
Vince Bonato  
Louis DePaul  
Dino Galeazzi  
Dalton Givens  
Mary Hanan  
Sharon Jensen  
James Knight  
Jon Matthai  
Stephen Mitchell  
Denny Moorman  
Ann Mueller  
Henry Nothnagel  
Nancy Penwell  
Wendy Rea  
John Sagness  
William Sanford  
James Schmitz  
Terri Strickland-Smith  
Carol Zenk

Retail Advisory Committee  
Angelo Benedetto  
Peter Biebel  
Pat Blackburn  
Matthew Gelber  
Rich Gueren  
Laura Holder  
Edward Lynn  
Craig Mihoulides  
Gregory Miller  
Philip Polera  
William Ryan  
Michael Schwartz  
Thomas Stotts  
Timothy Strazzini  
Stewart Winner

Managing Directors Advisory Committee  
John Andersen  
Joseph Bile  
Joseph Dattolo  
Lawrence Hanson  
David Johnson  
Ronald Kessler  
James MacGillivray, Jr.  
Douglas Matthews  
Anthony McCormick  
Kurt Muller  
Kevin Murphy  
Mike Perry  
Chris Sandel  
Simon Terner  
Joseph Valenza

23
EXECUTIVE OFFICERS AND STAFF OFFICIALS

Executive
William J. Brodsky
Chairman and Chief Executive Officer

Mark F. Duffy
Vice Chairman and Chairman of the Executive Committee

Edward J. Joyce
President and Chief Operating Officer

Business Development
Edward L. Provost
Executive Vice President

Thomas A. Brady
Vice President
Member Trading Services

Daniel R. Hustad
Vice President
Market Quality and Assurance

Matthew T. Moran
Vice President
Institutional Marketing

Debra L. Peters
Vice President
The Options Institute

William J. White, Jr.
Vice President
Member Trading Services

Civic and Governmental Affairs
Amy Zisook
Vice President

Corporate Communications
Carol E. Kennedy
Vice President

Corporate Planning and Research
Richard G. DuFour
Executive Vice President

Joseph Levin
Vice President
Research and Product Development

Finance and Administration
Alan J. Dean
Senior Vice President and Chief Financial Officer

Donald R. Patton
Controller and Vice President
Accounting

James P. Roche
Vice President
Market Data Services

Deborah Woods
Vice President
Human Resources

Legal
Joanne Moffic-Silver
General Counsel and Corporate Secretary

Arthur B. Reinstein
Deputy General Counsel

J. Patrick Sexton
Assistant General Counsel

Regulatory Services
Douglas Beck
Vice President
Market Monitoring

Lawrence J. Bresnahan
Vice President
Financial and Sales Practice Compliance

Richard Lewandowski
Vice President
Regulatory Services

Margaret Williams
Vice President
Market Regulation

Gerald T. O’Connell
Executive Vice President and Chief Information Officer

James J. Neced
Vice President
Systems Development

Mark S. Novak
Vice President
Systems Development

Larry L. Pfaffenbach
Vice President
Systems Planning

Roberta J. Piwnicki
Vice President
Systems Development

Gautam Roy
Vice President
Software

Curt Schumacher
Vice President
Systems Operations

Trading Operations
Philip M. Slocum
Senior Vice President

Gail Flagler
Vice President
Reporting Services

John T. Johnston
Vice President
Execution and Reporting Services

Thomas P. Knorning
Vice President
Trade Processing

Anthony Montesano
Vice President
Trading Operations

Michael Todorofsky
Vice President
Market Operations

Timothy T. Watkins
Vice President
Trading Systems Development

CLEARING MEMBER FIRMS

A.A Sage Corporation
A.G. Edwards & Sons, Inc.
ABN AMRO, Inc.
ABN AMRO SAGE Corporation
Advest, Inc.
Banc One Capital Markets, Inc.
Bank of America Securities, LLC
Bear Stearns Securities Corp.
BNP Securities (U.S.A.), Inc.
BNY Clearing Services, LLC
BNY ESI & Co. Inc.
Botta Capital Management, LLC
Carr Futures, Inc.
Charles Schwab & Co., Inc.
CIBC Oppenheimer Corp.
Credit Suisse First Boston Corporation
Deutsche Bank Alex Brown, Inc.
Donaldson Lufkin & Jenrette Securities Corporation/Pershing Division
E.D. & F. Man International, Inc.
E.D. & F. Man International, Inc./Retail Customer
Ernst & Co. (Corporation)
Fahnestock & Co., Inc.
FIMAT, USA, Inc.
First Options of Chicago, Inc.
Goldman, Sachs & Co.
Herzog, Heine, Geduld, Inc.
ING TT&S (U.S.) Securities, Inc.
ING Barings Corp.
Instinet Clearing Services Inc.
Interactive Brokers, LLC
J.J.B. Hilliard, W.L., Lyons, Inc.
J.P. Morgan Securities, Inc.
K.A., Division of First Options of Chicago, Inc.
Knight Execution Partners, LLC
KV. Execution Services, LLC
La Branche Financial Services, Inc.
Ladenburg, Thalmann & Co., Inc.
Lakeshore Securities, L.P.
Lehman Brothers, Inc.
LIT, Division of First Options of Chicago, Inc.
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Merrill Lynch Professional Clearing
Morgan Keegan & Company, Inc.
Morgan Stanley & Company, Inc.
Morgan Stanley Dean Witter Inc.
National Financial Services, LLC
Nomura Securities International, Inc.
O’Connor & Company, LLC
PaineWebber, Inc.
PAX Clearing Corporation
PAX Clearing Corp.–AB Preferred Capital Markets, Inc.
Prudential Securities, Inc.
Raymond James & Associates, Inc.
RBC Dain Rauscher, Inc.
RBC Dominion Securities Corporation
Refco Securities, LLC
Robert W. Baird & Co., Inc.
Salomon Brothers, Inc.
Salomon Smith Barney, Inc.
SG Cowen Securities Corporation
SLK-Hull Division of First Options Inc.
Spear, Leeds & Kellogg Stephens, Inc.
Stifel, Nicolaus & Company, Inc.
Timber Hill, LLC
TradeLink, LLC
UBS Warburg, LLC
U.S. Clearing Corp.
Weiss, Peck & Greer, LLC
Ziv Investment Company