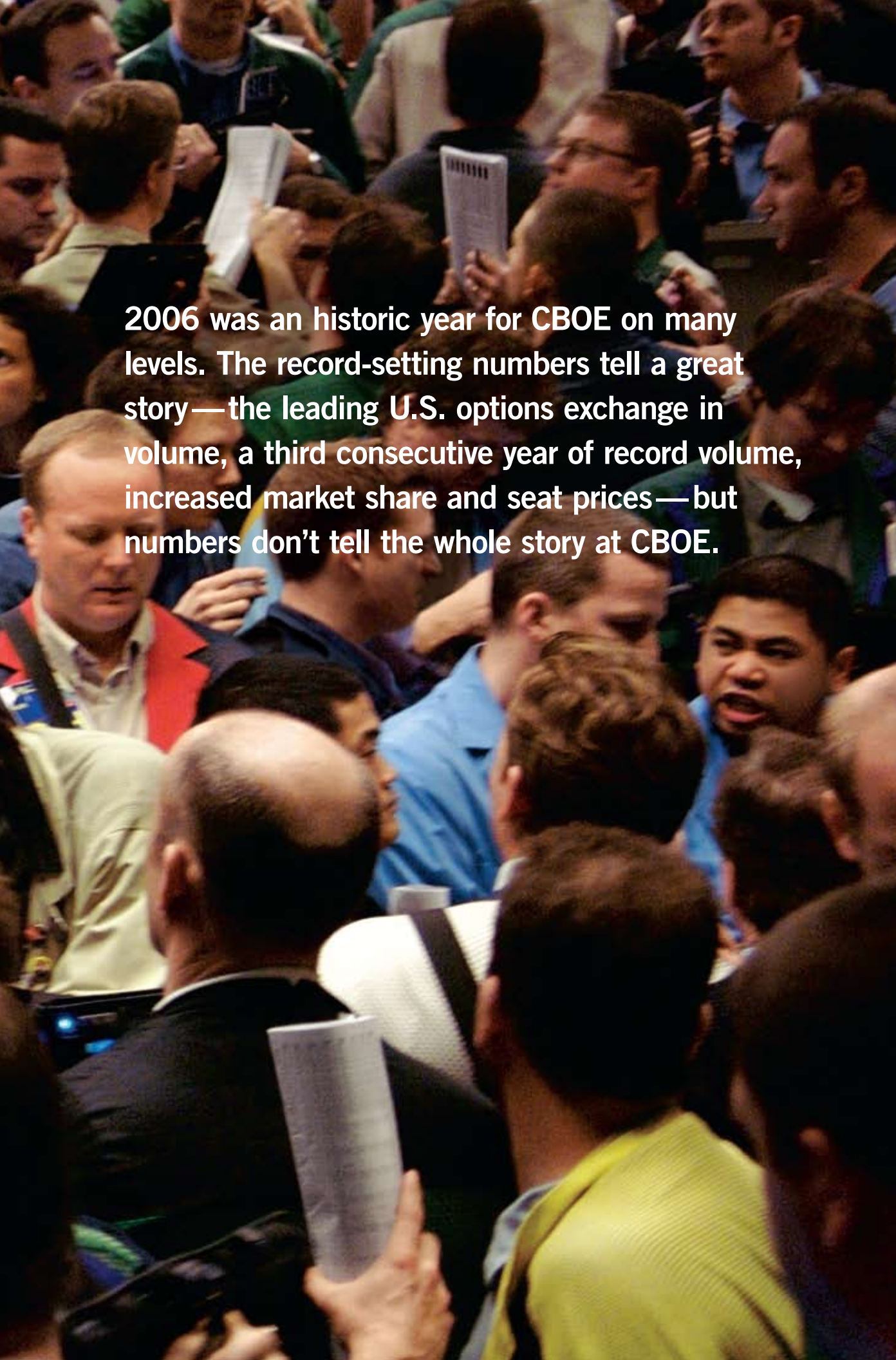




The Marketplace For Options

2006 Annual Report
Chicago Board Options Exchange

A dense crowd of people, mostly men in business attire, are gathered together. Many are holding papers or documents, suggesting a professional event like a conference or trade show. The background is filled with more people, creating a sense of a busy, crowded environment. The text is overlaid in the center of the image.

2006 was an historic year for CBOE on many levels. The record-setting numbers tell a great story—the leading U.S. options exchange in volume, a third consecutive year of record volume, increased market share and seat prices—but numbers don't tell the whole story at CBOE.

Accept No

CBOE will embark on a new branding campaign in 2007 in which the Exchange will be communicating to the world that CBOE is a vital necessity in the options marketplace for which there is no substitute. Additional details may be found on page 18 of this Annual Report.

Substitute.

Letter from the Office of the Chairman

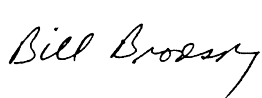
Several long-term initiatives were set in place during 2006 that not only drove our numbers to all-time highs, but also set the stage for CBOE's future growth. Perhaps most significant was the Exchange's conversion to a for-profit business model. There are many reasons behind CBOE's decision to engage in this transformation, but ultimately, changing our business model will enable the Exchange to position itself most-effectively in a rapidly changing business environment. Streamlining the Exchange's operations, creating new subsidiaries, such as the CBOE Stock Exchange (CBSX) and Market Data Express, and forming new alliances, exemplified by our collaboration with HedgeStreet, illustrate how CBOE has shifted the focus of its business to increasing and maximizing profitability.

With the launch of CBSX, CBOE now offers options, futures and stocks—all on a single electronic trading platform. As the regulatory and competitive landscape continues to shift, the Exchange is extremely well positioned for the future as one of a select few exchanges to offer a multi-asset trading platform. Going forward, we expect that the Exchange's members and customers will be able to realize economies of scale as they manage their cross-asset trading through a single, unified platform at CBOE.

Our Hybrid Trading System continues to demonstrate that it is the most unique market model in the industry. In a fiercely competitive environment, the twin functionality of Hybrid—allowing for electronic and open outcry trading—is one of the many ways CBOE differentiates itself from its rivals. The expansion of the Remote Market Maker program furthered the benefits of Hybrid trading by increasing the number of market participants and deepening the liquidity at CBOE.

Looking ahead, we expect that the two landmark regulatory initiatives taking effect in 2007 will have a positive impact on CBOE and the financial industry for years to come. The changes to the National Market System embodied in Reg NMS have ushered in a new era of competition in the securities industry, creating opportunities for new market centers such as the CBOE Stock Exchange. CBOE has long worked as a tireless advocate for expanding portfolio margining and the implementation of the new portfolio margining rules is expected to be one of the most significant developments to the securities industry in decades. True risk-based margining will likely free up tremendous amounts of capital, allowing investors to more appropriately allocate assets in their accounts.

As the world's premier options marketplace, CBOE remains committed to growing and advancing our industry. We embrace our role as industry leader and pledge to continue as the stewards for product innovation, investor education and industry advocacy. CBOE is, and will remain, the marketplace for options.



William J. Brodsky
*Chairman and
Chief Executive Officer*



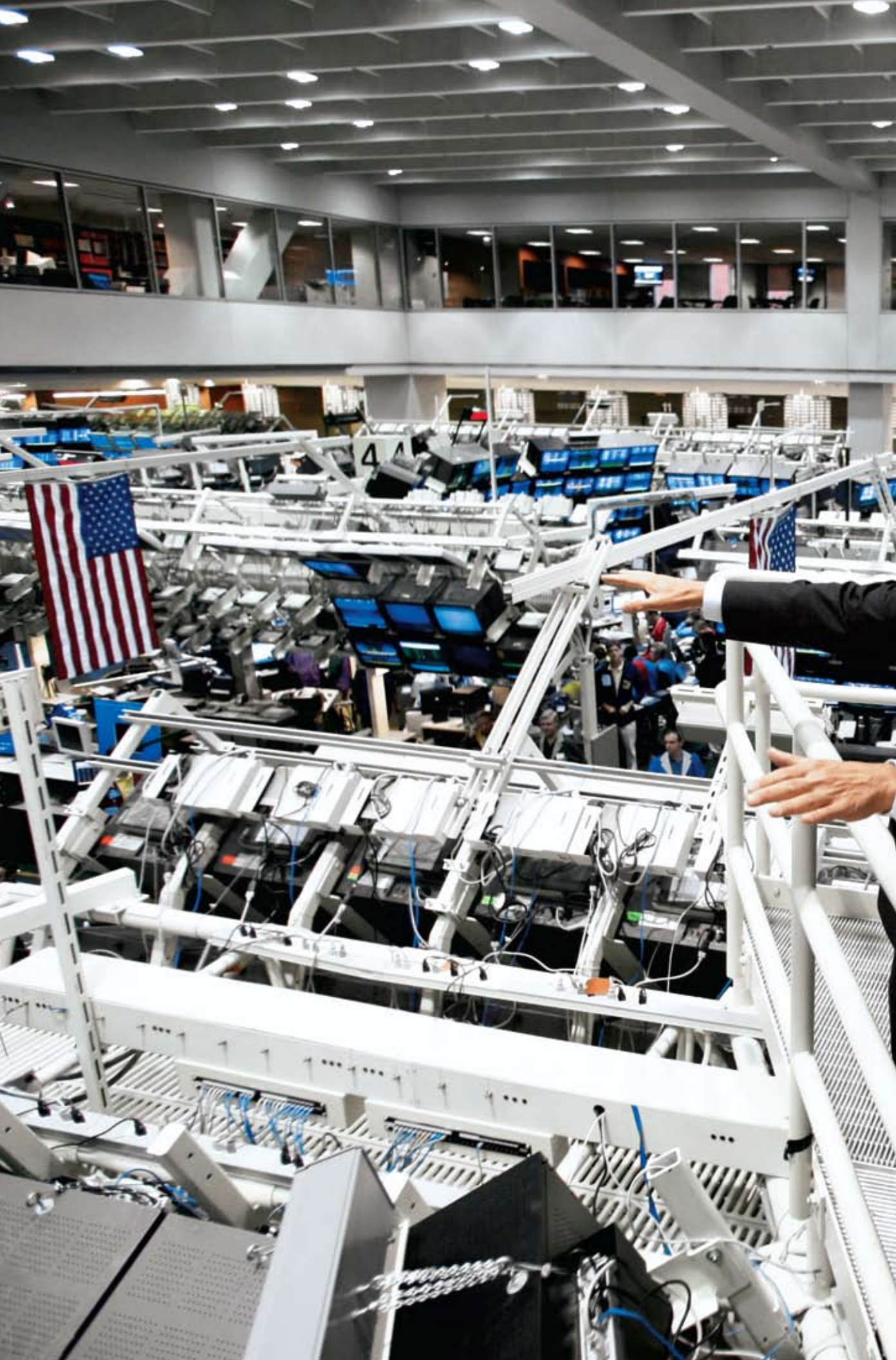
Edward T. Tilly
*Executive
Vice Chairman*



John E. Smollen
Vice Chairman



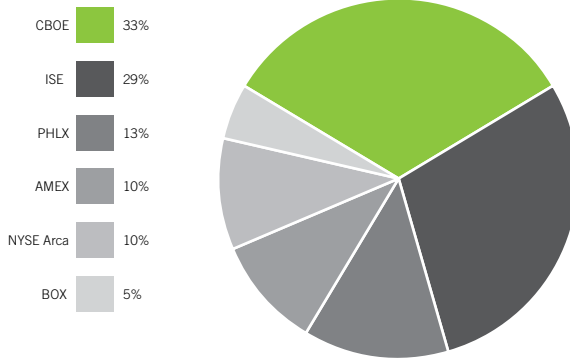
Edward J. Joyce
*President and
Chief Operating Officer*





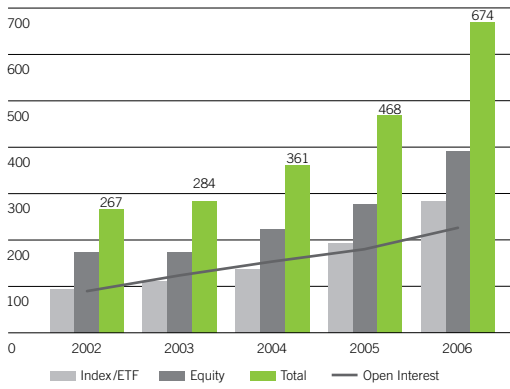
U.S. Secretary of the Treasury, Henry M. Paulson, rang the Opening Bell at CBOE on August 11, 2006. Secretary Paulson visited CBOE during his first official visit to Chicago just weeks after being sworn in as the 74th Secretary of the Treasury. Joining the Secretary (front right) on the bell platform were CBOE Chairman and CEO William Brodsky (front left); R. Eden Martin, CBOE Lead Director and President, The Commercial Club of Chicago (back left); and Michael Moskow, President and CEO, Federal Reserve Bank of Chicago (back right).

2006 Market Share of Total Industry Volume



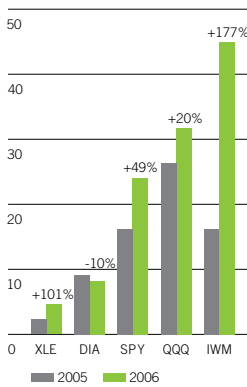
CBOE Total Volume

In Millions



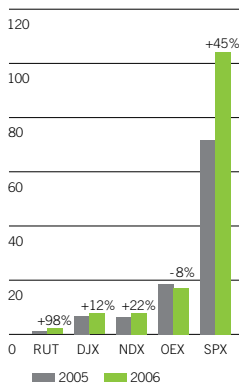
ETF Options Total Volume

In Millions, 2005 v. 2006



Index Options Total Volume

In Millions, 2005 v. 2006



Record Setting Volume and Increasing Market Share

Busiest Year in CBOE History

2006 was a landmark year for CBOE as trading activity soared to new heights and dozens of volume records were established in exchange-wide volume, equity options volume, and index/exchange traded fund (ETF) options volume. The busiest day in CBOE history occurred on Friday, May 19, 2006 when 5,816,336 contracts traded, while May 2006 was the busiest month in CBOE history as 70,522,508 contracts traded.*

In 2006, the busiest twelve months in CBOE's 33-year history, volume tallied 674.7 million contracts, the third consecutive year of record total annual volume. 2006 totals surpassed 2005's volume of 468.2 million contracts, the previous high mark, by 44%. Average daily volume during 2006 was 2,688,189 contracts. At year's end, Exchange open interest stood at 226.4 million contracts, 25% above the end of 2005.

Volume on CBOE's 1,900+ equity options rose 42% to 390.7 million contracts in 2006, easily topping the 275.6 million contracts traded in 2005, setting a new all-time record for total equity options volume in a year. The previous record for equity options annual volume of 278.9 million contracts was set in 2000. The five most actively-traded equity options at CBOE in 2006 were: Apple Computer, Inc. (AAPL), Google, Inc. (GOOG), Altria Group, Inc. (MO), General Motors Corporation (GM), and Microsoft Corporation (MSFT).

2006 marked the sixth consecutive year of volume gains in index/ETF options. During 2006, a record

284.0 million contracts traded, an increase of 48% above 2005's volume of 192.5 million contracts. At the end of 2006, CBOE listed options on 28 broad- and sector-based indexes and 96 ETFs, as well as options on 4 interest rate products.

Notably, six of CBOE's index and ETF options products set individual annual trading records in 2006: S&P 500 Index (SPX), up 45% over 2005 to 104.3 million contracts; S&P 100 Index with European style exercise (XEO), up 93% to 3.7 million; Standard & Poor's Depository Receipts/SPDRs (SPY), up 49% to 24.1 million; Russell 2000 Index (RUT), up 98% to 2.2 million; iShares Russell 2000 Index Fund (IWM), up 177% to 44.9 million; and Nasdaq-100 Index (NDX), up 22% to 7.8 million.

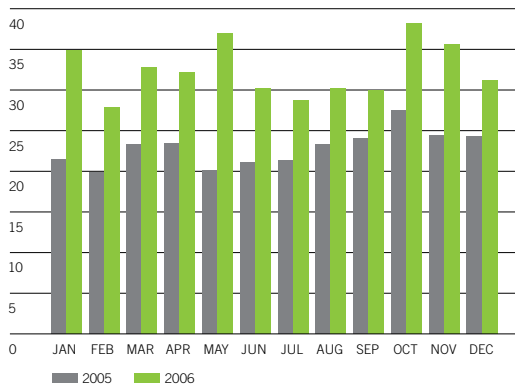
Rising Market Share

CBOE was the leading U.S. options exchange in 2006, handling over one-third of all industry volume. CBOE's market share of 33% was up 2.2 percentage points from 2005, widening the margin between the Exchange and its nearest competitor. In fact, CBOE was one of only two options exchanges to experience a market share gain of more than two percentage points for the year. Equity options market share rose 2 percentage points during 2006 to 26%, ETF options market share rose 2.3 percentage points to 36%, while market share in cash index options remained unchanged at 85%.

**These records have already been broken in 2007. On February 27, 2007, 6,722,060 contracts traded, a new high for single day volume, while in March 2007, 82,963,812 contracts traded, making it the busiest month in CBOE history.*

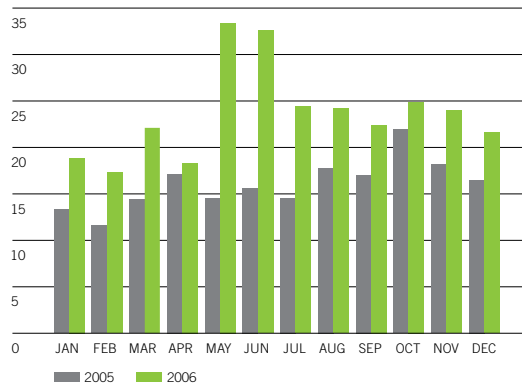
Equity Options Volume

In Millions, 2005 v. 2006



Index Options Volume

In Millions, 2005 v. 2006





Trading volume in options on the iShares Russell 2000 Index Fund (IWM) increased significantly during 2006. IWM options became the second largest contract at CBOE as 44,905,725 contracts traded, up 177% over 2005. New all-time records for IWM in single-day, monthly and annual volume were set during 2006.

DVB

KGK

KG



Pursuing a New Business Model

Conversion to a For-Profit Business Model

January 2006 began CBOE's first year of operation as a for-profit organization. To set the stage for this transition, significant cost-reduction steps were taken, including an 11 percent reduction in staff and a comprehensive organizational overhaul that resulted in the implementation of cost reductions and greater operational efficiencies throughout the Exchange.

Demutualization Begins

In September 2006, the CBOE Board of Directors announced their intention to initiate the process of demutualizing the Exchange, meaning CBOE will change its organizational structure from a non-stock corporation owned by its members into a new holding company organized as a stock corporation owned by its stockholders.

CBOE's new structure will provide the Exchange with greater flexibility to respond to the demands of a rapidly changing regulatory and business environment. In addition, the Exchange will be able to pursue opportunities to engage in business combinations and joint ventures with other organizations, and to access capital markets in ways that were not available to CBOE as a non-stock membership corporation.

S-4 Registration Statement Filed with SEC

In February 2007, the Exchange filed an S-4 Registration Statement with the Securities and Exchange Commission (SEC) which details the terms of CBOE's proposed demutualization. In the conversion, CBOE will become a wholly-owned subsidiary of a new holding company, CBOE Holdings, Inc. CBOE memberships existing at the time of the demutualization will be converted into shares of CBOE Holdings stock. CBOE's proposed demutualization is subject to regulatory approval and a vote of the CBOE membership.

Seat Prices Reach New Highs

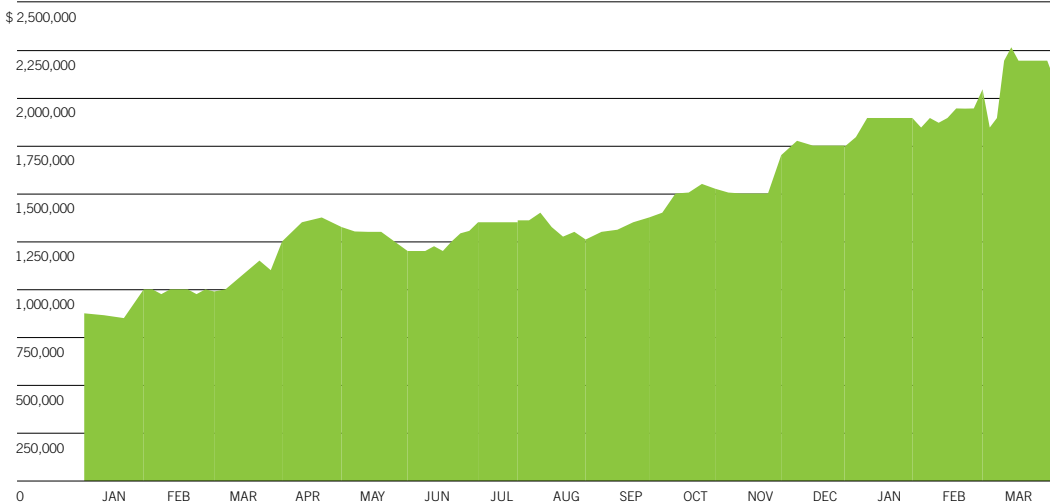
CBOE seat prices increased 100 percent, climbing from the first sale of \$875,000 at the beginning of January 2006 to a record-breaking \$1,775,000* by December. A total of 111 seats were bought during 2006, compared to 104 in 2005. Of the total 111 seats, 95 were bought for more than \$1,000,000.

CBOE's seats increased 485% from the beginning of 2005 to the end of 2006. This positive trend may be attributed to the vibrancy of the overall "exchange space" sector.

**On March 12, 2007, a CBOE seat was sold for a new all-time record high of \$2,270,000.*

CBOE Seat Prices

January 2006 to March 2007



Creating Business Opportunities

Shifting the emphasis of CBOE's corporate business model to a for-profit operational mode has driven the Exchange to more readily seek new business opportunities, whether in the form of offering new products and services, or in searching for ways to generate additional revenue streams.

Stock Exchange Created

At a press conference in New York on July 27, 2006, CBOE announced the formation of the CBOE Stock Exchange (CBSX). CBOE partnered with Interactive Brokers Group, LLC; LaBranche & Co Inc.; Susquehanna International Group, LLP; and VDM Chicago, LLC in forming CBSX.

CBSX is designed to extend the benefits of CBOE's successful options market model to the stock world by allowing Designated Primary Market Makers (DPMs) and multiple, competing Remote Market Makers (RMMs) to provide two-sided liquidity in all stocks. CBSX is also ECN-like in nature: it is a fully electronic market that is Reg NMS-compliant and offers a price-time matching algorithm. By introducing a unique, yet proven, market model to the securities industry, CBSX will provide an attractive, alternative, trading destination for industry participants.

CBSX was launched on March 5, 2007 and when its rollout is complete, CBSX will list 2,800 of the most-actively traded NYSE, NASDAQ, and AMEX listed securities.

New Statistical Service Launched

In July 2006, CBOE also launched Market Data Express (MDX), a new statistical service to provide the most comprehensive historical trading data in the options industry. As a subsidiary of CBOE, MDX offers a wide range of historical options information on all equity, index and ETF options traded at CBOE dating back to 1990.

Data requests to MDX are fully customizable, allowing users to select the market data criteria, time frame, and depth of information to be provided, and are available on a request or subscription basis.



Post 10 on the CBOE trading floor, home to the new CBOE Stock Exchange.

Future additions to the service will provide historical information dating back 33 years to CBOE's creation of the listed options market in 1973.

Alliance Formed with HedgeStreet

On February 22, 2006, CBOE announced a strategic alliance with HedgeStreet, Inc., an all-electronic futures exchange. CBOE's alliance with HedgeStreet calls for the joint development of new products, the sharing of technology services, and the marketing and support of HedgeStreet's innovative binary options and futures products. CBOE looks forward to launching a new wave of jointly developed, one-of-a-kind products, while bringing HedgeStreet's existing products to a broader audience.

HedgeStreet's binary options are typically short-term in nature, and are based on the value of the underlying instrument, with the payout determined by whether the option is in-the-money or not (they are sometimes referred to as "yes-no" or "cash-or-nothing" options). HedgeStreet currently offers contracts on commodities such as gasoline, crude oil and gold.

CBOE's equity investment and alliance with HedgeStreet will serve to build momentum for binary options and this exciting new breed of futures products.





Trading in the S&P 500 Index (SPX) crowd, CBOE's largest and most-actively traded product. In 2006, SPX average daily volume increased 45% over the previous year to 415,588 contracts per day. For 2006, a record total of 104,312,673 SPX contracts traded.

Excellence in Product Innovation

New Products Generate “New” Volume

For more than three decades, innovation has defined CBOE’s legacy and has been a key to growing the Exchange’s business. Since its inception, CBOE has conceived many unique products that have shaped the world of risk management. And last year was no exception. In 2006, CBOE introduced nine breakthrough new products that added more than 8.5 million contracts to the Exchange’s volume.

Options on VIX: One of the Most Successful New Product Launches in CBOE History

CBOE has been the pioneer and leading authority in creating, defining and measuring the volatility space. The CBOE Volatility Index, or VIX, has been hailed as a revolutionary benchmark since its introduction in 1993. For more than a decade, VIX has been the preeminent barometer of market volatility and investor sentiment. Derived from real-time S&P 500 Index option prices, VIX is designed to reflect investors’ consensus view of expected near-term stock market volatility over the next 30 days. VIX is closely followed, highly publicized, and is often referred to as the market’s “fear gauge.”

In February 2006, the CBOE Volatility Index attained a new status when options on VIX began trading. The results were dramatic. VIX options averaged 23,491 contracts per day in 2006; in just over ten months, a total of 5,050,638 contracts traded; and at year’s

end, open interest stood at nearly 700,000 contracts. During May, total volume in VIX options topped one million contracts for the month. Unquestionably, VIX options have been one of the most successful new product launches in CBOE history.

In May 2006, CBOE began disseminating information on the CBOE Russell 2000 Volatility Index. RVX tracks the volatility of the Russell 2000 Index (RUT), by measuring the implied volatility of near-term RUT options. RVX was the fourth volatility index created by CBOE, joining the VIX, the CBOE DJIA Volatility Index (VXD), and the CBOE Nasdaq Volatility Index (VXN) in the Exchange’s suite of volatility benchmarks.

New Benchmark Tracks Emerging “Exchange Space” Sector

In January 2006, CBOE unveiled the CBOE Exchange Index (EXQ), a new index that tracks the performance of publicly-traded financial exchanges in the U.S. Designed to quantify this popular new market, EXQ provides a composite measure of this emerging and rapidly growing new “exchange space” sector. By the end of the year, six different exchanges comprised the index. With the benchmark well established, CBOE listed options on EXQ in September.

Options with Weekly and Quarterly Expirations

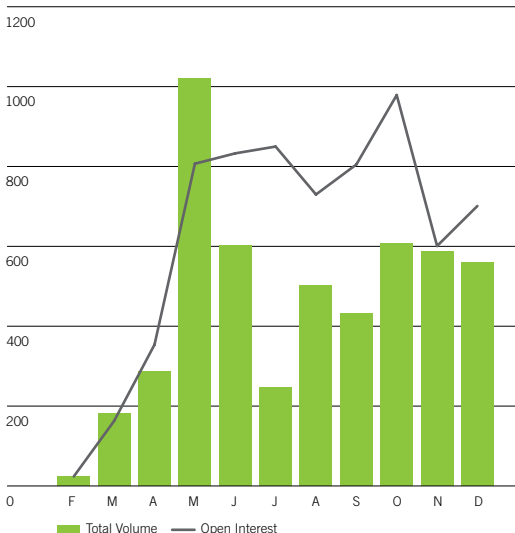
CBOE introduced new options with Weekly and Quarterly expirations to provide added flexibility in structuring positions within a portfolio. As their names imply, Weeklys are short-term options with a life of one week from launch to expiration, while Quarterlys have a life of three months. In 2006, CBOE listed Weekly options in Mini-SPX Index (XSP) and S&P 100 Index with European-style exercise (XEO). Quarterly options were listed on five ETFs: Nasdaq-100 Index Tracking Stock (QQQQ), Standard & Poor’s Depository Receipts/SPDRs (SPY), DIAMONDS Trust, Series 1 (DIA), iShares Russell 2000 Index Fund (IWM), and Energy Select SPDRs (XLE).

BuyWrite Strategy

A “BuyWrite,” also known as a covered call, is an investment strategy in which an investor buys

VIX Options

2006 Total Volume & Open Interest
In Thousands





The essence of CBOE's Hybrid: a dual trading environment that blends the best elements of open outcry with electronic trading.

a stock or a basket of stocks, and also sells call options that correspond to the stock or basket of stocks. Independent research has found that, over specific periods studied, a BuyWrite had slightly higher annualized returns—with significantly less volatility—than the corresponding index.

CBOE now publishes data on five different BuyWrites, including the CBOE Russell 2000 BuyWrite Index (BXR) and the CBOE S&P 500 2% OTM (Out-of-the-Money) BuyWrite Index (BXY), both of which were introduced last year. During 2006, all five CBOE BuyWrites posted increased returns for the year. Over the last two years, investors have allocated more than 20 billion dollars to forty new investment products that utilize BuyWrite Strategies.

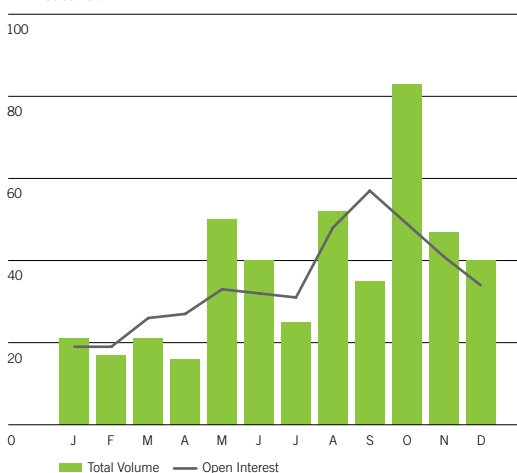
CBOE Futures Exchange:

The Home of Volatility Futures

The CBOE Futures Exchange (CFE), CBOE's all-electronic futures exchange powered by the CBOE*direct* electronic trading system, was launched in March 2004 and now offers six different contracts, including futures on its flagship product, the CBOE Volatility Index (VIX), as well as CBOE S&P 500 3-Month Variance (VT), CBOE DJIA Volatility Index (VXD), and the CBOE China Index (CX) futures. Two new contracts were listed in 2006: CBOE S&P 500 12-Month Variance (VA) futures and CBOE S&P 500 BuyWrite Index (BXM) futures.

VIX Futures

2006 Total Volume & Open Interest
In Thousands



Trading at CFE increased 170% over 2005 as volume in 2006 totaled 478,160 contracts, with an average daily volume that exceeded 1,900 contracts per day. Futures on the CBOE Volatility Index were the most actively-traded contract at CFE in 2006.

OneChicago:

Growing the Market for Single Stock Futures

OneChicago, the all-electronic exchange that relies on CBOE*direct* as its trade engine, is a joint venture of CBOE, the Chicago Mercantile Exchange (CME) and the Chicago Board of Trade (CBOT). OneChicago continues to develop the market for the trading of single stock futures. Major educational and marketing initiatives were undertaken in 2006 to accelerate the growth of security futures trading. The results were positive as a record 7,923,499 security futures contracts traded at OneChicago during 2006, an increase of 43% over 2005's total volume of 5.5 million contracts. Average daily volume on the year reached nearly 32,000 contracts per day. OneChicago presently lists 482 futures on single stocks, five Exchange Traded Funds, and seven OneChicago Select Indexes, a series of customer-designed, narrow-based security index futures.

In March 2006, Interactive Brokers Group, LLC, a leading electronic broker dealer, became an equity investor in OneChicago. The addition of IB into the OneChicago family of ownership brought additional technology and market maker support for single stock futures and helped to broaden the exchange's customer base.

CBOE Recognized as "Exchange of the Year"

In 2006, CBOE received three major awards in recognition of its continued industry leadership in groundbreaking, new product engineering. In May, CBOE was recognized as the "Exchange of the Year, North America" by *Structured Products* magazine; in September, *Global Finance* magazine named CBOE the "Best Derivatives Exchange in 2006;" and in December, VIX options were awarded the "Most Innovative Index Derivative Product" at the Super Bowl of Indexing Conference. Each of these awards cited CBOE's "excellence and innovation" in creating new products and investor tools, most notably with the development of BuyWrite and Volatility indexes.



Some of the industry's most advanced trading technology can be found at CBOE. 96% of CBOE's Hybrid orders experience sub-second electronic execution.

Unique Market Model Differentiates CBOE

Hybrid Evolution Continues

During 2006, CBOE's Hybrid Trading System continued to demonstrate why it is the most unique market model in the industry. The versatility of Hybrid provides a "best of both worlds" trading environment, allowing customers to choose how their orders are handled—either electronically or via open outcry. By year's end, the majority of customers were opting for electronic trading as 96 percent of all Hybrid orders were handled electronically with sub-second execution. However, the remaining 4 percent of the orders that were conducted in open outcry represented nearly one-third (29%) of all Exchange volume.

Ongoing systems upgrades ensure that the CBOE Hybrid Trading System continues to offer unparalleled trading choice in both types of trading venues. In February 2006, CBOE created the Hybrid Agency Liaison (HAL), which automated the handling of certain types of orders that had previously been subject to manual handling. And later in the year, CBOE became the first exchange to offer an electronic price improvement auction for complex (multi-legged) orders in the form of Complex Order Auction (COA).

Growth of Remote Market Making

CBOE's Remote Market Maker Program continued to expand throughout 2006. The number of Remote Market Makers (RMMs) and Electronic Designated Primary Market Makers (e-DPMs)—those CBOE

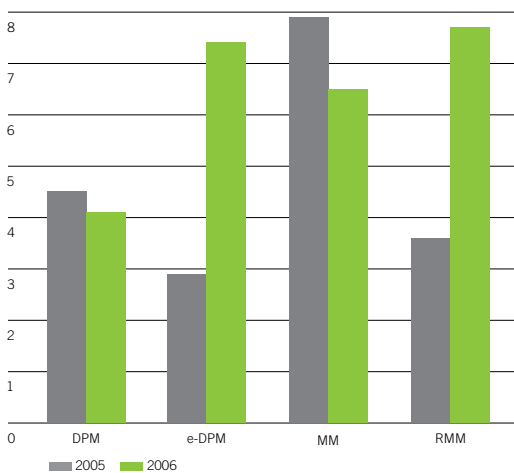
members or member firms who stream quotes and trade electronically from remote locations—totaled fifty RMMs and six e-DPMs by the end of the year. The volume generated from these new electronic members grew substantially: from 6.6 million contracts or 35% of all Hybrid volume during December 2005 to 15.0 million contracts and 59% in December 2006. The RMM program has been successful in expanding the universe of market participants at CBOE, while the consolidation of off-floor RMM quotes with those of in-crowd market participants has resulted in deeper, more liquid markets at CBOE.

Expanding Index Offerings on Hybrid

All of CBOE's equity options have been listed on Hybrid since the end of 2005, and last year, CBOE focused on expanding the number of index and Exchange Traded Fund options available for trading on Hybrid. During the course of 2006, thirty were added, including major indexes such as the Russell 2000 Index (RUT), CBOE Volatility Index (VIX), Jumbo Dow Jones Industrial Average Index (DXL) and S&P Small Cap 600 Index (SML). Also added were popular ETFs such as iShares Russell 2000 Index Fund (IWM) and iShares S&P 100 Index Fund (OEF). With the additions of Nasdaq-100 Index options (NDX) and S&P 100 Index options with European-style exercise (XEO) in January 2007, 121 of CBOE's 124 index and ETF options are now available for trading via Hybrid.

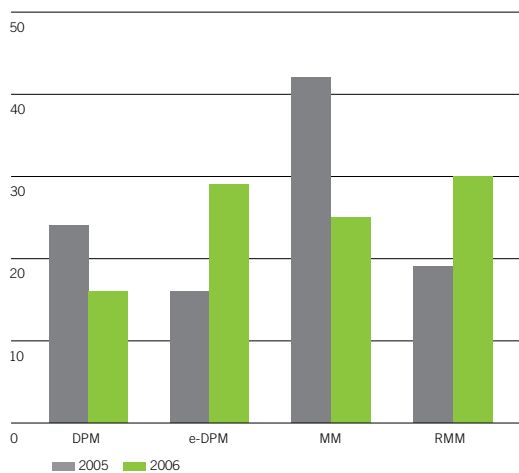
CBOE Volume by Member Role

In Millions, Dec. 2005 v. Dec. 2006



Percent of Volume by Member Role

Dec. 2005 v. Dec. 2006



Leading the Industry in Advocacy and Education

The Primary Proponent for Expanded Portfolio Margining Rules

In December 2006, the SEC approved amendments to CBOE's rules allowing for expanded portfolio margining of customer accounts. For more than five years, CBOE was the driving force in moving this initiative through Congress, the Commodity Futures Trading Commission (CFTC) and the SEC. The new rules generally align the amount of margin money required in a customer's account to the risk of the portfolio as a whole, whereas current practice is to require margin based on set formulas for various strategies. The new rules also expand the scope of products eligible for portfolio margining to include equities, equity options, narrow-based index options, certain security futures products (i.e. single stock futures and options on single stock futures), and unlisted derivatives.

Other markets around the world already allow for similar portfolio margining. Thus, the SEC's approval of the new rules helps to level the playing field and will make the U.S. equities markets more competitive with our global counterparts. CBOE anticipates the new rules, which became effective on April 2, 2007, will modernize our marketplace.

CBOE Tabbed to Lead Industry Surveillance

CBOE, along with the American Stock Exchange, Boston Stock Exchange, International Securities Exchange, NYSE Arca, (formerly the Pacific Exchange) and Philadelphia Stock Exchange, formed the Options Regulatory Surveillance Authority (ORSA) in 2006. ORSA was conceived to enhance the effectiveness and efficiency of regulation of the national options market system, as well as that of each of the individual options markets, by facilitating the sharing of resources and information.

As the developer of the industry's most advanced surveillance technology, CBOE was chosen to lead and coordinate the industry's surveillance efforts for tracking possible insider trading infractions. While CBOE is conducting the insider trading surveillance and investigations on behalf of the ORSA operations, the six exchanges share equal authority in regulation, and jointly plan, develop, and operate ORSA's regulatory systems and facilities.



Events like this "VIX and Volatility Trading" seminar exemplify CBOE's commitment to investor education.

The Premier Source for Options Education

The Options Institute, the educational arm of CBOE, is the leading authority for options education. Founded in 1985, it continues to play an integral role in aiding the tremendous growth of our industry. Each year, The Options Institute conducts hundreds of classes worldwide, educating thousands of investors, brokers, advisors and regulatory personnel.

For five years running, cboe.com has received a "Best of the Web" honor from *Forbes.com*, and for three consecutive years, a "Top Investment Websites" designation from the American Association of Individual Investors®. Last year, more than 800,000 unique visitors clicked on cboe.com each month for options news and information.

Some of the most popular features on cboe.com are The Options Institute's online tutorials, courses and webcasts. The self-guided tutorials teach the basics of options, while the online courses explore concepts and strategies. The webcasts offer live presentations of options-related topics and enable online interaction with the presenter. During 2006, enrollment in CBOE's online courses increased 50% to 5,500 participants.

In 2006, cboe.com's popular CBOE-TV experienced huge viewership gains during its first full year of operation. The free web-based streaming video service, which provides daily trading insights, market recaps, and coverage of events and news from CBOE's trading floor, saw its total audience increase by more than 450% to 300,000+ viewers per month.

Communicating a Message

“Accept No Substitute”

Leading brands have a reason to exist. They are born from a new way of thinking about problems. They create opportunities. They have a story to tell. CBOE is such a brand. The Exchange innovates and leads. It is nearly impossible to imagine a world without options because of what CBOE has done, not only since founding the industry in 1973, but for what it will continue to accomplish in the months and years ahead.

In 2006, the Exchange developed the framework for an extensive branding initiative that will kick-off during 2007 and illustrate CBOE’s position of industry leadership. More specifically, the message behind the campaign will communicate to the world that CBOE is a vital necessity in the options marketplace for which there is no substitute. To amplify this message, an extensive print and broadcast campaign will run in various financial media during the year. The reach of the campaign will also be extended through the use of outdoor and online advertising.

The “Accept No Substitute” campaign is scheduled to run in a variety of business publications including *The Wall Street Journal*, *Barron’s* and *Forbes*. Additionally, a thirty-second television commercial will air on the CNBC and Bloomberg networks at various times throughout 2007.



2006 Financial Summary

CBOE generated record net income of \$42.1 million in 2006 versus \$10.9 million in the prior year.

Record trading volume of 2.7 million contracts per day in 2006, compared to the prior record of 1.9 million contracts per day established in 2005, was the main reason for the strong financial results.

The significant growth in 2006 trading volume (44%) versus the prior period was the main reason current year revenues were \$54.9 million (27%) higher than 2005. Fee reductions and fee caps saved our customers and members \$45.7 million in 2006 versus \$31.6 million in 2005.

Expenses were \$2.8 million higher than the prior period mainly due to higher employee costs (\$5.1 million), outside services (\$2.1 million) and royalty fees (\$1.6 million). Employee costs were higher in 2006 mainly due to higher severance expense (\$3.4 million). Outside services increased mainly due to higher legal fees related to demutualization and other legal matters. Royalty fees increased in 2006 due to record trading volume in certain licensed products.

CBOE received a \$7.1 million refund in 2006 as a result of a resettlement of a year 2000 class action settlement. In 2000, CBOE paid \$16.0 million to settle a class action matter. See financial statements Note 6 for details. The \$7.1 million refund is included as a reduction to other expenses.

Capital spending in 2006 amounted to \$28.7 million. Investments were primarily in the Systems Division related to increased capacity, Hybrid Trading System enhancements, a new disaster recovery site and other trading systems enhancements.

In 2006, CBOE invested \$3.8 million in HedgeStreet, Inc., contributed \$1.2 million to OneChicago, LLC due to a capital call and purchased one CBOE membership (\$1.4 million).

The Exchange received \$3.0 million from the National Stock Exchange ("NSX") in 2006 related to a Termination of Rights Agreement ("TORA"). See financial statements Note 2 for details of the TORA.

Retained earnings increased to \$162.0 million and total members' equity at December 31, 2006 was \$183.4 million. At year's end, the Exchange was debt-free with working capital of \$94.1 million.

CONSOLIDATED STATEMENTS OF INCOME

Chicago Board Options Exchange, Incorporated and Subsidiaries
 Years ended December 31, 2006 and 2005 (in thousands)

	2006	2005
Revenues:		
Transaction fees	\$ 186,285	\$ 143,254
Other member fees	22,270	23,347
Options Price Reporting Authority income	19,965	16,749
Regulatory fees	13,817	11,835
Investment income	4,743	2,016
Other	10,906	5,854
Total Revenues	257,986	203,055
Expenses:		
Employee costs	79,782	74,678
Depreciation and amortization	28,189	28,349
Data processing	19,078	19,304
Outside services	20,455	18,404
Royalty fees	23,552	21,950
Travel and promotional expenses	7,209	6,796
Facilities costs	4,281	3,925
Net loss from investment in affiliates	757	203
Impairment of investment in affiliate and other assets	121	2,757
Other	2,535	6,796
Total Expenses	185,959	183,162
Income Before Income Taxes	72,027	19,893
Provision for Income Taxes:		
Current	34,495	9,925
Deferred	(4,576)	(927)
Total Provision for Income Taxes	29,919	8,998
Net Income	\$ 42,108	\$ 10,895

See notes to consolidated financial statements

CONSOLIDATED BALANCE SHEETS

Chicago Board Options Exchange, Incorporated and Subsidiaries
December 31, 2006 and 2005 (in thousands)

	2006	2005
Assets		
Current Assets:		
Cash and cash equivalents	\$ 82,520	\$ 65,080
Investments—available for sale	19,578	0
Accounts receivable—net of allowances of \$76 and \$73	27,838	21,722
Marketing fee receivable	7,499	3,634
Income taxes receivable	763	0
Prepaid medical benefits	2,558	2,837
Other prepaid expenses	3,398	3,534
Other current assets	795	663
Total Current Assets	144,949	97,470
Investments in Affiliates	12,830	7,178
Land	4,914	4,914
Property and Equipment:		
Construction in progress	5,516	0
Building	57,609	57,609
Furniture and equipment	157,859	147,350
Less accumulated depreciation and amortization	(161,013)	(146,568)
Total Property and Equipment—Net	59,971	58,391
Other Assets:		
Software development work in progress	4,839	8,446
Data processing software and other assets		
(less accumulated amortization—2006, \$65,044; 2005, \$51,300)	28,323	25,786
Total Other Assets—Net	33,162	34,232
Total	\$ 255,826	\$ 202,185
Liabilities and Members' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 36,836	\$ 26,676
Marketing fee payable	7,991	5,622
Deferred revenue	4,224	4,493
Membership transfer and other deposits	1,750	0
Post-retirement medical benefits	67	0
Income taxes payable	0	768
Total Current Liabilities	50,868	37,559
Long-term Liabilities:		
Post-retirement medical benefits	1,203	0
Deferred income taxes	20,366	23,718
Total Long-term Liabilities	21,569	23,718
Total Liabilities	72,437	61,277
Commitments and Contingencies (Note 6)		
Members' Equity:		
Memberships	19,574	20,934
Additional paid-in-capital	2,592	0
Retained earnings	161,988	119,974
Accumulated other comprehensive loss	(765)	0
Total Members' Equity	183,389	140,908
Total	\$ 255,826	\$ 202,185

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Chicago Board Options Exchange, Incorporated and Subsidiaries
Years ended December 31, 2006 and 2005 (in thousands)

	2006	2005
Cash Flows from Operating Activities:		
Net Income	\$ 42,108	\$ 10,895
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	28,189	28,349
Amortization of discount on investments available for sale	(67)	0
Provision for deferred income taxes	(4,576)	927
Equity in loss of OneChicago, LLC ("OneChicago")	832	2,569
Equity in income of National Stock Exchange ("NSX")	(75)	(2,366)
Impairment of investment in affiliates and other assets	121	2,757
Changes in assets and liabilities:		
Accounts receivable	(6,117)	(4,822)
Marketing fee receivable	(3,865)	(794)
Net income taxes receivable	(1,531)	5,243
Prepaid medical benefits	279	(988)
Other prepaid expenses	136	233
Other current assets	(132)	(159)
Deferred income taxes	42	(4,283)
Accounts payable and accrued expenses	10,160	9,532
Marketing fee payable	2,369	2,131
Deferred revenue	(269)	(11,354)
Membership transfer and other deposits	1,750	(572)
Net Cash Flows from Operating Activities	69,354	37,298
Cash Flows from Investing Activities:		
Sale of investments available for sale	0	6,000
Purchase of investments available for sale	(19,511)	0
Capital and other assets expenditures	(28,700)	(21,011)
Sale of NSX certificates of proprietary membership, net of fees	3,000	4,834
HedgeStreet investment	(3,800)	0
CBOE Stock Exchange investment	(193)	0
OneChicago investment	(1,215)	(844)
Membership purchase	(1,360)	0
Net Cash Flows from Investing Activities	(51,779)	(11,021)
Cash Flows from Financing Activities:		
Chicago Board of Trade exercise right purchases	(135)	(6,900)
Net Cash Flows from Financing Activities	(135)	(6,900)
Net Increase in Cash and Cash Equivalents	17,440	19,377
Cash and Cash Equivalents at Beginning of Period	65,080	45,703
Cash and Cash Equivalents at End of Period	\$ 82,520	\$ 65,080
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	\$ 35,981	\$ 7,525
Non-cash activities:		
Sale of membership shares by OneChicago	\$ 4,320	
Impact of adoption of FASB Statement No. 158	\$ 1,270	

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

Chicago Board Options Exchange, Incorporated and Subsidiaries
 Years ended December 31, 2006 and 2005 (in thousands)

	Members' Equity	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance -- January 1, 2005	\$ 20,934	\$ 0	\$ 113,906	\$ 0	\$ 134,840
Net income			10,895		10,895
CBOT exercise rights purchased - net of tax benefits of \$2,073			(4,827)		(4,827)
Balance -- December 31, 2005	20,934	0	119,974	0	140,908
Net income			42,108		42,108
CBOT exercise right purchased - net of tax benefits of \$41			(94)		(94)
Impact of adoption of FAS 158 - net of tax of \$505				(765)	(765)
Sale of membership shares by OneChicago - net of \$1,728 deferred taxes		2,592			2,592
Membership purchase	(1,360)				(1,360)
Balance -- December 31, 2006	\$ 19,574	\$ 2,592	\$ 161,988	\$ (765)	\$ 183,389

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Chicago Board Options Exchange, Incorporated and Subsidiaries
For the years ended December 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business—The Chicago Board Options Exchange, Incorporated and Subsidiaries (“CBOE”) is a registered securities exchange, subject to oversight by the Securities and Exchange Commission (“SEC”). CBOE’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 the Chicago Board Options Exchange, Incorporated and its wholly-owned subsidiaries, Chicago Options Exchange Building Corporation, CBOE, LLC and CBOE Futures 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, disclosures of contingent assets and liabilities, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition—Transaction Fees revenue is considered earned upon the execution of the trade and is recognized on a trade date basis. In the event members pay for services in a lump-sum payment, revenue is recognized as services are provided. Other Member Fees revenue is recognized during the period the service is provided. The Options Price Reporting Authority (“OPRA”) income is allocated based upon the market share of the OPRA members and is received quarterly. Estimates of OPRA’s quarterly revenue are made and accrued each month. Regulatory Fees are predominately received in the month of December and are amortized monthly to coincide with the services rendered during the period July through June.

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 fair value with unrealized gains and losses reported as a component of other comprehensive income within members’ equity, 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 CBOE’s share of distributable revenue receivable from OPRA.

Investments in Affiliates—Investments in affiliates represent investments in OCC, OneChicago, LLC (“OneChicago”), The National Stock Exchange (“NSX”) and HedgeStreet, Inc.

The investment in OCC (20% of its outstanding stock) is carried at cost because of CBOE’s inability to exercise significant influence.

CBOE owns 8,424 shares of Class A stock (4.98% of the total outstanding) and 39,312 shares of Class B stock (100% of the total outstanding) of NSX as of December 31, 2006. As of July 1, 2006, CBOE began accounting for the investment in NSX using the cost method as NSX reacquired stock from CBOE and sold additional stock to new investors, thereby diluting CBOE’s ownership percentage (see Note 2).

CBOE accounts for the investment in OneChicago (approximately 24% of its outstanding stock) under the equity method due to the lack of effective control over operating and financing activities.

The investment in HedgeStreet, Inc. (17.6% of its capital stock) is carried at cost because of CBOE’s inability to exercise significant influence.

Investments in affiliates are reviewed to determine whether any events or changes in circumstances indicate that the investments may be other than temporarily impaired.

In the event of impairment, CBOE would recognize a loss for the difference between the carrying amount and the estimated fair value of the equity method investment.

Property and Equipment—Property and equipment are carried at cost, net of accumulated depreciation. 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.

CBOE’s long-lived assets are subject to impairment testing in accordance with SFAS No. 144 whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. CBOE bases its evaluation on such impairment indicators as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. In the event of an impairment, CBOE recognizes a loss for the difference between the carrying amount and the estimated fair value of the asset.

Data Processing Software & Software Development Work in Progress—Data processing software and software development work in progress during the application development stage are capitalized in accordance with Statement of Position 98-1 *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* and are carried at cost. Software development work in progress is reclassified to data processing software when the software is ready for its intended use. Data processing software is amortized over five years using the straight-line method commencing with the date the software is put in service.

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.

Deferred Revenue—Deferred revenue represents amounts received by CBOE for which services have not been provided.

Recent Accounting Pronouncements—In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN 48 seeks to reduce the diversity in accounting practices used in regards to uncertain tax positions by prescribing a recognition threshold and measurement criteria for benefits related to income taxes. The provisions of FIN 48 are effective for all reporting periods beginning after December 15, 2006. The impact of the adoption of FIN 48 on CBOE’s financial position and results of operations is being evaluated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value under other accounting pronouncements that require fair value measurements and expands disclosures about such measurements. SFAS No. 157 does not require any new fair value measurements. Instead, it creates a consistent method of calculating fair value measurements to address non-comparability of financial statements containing fair value measurements utilizing different definitions of fair value. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. It is not anticipated that the adoption of SFAS No. 157 will have a significant impact on CBOE's financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* which requires the overfunded or underfunded status of a defined benefit postretirement plan to be recognized in the statement of financial position and changes in that funded status to be recognized in the year of change in comprehensive income. SFAS No. 158 also requires that plan assets and obligations be measured at year-end and requires certain disclosures. CBOE is required to recognize the funded status of a defined benefit postretirement medical plan and to make required disclosures as of our fiscal year ending December 31, 2007, however we have elected to adopt the provisions of SFAS No. 158 in 2006.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*, which permits, at specified election dates, measurement of eligible items at fair value. SFAS No. 159 does not require any new fair value measurements. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Early adoption is permitted provided that SFAS No. 157 is concurrently adopted. It is not anticipated that the adoption of SFAS No. 159 will have a significant impact on CBOE's financial position and results of operations.

2. INVESTMENTS IN AFFILIATES

CBOE and NSX executed a Termination of Rights Agreement ("TORA"), on September 27, 2004. Pursuant to the TORA, NSX will purchase 153 (94%) of NSX certificates of proprietary membership currently owned by CBOE. Certificates of proprietary membership will be surrendered by CBOE, and NSX will pay CBOE a total of \$11 million over a period of four years on the anniversary of the initial closing date, subject to NSX minimum working capital levels after deducting the cost of buying the certificates. CBOE will ultimately retain nine certificates of proprietary membership (10% of the total outstanding certificates of proprietary membership). After the sale of 153 certificates, CBOE will account for its remaining investment in NSX on the cost basis. The initial closing transaction was held on January 18, 2005. On this date, CBOE surrendered 69 certificates of proprietary membership, and NSX paid \$5.0 million to CBOE. CBOE also gave up three of six seats on the NSX Board on the date of the initial closing. CBOE's percentage of ownership of the remaining NSX outstanding certificates of proprietary membership was reduced to 54.7% after the initial closing. On March 10, 2006, CBOE exercised its first put right under the TORA. On this date, CBOE surrendered an additional 21 certificates of proprietary membership, and NSX paid CBOE \$1.5 million. CBOE's percentage of ownership of the remaining NSX outstanding certificates of proprietary membership was reduced to 48.3% after the March 10, 2006 exercise of its first put right. On June 22, 2006, NSX converted from a membership organization to a stock-based corporation. In the demutualization, the certificates of proprietary membership held by CBOE were converted to 8,424 shares (9.96%) of Class A voting stock of NSX Holdings, Inc. and 58,968 shares (100%) of Class B non-voting stock of NSX Holdings, Inc. On September 5, 2006, NSX issued a total of 87,010 Class A voting common stock to six investors. CBOE did not invoke its anti-dilution rights and as a result, CBOE's ownership percentage of Class A voting common stock was reduced to 4.98%. On September 15, 2006, NSX exercised a call pursuant to the TORA and purchased 19,656 shares of Class B stock and paid CBOE \$1.5 million. At December 31, 2006, CBOE's investment in NSX was \$3.7 million which consisted of the 8,924 Class A voting shares and 39,312 Class B non-voting shares. CBOE's representation on the NSX board has decreased to one representative as a result of the most recent decrease in ownership percentage of NSX by CBOE.

CBOE, Interactive Brokers Group LLC ("IBG"), the Chicago Mercantile Exchange Holdings, Inc. and the Board of Trade of the City of Chicago, Inc. (the "CBOT"), are partners in OneChicago, a joint venture created to trade single stock futures. Certain OneChicago employees also have minority interests in the joint venture. OneChicago is a for-profit entity with its own management and board of directors, and is separately organized as a regulated exchange. CBOE accounts for its interest in OneChicago under the equity method of accounting. On March 15, 2006, IBG made an investment for a 40% interest in OneChicago. As a result, CBOE's ownership decreased from approximately 40% to 24%. CBOE contributed \$1.2 million and \$0.8 million in capital to OneChicago during the years ended December 31, 2006 and 2005, respectively. At December 31, 2006, CBOE's investment in OneChicago was \$4.8 million. CBOE's investment increased by \$4.3 million as a result of IBG's investment as discussed above. CBOE had a receivable due from OneChicago of \$0.5 million and \$0.9 million at December 31, 2006 and 2005, respectively.

On February 10, 2006, CBOE invested \$2.0 million in HedgeStreet, Inc. CBOE holds one of six HedgeStreet, Inc. board seats. On December 29, 2006, CBOE invested an additional \$1.8 million in HedgeStreet, Inc. for Series D Preferred Stock. CBOE owns a total of 17.7% of HedgeStreet Inc. voting common and preferred shares. CBOE had a receivable due from HedgeStreet, Inc. of \$0.1 million at December 31, 2006 for certain service level agreements.

3. RELATED PARTIES

CBOE collected transaction and other fees of \$298.9 million and \$191.2 million by drawing on accounts of CBOE's members held at OCC for the years ended December 31, 2006 and 2005. The amount collected included \$96.5 million and \$42.1 million of marketing fees during the years ended December 31, 2006 and 2005, respectively. CBOE had a receivable due from OCC of \$23.0 million and \$15.2 million at December 31, 2006 and 2005, respectively.

CBOE incurred billable expenses on behalf of NSX for expenses such as employee costs, computer equipment and office space of \$2.9 million and \$3.8 million during the years ended December 31, 2006 and 2005, respectively. CBOE had a receivable from NSX of \$0.9 million and \$0.9 million at December 31, 2006 and 2005, respectively.

OPRA is a committee administered jointly by the six options exchanges and is authorized by the SEC 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 CBOE was \$20.0 million and \$16.7 million during the years ended December 31, 2006 and 2005, respectively. CBOE had a receivable from OPRA of \$5.4 million and \$4.4 million at December 31, 2006 and 2005, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CBOE incurred administrative expenses of \$13,000 and \$3,600 for its affiliate, the Chicago Board Options Exchange Political Action Committee (the "Committee"), during the years ended December 31, 2006 and 2005, respectively. The Committee is organized under the Federal Election Campaign Act as a voluntary, not-for-profit, unincorporated political association. The Committee is empowered to solicit and accept voluntary contributions from members and employees of CBOE and to contribute funds to the election campaigns of candidates for federal offices.

4. LEASES

CBOE leases office space with lease terms remaining from thirteen months to twenty-nine months as of December 31, 2006. Rent expenses related to leases for the twelve months ended December 31, 2006 and 2005 were \$0.6 million and \$0.8 million, respectively. Future minimum lease payments under these non-cancellable operating leases are as follows at December 31, 2006 (in thousands):

Year	Amount
2007	\$ 577
2008	446
2009	184
Total	\$ 1,207

5. EMPLOYEE BENEFITS

Eligible employees participate in the Chicago Board Options Exchange SMART Plan ("SMART Plan"). The SMART Plan is a defined contribution plan, which is qualified under Internal Revenue Code Section 401(k). CBOE contributed \$4.0 million and \$4.3 million to the SMART Plan for the years ended December 31, 2006 and 2005, respectively.

Eligible employees may participate in the Supplemental Employee Retirement Plan ("SERP"), and Deferred Compensation Plan. The SERP and Deferred Compensation Plan are defined contribution plans that are nonqualified by Internal Revenue Code regulations. CBOE contributed \$1.3 million and \$1.3 million to the SERP for the years ended December 31, 2006 and 2005, respectively.

CBOE 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 CBOE. Contributions to the trust are based on reserve levels established by Section 419(a) of the Internal Revenue Code. During the years ended December 31, 2006 and 2005, CBOE contributed \$5.3 million and \$5.6 million, respectively, to the trust.

CBOE has a postretirement medical plan for certain current and former members of senior management. SFAS No. 158 changed the accounting rules for reporting the funded status of retirement and other postretirement benefits plans. The funded status of such plans is required to be recognized on the balance sheet with a corresponding after-tax adjustment to accumulated other comprehensive income. Retroactive application of this accounting rule is prohibited. Therefore, 2006 data is presented as required by SFAS No. 158 and 2005 data is presented as required under the accounting rules prior to SFAS No. 158. The adoption of SFAS No. 158 in 2006 had no effect on the computation of net periodic benefit expense for CBOE's postretirement benefits. The incremental effect of applying SFAS No. 158 on individual line items on CBOE's consolidated balance sheet as of December 31, 2006 was as follows: CBOE recorded a \$1.3 million liability related to the actuarially computed underfunded status of our postretirement medical plan, of which \$0.8 million was recorded in other comprehensive loss as a reduction to members' equity and \$0.5 million was recorded as a deferred income tax asset. CBOE estimates that postretirement benefits expense for the year ended December 31, 2007 will include expense of \$0.1 million, resulting from the amortization of its related accumulated actuarial expense included in Accumulated Other Comprehensive Loss at December 31, 2006.

6. COMMITMENTS AND CONTINGENCIES

The CBOE is currently a party to the following legal proceedings:

Litigation with Respect to the Restructuring Transaction

On August 23, 2006, the CBOE and its directors were sued in the Court of Chancery of the State of Delaware, New Castle County, by the CBOT, CBOT Holdings and two members of the CBOT who purport to represent a class of individuals ("exercise members"), who are, or have the right to become, members of the CBOE pursuant to the Exercise Right granted to CBOT members pursuant to paragraph (b) of Article Fifth of the CBOE's certificate of incorporation. Plaintiffs seek a judicial declaration that exercise members are entitled to receive the same consideration in the CBOE's restructuring transaction as all other CBOE members, and plaintiffs also seek an injunction to bar CBOE and CBOE's directors from issuing any stock to CBOE members as part of the restructuring transaction, unless exercise members receive the same stock and other consideration as other CBOE members. On October 2, 2006, the CBOE and the individual director defendants moved to dismiss the complaint on the grounds that the complaint failed to present a ripe controversy between the parties, in that the CBOE had not yet made any decisions about the terms of the potential restructuring transaction or about the nature or the amount of the consideration that the members of the supposed class will receive in connection with that restructuring transaction, and the Court lacked jurisdiction over certain individuals.

On October 17, 2006, CBOT Holdings announced its intention to be acquired by CME Holdings (the "CME/CBOT Transaction"). In response to that announcement, the CBOE determined that the proper interpretation of Article Fifth(b) was that, upon the closing of the CME/CBOT Transaction, no one would qualify as a CBOT "member" for purposes of Article Fifth(b) or therefore as a person eligible to be an exerciser member of the CBOE. The CBOE submitted its interpretation for review and approval by the SEC on December 12, 2006, as required because of the CBOE's status as a national securities exchange, and amended that submission on January 16, 2007. On January 4, 2007, plaintiffs filed a second amended complaint that challenged the CBOE's interpretation of Article Fifth(b). On January 11, 2007, plaintiffs submitted a motion for summary judgment on their claims. In addition to continuing to assert their claims about the amount of consideration to which exercise members would be entitled as part of the CBOE restructuring transaction, plaintiffs sought a declaratory judgment and an injunction to prevent the CBOE from implementing the interpretation of Article Fifth(b) that the CBOE had filed with the SEC and a declaration that CBOE's board breached its fiduciary duties by approving that interpretation. On January 16, 2007, the CBOE and the director defendants moved to dismiss the second amended complaint to the extent it challenges the CBOE's interpretation, on the ground that the SEC's jurisdiction to consider such

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

interpretations of Article Fifth(b) preempts any state law challenge to that interpretation. In this motion, defendants further moved to dismiss or stay consideration of plaintiffs' claims regarding the consideration to which exercise members otherwise would be entitled until it is known whether the CME/CBOT Transaction will close before the CBOE's restructuring transaction on the grounds that such claims remain unripe for judicial determination. The court has not decided either defendants' motion to dismiss or plaintiffs' motion for summary judgment.

Class Action Litigation

In September 2000, the CBOE reached an agreement in principle to settle a consolidated civil class action lawsuit filed against the CBOE and other U.S. options exchanges and certain market maker firms. The CBOE agreed to pay \$16.0 million, which has been paid in full and held in escrow pending approval of the settlement agreement by the U.S. District Court for the Southern District of New York. In October 2005, the CBOE and other settling parties reached a revised settlement that resolved certain disputes concerning the interpretation of certain provisions of the original settlement agreement. As a result of the revised settlement, the CBOE's settlement amount was reduced to \$9.3 million. In February 2006, the U.S. District Court preliminarily approved the revised settlement, and CBOE received a refund on its original settlement amount of \$7.1 million, including accrued interest. The district court granted final approval to the settlement, and entered final judgment in the case, in December 2006. The deadline to appeal the settlement passed on January 12, 2007, and no appeals were filed.

Last Atlantis Litigation

On November 7, 2005, an amended and consolidated complaint, which we refer to as the "consolidated complaint," was filed on behalf of Last Atlantis Capital LLC, Lola L.L.C., Lulu L.L.C., Goodbuddy Society L.L.C., Friendly Trading L.L.C., Speed Trading, LLC, Bryan Rule, Brad Martin and River North Investors LLC in the U.S. District Court for the Northern District of Illinois against the CBOE, three other options exchanges and 35 market maker defendant groups (the "Specialist Defendants"). The consolidated complaint combined complaints that recently had been filed by Bryan Rule and Brad Martin with an amendment of a previously dismissed complaint, which we refer to as the "original complaint," that originally had been brought by a number of the other plaintiffs. The consolidated complaint raised claims for securities fraud, breach of contract, common law fraud, breach of fiduciary duty, violations of the Illinois Consumer Fraud and Deceptive Trade Practices Act and tortious interference with plaintiffs' business and contracts. The previously dismissed original complaint also had brought claims under the antitrust laws, and the dismissal of those claims remains subject to appeal. With regard to the CBOE, the consolidated complaint alleged that the CBOE and the other exchange defendants knowingly allowed the specialist defendants to discriminate against the plaintiffs' electronic orders or facilitated such discrimination, failed adequately to investigate complaints about such alleged discrimination, allowed the specialist defendants to violate CBOE's Rules and the rules of the SEC, failed to discipline the specialist defendants, falsely represented and guaranteed that electronically entered orders would be executed immediately and knowingly or recklessly participated in, assisted and concealed a fraudulent scheme by which the defendants supposedly denied the customers the electronic executions to which they claim they were entitled. Plaintiffs sought unspecified compensatory damages, related injunctive relief, attorneys' fees and other fees and costs. On September 13, 2006, the Court dismissed the consolidated complaint in its entirety and entered judgment in favor of all defendants. On September 29, 2006, plaintiffs filed a motion to reconsider in which they requested that the court either amend or vacate the September 13 judgment and allow them to file a further amended consolidated complaint. Plaintiffs simultaneously appealed the dismissal of both the consolidated complaint and the original complaint. On March 22, 2007, the Court denied plaintiffs' request to reconsider the dismissal of the claims against CBOE and held that the prior dismissal of those claims, with prejudice, would stand. The Court, however, granted plaintiffs' motion to reconsider the dismissal of the claims against the Specialist Defendants and ordered plaintiffs to file another amended complaint asserting only their claims against the Specialist Defendants. While the dismissal of the claims against CBOE is ultimately subject to appeal, that appeal cannot proceed until after the Court resolves all of the claims against the Specialist Defendants.

Index Options Litigation

On November 2, 2006, the ISE and its parent company filed a lawsuit in federal court in the Southern District of New York against The McGraw-Hill Companies, Inc. ("McGraw-Hill") and Dow Jones & Co. ("Dow Jones"), the owners, respectively, of the S&P 500 Index and the DJIA, which are the basis for index options, or "SPX options" and "DJX options," respectively, that the CBOE trades pursuant to exclusive licenses from McGraw-Hill and Dow Jones. The CBOE is not a party in this lawsuit. The ISE seeks a judicial declaration that it may list and trade SPX and DJX options without a license and without regard to the CBOE's exclusive licenses to trade options on those indexes, on the ground that any state-law claims based on the unlicensed listing of SPX and DJX options allegedly would be preempted by the federal Copyright Act and because McGraw-Hill and Dow Jones supposedly cannot state an actionable copyright claim. McGraw-Hill and Dow Jones filed a motion to dismiss this action on December 22, 2006, on the ground that there is no federal jurisdiction over this dispute. This motion has not been decided. Consistent with the jurisdictional position of McGraw-Hill and Dow Jones, those parties joined with the CBOE to file a state court action in Illinois on November 15, 2006 against the ISE and OCC (the "Illinois action"). In the Illinois action, the CBOE and the other plaintiffs seek a judicial declaration that the ISE may not list, or offer trading of, SPX or DJX options because of both the proprietary rights of McGraw-Hill and Dow Jones in the underlying indexes and the CBOE's exclusive license rights to trade such options. The Illinois action alleges that the ISE's threatened action would misappropriate the proprietary interests of McGraw-Hill and Dow Jones and the exclusive license rights of the CBOE, would interfere with the CBOE's prospective business relationships with its members firms and customers and would constitute unfair competition. On December 12, 2006, the ISE removed the Illinois action to federal court in the Northern District of Illinois. On December 15, 2006, the CBOE and the other plaintiffs in the Illinois action moved to remand the matter to the Illinois state court on the ground that there is no federal jurisdiction over the claims. The federal court granted the motion to remand the Illinois action to state court, where it is now pending. The ISE moved to dismiss the Illinois action on the alternative grounds of inconvenient forum and the prior-pending suit it filed in New York. The CBOE and the other plaintiffs are opposing the ISE's motion and the court is scheduled to hear oral argument on May 15, 2007.

Patent Litigation

On November 22, 2006, the ISE filed an action in federal court in the Southern District of New York claiming that CBOE's Hybrid Trading System infringes ISE's patent directed towards an automated exchange for trading derivative securities. On January 31, 2007, the CBOE filed an action in federal court in the Northern District of Illinois seeking a declaratory judgment that the ISE patent that is the subject of the action in New York, and two other patents that the ISE had raised in communications with the CBOE, are either not infringed and/or not valid and/or not enforceable against the CBOE. The ISE has not yet responded to this complaint. On February 5, 2007, the CBOE filed a motion to transfer the matter pending in the Southern District of New York to federal court in the Northern District of Illinois. Although briefing on the motion to transfer concluded on February 27, 2007, the venue issue remains pending.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Other

As a self-regulatory organization under the jurisdiction of the SEC, and as a designated contract market under the jurisdiction of the CFTC, CBOE and CFE are subject to routine reviews and inspections by the SEC and the CFTC. CBOE is also currently a party to various other legal proceedings.

It is management's belief that the expected outcome of any of the legal proceedings to which CBOE is currently a party will not have a material impact on the consolidated financial position or results of operations of CBOE; however, litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance.

7. MARKETING FEE

CBOE facilitates the collection and payment of marketing fees assessed on certain trades with payment accepting firms. Funds are made available to Designated Primary Market Makers and Preferred Market Makers for order flow marketing. As of December 31, 2006 and 2005, respectively, amounts held by CBOE on behalf of others included an accounts receivable balance of \$8.0 million and \$3.6 million.

8. INCOME TAXES

A reconciliation of the statutory federal income tax rate to the effective income tax rate, for the years ended December 31, 2006 and 2005 is as follows:

	2006	2005
Statutory federal income tax rate	35.0%	35.0%
State income tax rate, net of federal income tax effect	4.8%	4.8%
Other permanent differences, net	1.7%	5.4%
Effective income tax rate	41.5%	45.2%

The components of income tax expense for the years ended December 31, 2006 and 2005 are as follows (in thousands):

	2006	2005
Current:		
Federal	\$ 28,109	\$ 8,357
State	6,386	1,508
Total current	34,495	9,925
Deferred:		
Federal	(4,020)	(802)
State	(556)	(125)
Total deferred	(4,576)	(927)
Total	\$ 29,919	\$ 8,998

At December 31, 2006 and 2005, the net deferred income tax liability approximated (in thousands):

Deferred tax assets	\$ 7,098	\$ 6,561
Deferred tax liabilities	27,464	30,279
Net deferred income tax liability	\$ 20,366	\$ 23,718

Deferred income taxes arise principally from temporary differences relating to the use of accelerated depreciation methods for income tax purposes, capitalization of internally developed software, funding of the VEBA trust, new partner investment in OneChicago and undistributed earnings from CBOE's investment in NSX.

9. DEFERRED REVENUE

A fixed transaction fee program was in effect for the period October 1, 2004 through December 31, 2006. Under the 2006 program, Designated Primary Market-Makers ("DPMs"), electronic DPMs ("e-DPMs"), and Remote Market Makers ("RMMs") could elect to pay a fixed annual fee instead of being assessed transaction fees on a per contract basis for their DPM, e-DPM, and RMM transactions in equity option classes. Six DPMs participated in the 2006 fixed fee program. The prepayment of the 2006 transaction fees totaled \$13.5 million during the first quarter of 2006. This amount was amortized and recorded as transaction fees revenue each month during 2006.

Under the 2005 fixed transaction fee program, Designated Primary Market-Makers (DPMs) and electronic DPMs (e-DPMs) could elect to pay a fixed annual fee instead of being assessed transaction fees on a per contract basis for their DPM, e-DPM, and Remote Market Maker transactions only in equity option classes. Six DPMs participated in the 2005 fixed fee program. The prepayment of the 2005 associated transaction fees totaled \$10.5 million as of December 31, 2004, was recorded as deferred revenue. This amount was amortized and recorded as transaction revenues monthly during 2005.

In December 2006 and 2005 CBOE collected \$8.2 million and \$7.9 million, respectively, representing annual regulatory fees amortized over the twelve-month period of July through June. The amount included in deferred revenue as of December 31, 2006 and 2005 totaled \$4.1 million and \$3.9 million.

10. 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 due to their short-term nature.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. PURCHASE OF CHICAGO BOARD OF TRADE (CBOT) EXERCISE RIGHT PRIVILEGES

On April 26, 2005, CBOE initiated a purchase offer for a significant number of CBOT exercise right privileges. The exercise right privilege is a separately transferable interest representing the exercise right component of a CBOT Full Membership. The exercise right refers to the right of all CBOT Full Members to become CBOE members without the need to purchase an Exchange membership. In order to utilize the exercise right, the holder of an exercise right privilege must also hold all other rights and privileges represented by a CBOT Full Membership (including the interests issued in exchange for CBOT full memberships in the corporate restructuring of CBOT implemented effective April 22, 2005). The purchase offer was made in order to give regular members of the Exchange a greater interest in and control over CBOE, to limit the number of members able to have access to CBOE, and to provide CBOE with more flexibility in managing its affairs. In May and June 2005, a total of 69 exercise right privileges were purchased at a price of \$100,000 per right. The \$6.9 million total purchase price was paid utilizing working capital reserves. This amount is reflected net of tax benefits of \$2.1 million on the 2005 consolidated statements of income and retained earnings.

In August 2006, one exercise right privilege was purchased at a price of \$135,000. This transaction is reflected net of tax benefits of \$41,000 on the 2006 consolidated statements of income and retained earnings.

12. SUBSEQUENT EVENTS

The CBOE Stock Exchange, LLC ("CBSX") was formed as a for-profit entity by five partners, including CBOE. On January 25, 2007, the CBSX appointed a Board of Directors and trading operations began on March 5, 2007. CBOE holds four of nine seats on the CBSX Board of Directors. CBOE received a 50% share in CBSX in return for non-cash property contributions representing a license to use the CBOE *direct* trading engine during the term of the company, a license to use the name CBOE Stock Exchange, LLC and acronym CBSX in connection with the conduct of CBSX business, and a license to use the business plan and operations manual for the conduct of CBSX business, as developed by CBOE, for the term of the company. Other partners invested a total of \$25.0 million in cash in CBSX. Other partners include Windmill Capital Holdings, LLC, LaBranche & Co., IB Exchange Corp., and SIG Specialists Holdings, Inc.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Chicago Board Options Exchange, Incorporated and subsidiaries (the "Exchange") as of December 31, 2006 and 2005, and the related consolidated statements of income and retained earnings and of cash flows for the years then ended. These 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Exchange's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Exchange as of December 31, 2006 and 2005, 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.

As discussed in Note 1 to the consolidated financial statements, the Exchange changed its method of accounting for Defined Benefit Pension and Other Postretirement Plans in 2006 in order to conform to Statement of Financial Accounting Standards No. 158.

Deloitte & Touche LLP

Chicago, Illinois
April 4, 2007

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December)*
*Vice Chairman
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August)*



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(served August through
December)*
Floor Director
*Managing Director
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Wachovia Securities, LLC

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Lehman Brothers, Inc.

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First Clearing, LLC
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Lek Securities Corporation
Man Securities Inc.

Merrill Lynch, Pierce, Fenner & Smith Inc.
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Nomura Securities International, Inc.
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