

## Perspective

Chicago Board Options Exchange  
2007 Annual Report







"In every conceivable way—from product innovation and technological advancements, to options education and customer service—CBOE has been the industry leader for 34 years. Since day one, CBOE has always pushed the envelope when it comes to exploring new ideas. The Exchange's dedication to product development has led to the creation of many of the most significant products in the industry, including most recently, volatility options and futures. CBOE's trading environment has evolved into one of the most unique market models in the industry. Modifications to CBOE's Hybrid system have enhanced market quality, while providing ease of access to a diverse mix of products. It is CBOE's unwavering focus on innovation that gives the Exchange a leg up on its competition."

**Anthony Carone**  
*Partner, G-Bar Limited Partnership*  
*31-year veteran and 24-year member of CBOE*

## Letter from the Office of the Chairman



*Illinois Congressman Rahm Emanuel (D) rings the Opening Bell on March 5, 2007, to commemorate the launch of trading at the CBOE Stock Exchange.*

2007 was a year for new milestones at the Chicago Board Options Exchange (CBOE). As CBOE was experiencing record trading volume, revenue and seat prices, the Exchange was taking steps to fortify its competitive position, enhance its trading platform and cultivate new market opportunities.

2007 was the fourth consecutive year of record trading volume at CBOE and the fifth straight year that the Exchange posted volume growth over the previous year. As the largest options exchange in the U.S., CBOE handled one-third of the industry's 2.8 billion contracts traded in 2007.

The Exchange completed its second full year operating with a for-profit business model in 2007 and achieved another year of record revenues and earnings, nearly doubling its net income to \$83.2 million, compared with \$42.1 million in 2006. Total revenues of \$352.3 million rose 37% over the \$258.0 million from 2006. Strong revenue growth, combined with disciplined expense management, drove consistent earnings gains for CBOE in 2007.

On February 9, 2007, the Exchange filed an S-4 Registration Statement with the Securities and Exchange Commission (SEC) outlining the details of CBOE's proposed demutualization. Through demutualization, CBOE is changing its organizational structure from a non-stock corporation owned by its members, into a holding company organized as a stock corporation owned by its stockholders. This new business model will provide greater agility to respond to the demands of a changing business environment. It will also allow CBOE to pursue opportunities to engage in business combinations and joint ventures that are not available to a membership organization.

CBOE seat prices continued to reach record highs in 2007 as prices increased 74% for the year, climbing from \$1.8 million at the beginning of January, to \$3.125 million at the end of December. A new all-time high was reached on December 11, 2007, when a CBOE seat traded for a record of \$3.150 million. During 2007, there were twenty-one different seat sales at record prices.

The Exchange created an impressive range of new products in 2007, several of which capitalized on the ongoing success story of CBOE's Volatility Index (VIX) options and futures. Other product advancements last year included an award-winning benchmark and several niche products aimed at professional, more sophisticated options customers. In an effort to tap into the tremendous potential of the over-the-counter credit derivatives market space, CBOE introduced Credit Event Binary Options (CEBOs).

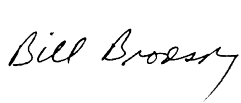
Perhaps most significant, however, was the Exchange's entry into the stock industry with the launch of the CBOE Stock Exchange (CBSX) on March 5, 2007. CBOE partnered with four leading stock trading firms, IB Exchange Corp., LaBranche & Co Inc., Susquehanna International Group, LLP and VDM Chicago, LLC, to create the new exchange. In January 2008, Lime Brokerage LLC, a New York-based brokerage firm with a diverse customer base, also became a minority owner of CBSX.

CBSX extends the benefits of CBOE's successful options market model to a rapidly changing stock world, providing stock traders with a proven, economical market alternative. CBOE*direct*, CBOE's robust screen-based trading platform, serves as the trade engine for CBSX's electronic trading environment. This new securities exchange also offers an efficient venue for options traders to hedge their stock trading activity.

CBOE continued to refine its Hybrid Trading System in 2007, adding new features designed to strengthen operational efficiencies and boost the versatility of the system. Options on two of CBOE's largest indexes—the S&P 500 (SPX) and S&P 100 (OEX)—were added to Hybrid. The industry's first electronic price improvement auction for complex orders was introduced at CBOE during the year. The Exchange's Remote Market Maker (RMM) initiative continued to expand its reach as participation in, and the impact of, the program grew significantly.

Looking ahead, the positive momentum gained from the initiatives set forth in 2007 have CBOE well positioned to lead the industry into the year ahead and beyond. The year 2008 also marks the 35th anniversary for CBOE and the options industry, a significant milestone that CBOE and the industry will commemorate throughout the year. CBOE, proud of the legacy it has created, looks forward to building upon that legacy in the upcoming year and for many years to come.

As founder of the industry, the creator of many of its most vital products, the leading advocate for industry issues and the authority for its educational message, CBOE has led the options industry for over three decades. Born through this leadership is an unrivaled perspective. It is this perspective that continues to define what CBOE is and what it will become.



William J. Brodsky  
Chairman and  
Chief Executive Officer



Edward J. Joyce  
President and  
Chief Operating Officer



Edward T. Tilly  
Executive Vice Chairman



Bradley G. Griffith  
Vice Chairman

# Trading Volumes Reach New Highs

Trading volume across all four of CBOE's business lines—options, futures, stocks and single stock futures—posted increases during 2007. At CBOE and the CBOE Futures Exchange, 2007 marked the fourth and third consecutive years respectively, of record annual trading activity. At the CBOE Stock Exchange, which was launched in March, monthly trading volume accelerated rapidly throughout the year. And at OneChicago, the joint venture for trading single stock futures, total volume for the year posted a modest gain over 2006.

At CBOE, trading volume in 2007 reached a new all-time high of 944.5 million contracts, which exceeded the 674.7 million contracts traded in 2006 by 40%. Average daily volume on the year, also a new high, was 3.8 million contracts traded per day. At year end, Exchange open interest stood at 278.0 million contracts, 23% above the end of 2006.

In CBOE's 2,203 equity options listings, annual volume exceeded the 500-million contract mark for the first time in the Exchange's history. The 501.0 million contracts traded was a new record, surpassing the 2006 volume of 390.7 million contracts, which had been the previous high, by 28%. 2007 was the fourth year in a row for CBOE to post year-over-year equity options volume growth. During the year, the five most actively traded equity options were Apple, Inc. (AAPL), Google, Inc. (GOOG), Research in Motion Limited (RIMM), Citigroup, Inc. (C) and Dendreon Corporation (DNDN).

Volume in CBOE's index and exchange traded fund (ETF) options has registered annual gains each year since 2001. In 2007, a fourth consecutive year of record index/ETF options volume, a new all-time high of 443.5 million contracts were traded, up 56% over the 284.1 million contracts traded during 2006. Volume in S&P 500 Index (SPX) options, CBOE's largest and most-actively traded contract, rose 52% to a new record of 158.1 million contracts. Additionally, new annual trading records were set in options on the iShares Russell 2000 Index Fund (IWM), 75.8 million contracts, up 69% over 2006; Russell 2000 Index (RUT), up 277% to 8.1 million; Standard & Poor's Depository Receipts/SPDRs (SPY), up 104% to 49.2 million; and PowerShares Nasdaq-100 Trust (QQQQ), up 36% to 43.2 million. At the end of 2007, CBOE listed options on 22 broad- and sector-based indexes and 118 exchange traded funds, as well as four interest rate products.

CBOE remained the leading U.S. options exchange in 2007. Despite significant volume gains for the year, CBOE's market share dipped fractionally, from 33.3% in 2006 to 33.0% in 2007. In equity options, CBOE's market share decreased slightly, from 26.1% in 2006 to 25.7% in 2007. Market share in multiply-listed index and ETF options saw a similar fractional decrease, from 37.3% in 2006 to 36.7% in 2007. Market share in cash-settled index options, however, increased slightly to 86.1% in 2007, up from 85.7% in 2006.

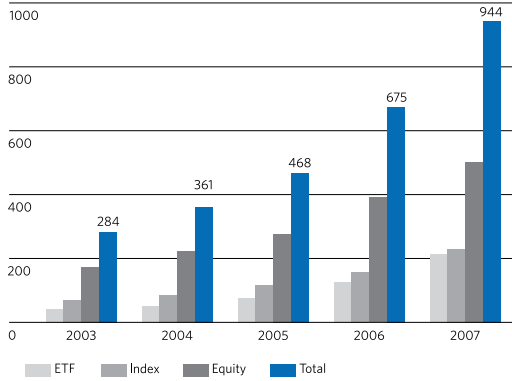
At CBOE Futures Exchange (CFE), volume reached a record 1.1 million contracts traded during 2007, an increase of 138% over the 2006 volume of 478,424 contracts. Average daily volume was 4,527 contracts, compared to 1,906 contracts per day in 2006. At year's end, open interest stood at 59,131 contracts, an increase of 65% over the close of 2006. CFE currently offers futures contracts on seven different products.

The CBOE Stock Exchange launched on March 5, 2007 with a dozen stocks. Over the ensuing nine weeks, CBSX quickly expanded its offerings to 2,900 stocks and ETFs. Monthly volume swelled from 45 million shares in March to over 200 million shares in December. On the year, CBSX averaged 4.83 million shares traded per day and, in its first ten months of operation, traded a total of more than one billion shares.

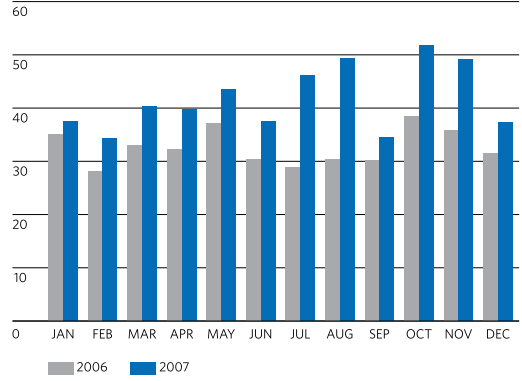
At OneChicago, trading volume for the year tallied 8.1 million contracts, up 2% from the 2006 volume of 7.9 million contracts. OneChicago lists more than 500 single stock futures and ETFs, in addition to OneChicago Select Indexes, which are a series of customer-designed, narrow-based security index futures. OneChicago is a joint venture exchange of CBOE, IB Exchange Corp. and CME Group.



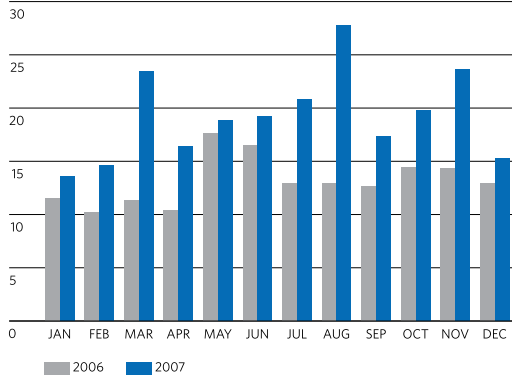
**CBOE Total Volume  
In Millions**



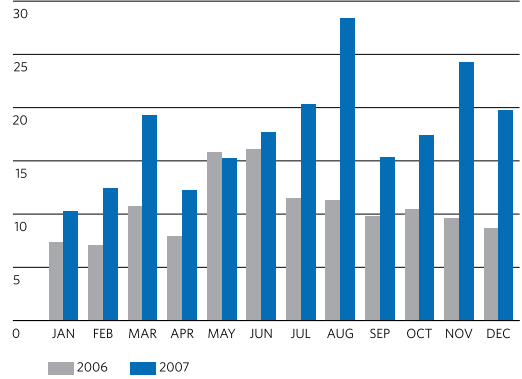
**Total Equity Options Volume  
In Millions, 2006 v. 2007**



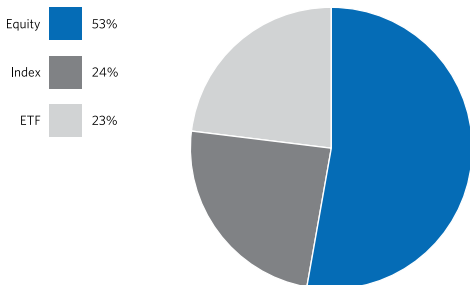
**Total Index Options Volume  
In Millions, 2006 v. 2007**



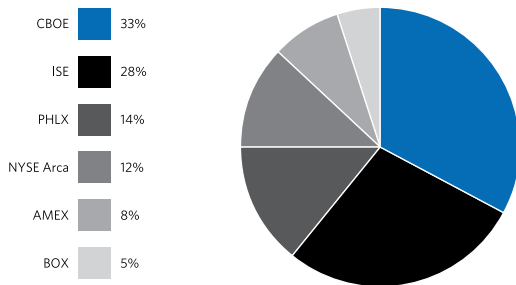
**Total ETF Options Volume  
In Millions, 2006 v. 2007**



**CBOE Total Volume 2007  
By Product**



**2007 Market Share  
Total Industry Volume**







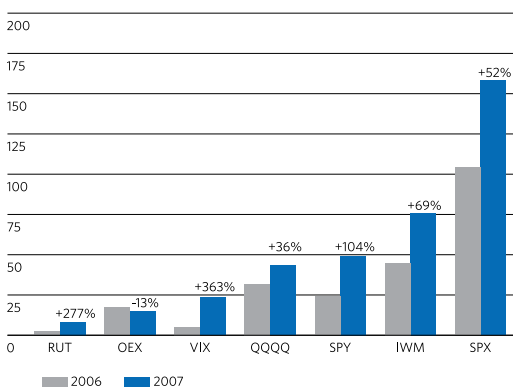
## Leader in New Product Engineering

For more than three decades, virtually all of the industry's major new product innovations have been created at CBOE. The Exchange devotes significant resources to the research and development of new investment tools, and its proven track record of industry-defining products is testament to the Exchange's commitment to new product engineering. At CBOE, product innovation takes many forms, appealing to investors of all types.

CBOE began publishing a new benchmark index, the CBOE S&P 500 PutWrite Index (PUT) on June 20, 2007. PUT measures the performance of a hypothetical portfolio that sells S&P 500 Index (SPX) put options against collateralized cash reserves held in a money market account. PUT is similar in concept to the popular CBOE S&P 500 BuyWrite Index (BXM) and other CBOE BuyWrite Indexes. CBOE's suite of benchmark indexes allows investors to pick the index that best suits their market views and investment goals.

In July, CBOE announced that a license was granted to Ansbacher Investment Management, Inc., giving the firm the right to use the CBOE S&P 500 PutWrite Index as the strategic basis for a new options investment vehicle. In December, CBOE's PutWrite Index was recognized as the "Most Innovative Benchmark Index" at the Twelfth Annual Super Bowl of Indexing Conference. This was the fourth award that CBOE products have received in as many years at this prestigious industry conference.

**Most-Actively Traded Index and ETF Options**  
Total Volume In Millions, Percentage Change Year-Over-Year 2006 v. 2007



The year 2007 also saw the introduction of the industry's first Exchange Traded Fund (ETF) and Exchange Traded Note (ETN) based on the BuyWrite methodology. The PowerShares S&P 500 BuyWrite Portfolio (PBP) is an ETF based on the CBOE S&P 500 BuyWrite Index methodology. Barclays Bank PLC launched the first ETN based on this methodology with the iPath CBOE S&P 500 BuyWrite Index ETN (BMV). Both provide investors access to a buy-write, or covered call, investment strategy on the S&P 500 market index. These strategies exemplify how CBOE's benchmark innovations continue to help grow new types of trading volume at CBOE.



On October 5, 2007, CBOE and Dow Jones celebrated the 10th anniversary of the listing of options on the Dow Jones Industrial Average Index at CBOE. At the bell ringing ceremony were (from left to right): William Brodsky, Chairman and CEO, CBOE; Clare Hart, Executive Vice President, Dow Jones & Company; Michael Petronella, President, Dow Jones Indexes; the Honorable Richard M. Daley, Mayor of the City of Chicago; Edward Joyce, President and COO, CBOE; and Richard DuFour, Executive Vice President, CBOE.

"Quarterly" options, first launched by CBOE in 2006, provide investors with options that expire on the last trading day of each quarter to coincide with end-of-quarter accounting practices. Quarterly options have become especially popular with money managers who rebalance or settle portfolios on the last day of each quarter and who use options as part of their portfolio management strategy. In 2007, CBOE launched three new Quarterly options: Quarterly Standard & Poor's 500 Index (SPX) options, Quarterly Mini-SPX Index (XSP) options and Quarterly Standard & Poor's 100 Index with European-style exercise (XEO) options.

CBOE also lists Quarterly options on five Exchange-Traded Funds (ETFs): iShares Russell 2000 Index Fund (IWM), PowerShares Nasdaq-100 Trust (QQQQ), Standard & Poor's Depository Receipts/SPDRs (SPY), DIAMONDS Trust, Series 1 (DIA) and Energy Select SPDRs (XLE). Volume and customer interest in Quarterly options has increased steadily; more than 20.5 million contracts were traded at CBOE during 2007.

# The Marketplace for Volatility Products

Since 1993, CBOE has been the leading authority in measuring and defining the volatility space, beginning with the Exchange's creation of the CBOE Volatility Index (VIX), the preeminent benchmark of market volatility and investor sentiment. CBOE's subsequent listing of futures and options on VIX paved the way for volatility to emerge as an entirely new asset class.

In 2007, volume in volatility products listed at CBOE and CFE continued to grow, while several new benchmarks and strategies were launched to meet the growing appetite of investors increasingly attracted to volatility products.

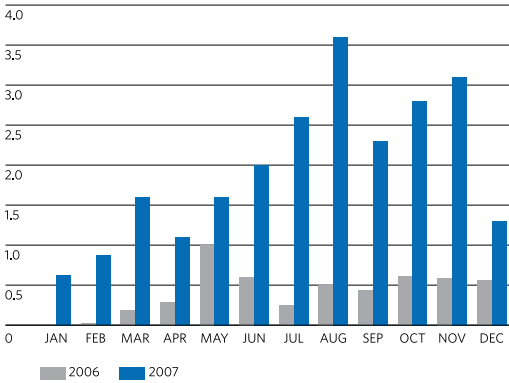
CBOE experienced phenomenal growth in VIX options trading in 2007 as a total of 23.4 million contracts traded during the year, an increase of 363% over the 5.1 million contracts traded during 2006. Average daily volume jumped from 23,491 contracts in 2006 to 93,181 contracts in 2007. Options on VIX, launched in February 2006, now rank as CBOE's second most-actively traded index option and have become the most successful new product launch in CBOE history.

At CFE, the bulk of the Exchange's record volume came from its flagship product, VIX futures, which traded an all-time high of 1,046,475 contracts, an increase of 141% over the total for 2006. Of the seven contracts currently trading at CFE, six are based on volatility and variance products.

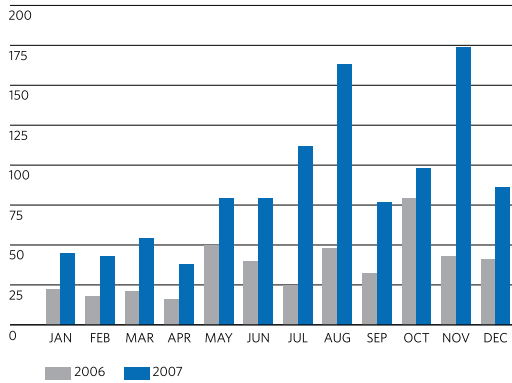
In 2007, CBOE and CFE introduced options and futures on both the CBOE Nasdaq-100 Volatility Index (VXN) and the CBOE Russell 2000 Volatility Index (RVX). CBOE also unveiled four new volatility benchmarks and strategies last fall: the CBOE S&P 500 3-Month Volatility Index (VXV), CBOE VIX Premium Strategy (VPD), CBOE Capped VIX Premium Strategy (VPN) and the CBOE S&P 500 VARB-X Strategy Benchmark (VTY).

Dedication to volatility research, an extensive suite of volatility benchmarks and contract offerings, and a unique trading venue have made CBOE the marketplace for volatility products.

VIX Options Total Volume  
In Millions, 2006 v. 2007



VIX Futures Total Volume  
In Thousands, 2006 v. 2007





"CBOE's creation of the first listed marketplace for volatility products has been a major development for the financial industry and is spurring the growth of this new space. The Exchange's Hybrid system enables ease of access for all types of market participants looking to trade volatility. Customers have the ability to tap the deep liquidity of the market, quickly meet at the best bid and offer, and fill their orders efficiently. CBOE's volatility options and futures have exhibited consistent growth since their launch, driven primarily by a large and diverse mix of users."

**Benjamin Londergan**  
Co-Chief Executive Officer, Group One Trading LP  
Designated Primary Market Maker for VIX options



# Unparalleled Trading Choice Through Hybrid Market Model

CBOE constructed its Hybrid Trading System from the ground-up to create a dynamic trading environment that captures the best of both worlds. CBOE's Hybrid platform is a screen-based trading system, enhanced with the benefits that come from trading in an open outcry setting. This model gives customers the ability to choose how their orders are handled.

CBOE's Remote Market Maker program, first introduced in 2005, enables CBOE members and member firms to stream quotes and trade electronically from remote or off-floor locations. The number of RMMs grew from 50 to 71, the volume handled by RMMs increased from 5 million to 15 million contracts and RMM quotes rose from 3 to 10 billion, when comparing the months of December 2006 to December 2007. The consolidation of off-floor quotes generated by the RMMs and electronic-Designated Primary Market Makers (e-DPMs) with those of in-crowd market participants has resulted in deeper, more liquid markets at CBOE.

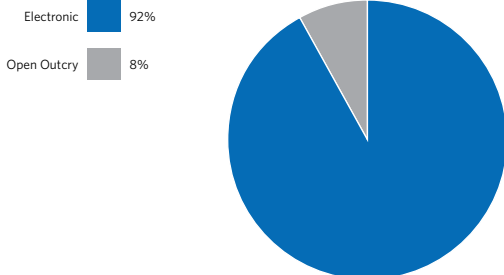
CBOE remains committed to continuously enhancing its Hybrid Trading System to ensure that Hybrid offers an unparalleled trading choice. In the third quarter of 2007, S&P 500 Index (SPX) and S&P 100 Index (OEX) options were moved to Hybrid 3.0, a modified version of the Hybrid Trading System designed to accommodate the unique features of SPX and OEX trading. Within the Hybrid 3.0 system, Lead Market Makers (LMMs) drive quotes, while electronic access to the Order Book is available for broker-dealers and in-crowd market makers.

Last year, the Exchange updated the Complex Order Book (COB) with the Complex Order Auction (COA), the industry's first electronic price improvement auction for complex orders. During 2007, the number of contracts traded in COB increased more than 77% and the volume traded in COA grew more than 60%.

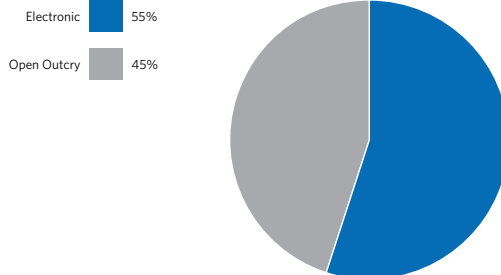
Building on the success of COB and COA, as well as the launch of the CBOE Stock Exchange, CBOE plans to introduce an electronic auction for the execution of combined stock and options orders, such as buy-writes, in 2008. The options trades will be reported on CBOE, and the stock trades will be reported on CBSX. Similar to COA, the system will initiate a brief electronic auction, trading both sides of the order as one order, with one net price. The new feature is another industry "first" from CBOE.

On January 2, 2008, CBOE unveiled Hybrid 4.0, a new initiative designed to enhance price competition and market quality at CBOE. Hybrid 4.0 incorporates a comprehensive set of incentives to further reward market participants for competitive pricing while maintaining the reliable depth and liquidity of CBOE's marketplace.

Hybrid Trading System in 2007  
Method of Order Execution  
All CBOE Products



Hybrid Trading System in 2007  
Percentage of Total Contract Volume  
All CBOE Products





"As a liquidity and order flow provider in today's environment, it is critical that our firm has the ability to seek trading opportunities in either an electronic or open outcry venue. The unique format of CBOE's Hybrid Trading System allows us to seamlessly access both.

The value in CBOE's Hybrid is that its versatile structure meets the demands that executing different types of options orders present. Immediate fills can be executed electronically, while larger, more complex orders not easily replicated on the screen, can be worked in the trading crowd. It is this choice of order handling that provides an advantage for our proprietary trading firm and our order routing and floor execution businesses."

Eric Henschel  
Partner, Wolverine Trading, LLC  
Wolverine Execution Services, LLC



# Competitive Advantage Through a Multi-Asset Trading Platform

CBOE*direct*, the state-of-the-art screen-based trading system designed and built entirely in-house at CBOE has proven to be one of the most robust trading platforms developed anywhere in the world. The performance and reliability of the system is its trademark, and its customized, flexible design has enabled the Exchange to expand into other markets with minimal investments in technology. Due to its highly scalable nature, CBOE*direct* now serves as the trade engine that powers four different exchanges: CBOE, CFE, CBSX and OneChicago.

With the launch of CBSX last year, CBOE offers all major asset classes—options, futures and stocks—on a single trading platform. Ownership of a multi-asset trading platform provides CBOE with a competitive advantage in today's rapidly shifting business landscape, while the adaptability of the CBOE*direct* platform will enable the Exchange to pursue future new product opportunities when presented.







"The option industry's current environment is the most dynamic that I have seen in my 30 years in the business—the products and services continue to evolve, appealing to a broader customer base. One of the priorities at UBS is to constantly enhance and expand our extensive offering, and the CBOE's multi-asset trading platform provides tremendous value in our quest to meet those needs."

James Boyle  
Executive Director, UBS Securities, LLC  
Institutional member firm



## Expanding Reach into New Markets

Looking to expand the Exchange's reach into new, untapped markets, CBOE introduced a new trading system and product offering designed to cater to participants in the over-the-counter (OTC) markets. The OTC arena is a vast market space that offers tremendous potential, and through this pair of initiatives, CBOE hopes to attract OTC business to the Exchange.

composite baskets of companies. CEBOs are cash-settled call options that pay out when a credit event, such as a default on a specified payment obligation, has occurred. Conversely, if no credit event occurs during the life of the contract, the option expires with no value. By year end, CBOE listed a total of 14 CEBOs for trading.



In November 2007, a new electronic system for trading index and equity Flexible EXchange (FLEX) options debuted at CBOE. The system, called CFLEX, enables customers to negotiate FLEX options trades securely over the Internet. With this system, CBOE is the first exchange to automate FLEX options trading. CFLEX offers users complete anonymity, guaranteed participation rights, electronic limit order books and dramatically reduces the time required to execute a FLEX trade—making the process far less complex for participants. The FLEX concept holds great appeal for the OTC market, and CFLEX makes it easier to trade these options electronically.

In June, CBOE launched Credit Event Binary Options (CEBOs) on five individual companies; followed in July by Credit Event Baskets, with both small, sector-specific baskets of companies, and large, broad-based

CBOE's credit products provide many benefits not available in the OTC markets, including standardized, exchange-traded contracts, the assurance of triple-A rated clearing, price transparency, low trading costs and electronic trading via CBOE's Hybrid Trading System.

The OTC credit derivatives market is a multi-trillion dollar business and CBOE sees tremendous potential in this massive market space. Credit options have synergies with stock options and volatility and the Exchange views credit options as a natural extension of CBOE's product line.



## The Authority on Options Education

CBOE embraces its role as the premier educational resource for the options industry. Whether it be through The Options Institute, an award-winning website, or various conferences and seminars, the Exchange is committed to providing the finest educational initiatives for investors worldwide. As the use of options continues trending upward and investors' appetites for options-related information continues growing, the role CBOE plays in educating the investing public remains vital. Customers who are well schooled in the myriad uses of options products and services are essential to keeping the industry healthy and vibrant.

Since 1985, The Options Institute, the educational arm of CBOE, has been teaching investors worldwide about options. Each year, instructors from The Options Institute conduct hundreds of classes, with the purpose of educating investors, brokers, financial advisors, and regulatory personnel about options products, uses and strategies. In 2007, The Institute conducted over 300 classes and educational events for more than 31,000 attendees nationwide and in seven countries. As options use increases globally, and new and emerging markets embrace the value of financial derivatives—especially options—the educational mission of The Options Institute remains as critical today as it did more than twenty years ago.

The Exchange's website, [www.CBOE.com](http://www.CBOE.com), is widely regarded as one of the most comprehensive sources for options information anywhere on the Internet. For six consecutive years, [cboe.com](http://cboe.com) has received a "Best of the Web" designation by *Forbes.com*. A wide variety of educational resources may be found on [cboe.com](http://cboe.com). Also available are the series of online tutorials, courses and webcasts hosted by The Options Institute and "CBOE-TV," the Exchange's free, web-based streaming video service that features daily trading insights, market recaps and coverage of events and news from CBOE's trading floor. Last year, visitors to the site increased by 41%.

The Risk Management Conference (RMC), annually hosted by CBOE, is the premier industry event of its kind. With a focus on presenting the latest risk management products and strategies, the RMC attracts an audience of several hundred institutional investors and professional money managers from across North America each year. The conference's keynote addresses, panel discussions and break-out sessions are led by some of the most distinguished practitioners, researchers and academicians from the industry.

CBOE excels at providing timely and informative insight through a variety of educational events. To commemorate the twentieth anniversary of "Black Monday," the stock market crash of October 1987, CBOE hosted a symposium titled "Twenty Years Later: After The '87 Crash." A panel of experts who played key roles in the markets at that time recalled the precipitous week on Wall Street and theorized whether an event of that magnitude could potentially occur again.

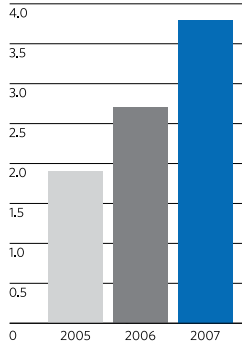


*Participating in the symposium were (from left to right): William Brodsky, Chairman and CEO, CBOE; Blair Hull, Chairman and CEO, Matlock Capital; Wayne Luthringshausen, Chairman and CEO, The Options Clearing Corporation; and Philip Roth, Chief Technical Market Analyst, Miller Tabak & Co. Stephen Wisniewski, Chicago Bureau Chief, Dow Jones Newswires, served as the moderator.*

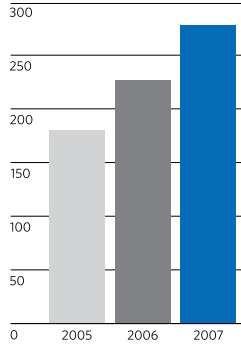
This symposium, attended by over 150 traders, investors and journalists, is just one example of the many educational events presented by the Exchange each year.



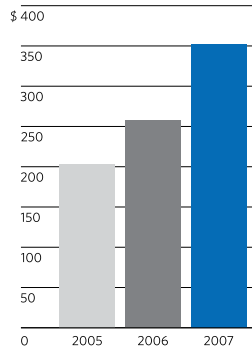
**CBOE Average Daily Volume Contracts, In Millions**



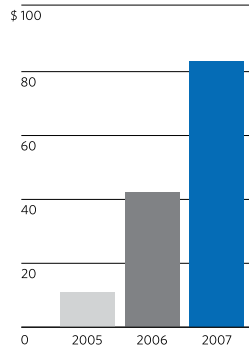
**CBOE Total Open Interest Contracts, In Millions**



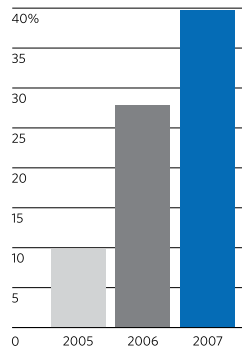
**Total Revenues  
In Millions of Dollars**



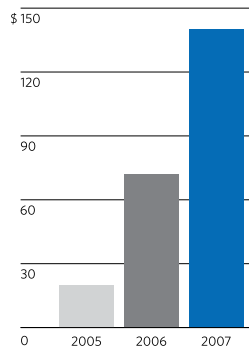
**Net Income  
In Millions of Dollars**



**Operating Margin  
Margin Percent of Total Revenues**



**Operating Income  
In Millions of Dollars**



## 2007 Financial Summary

In our second year of operation with a for-profit approach, CBOE made significant strides, achieving records in trading volume, total revenues and earnings. CBOE earned record net income of \$83.2 million in 2007 versus \$42.1 million in the prior year.

Record trading volume of 3.8 million contracts per day in 2007 compared to the prior year record of 2.7 million contracts per day was the key driver of the strong financial results.

The 40% growth in 2007 trading volume versus the prior year was the main reason revenues increased \$94.3 million (37%) compared with 2006. Investment income increased by \$3.3 million (69%) due to higher investment balances generated from record profits.

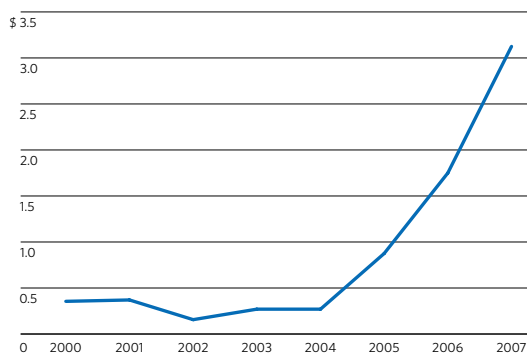
Expenses were \$26.4 million (14%) higher than the prior year partially due to a \$7.1 million non-recurring expense benefit realized in 2006 relating to a partial refund of a year 2000 class action settlement. This was recorded as a credit to other expenses in 2006. Also contributing to the 2007 increase were higher royalty fees (\$5.4 million) which are directly related to higher trading volumes in licensed products, a \$3.6 million loss on investment in HedgeStreet, Inc., increased linkage expense rebates (\$2.9 million), higher employee costs (\$3.8 million) due to increased bonus awards resulting from CBOE's strong financial performance and higher legal fees (\$1.7 million).

For the year ended December 31, 2007, CBOE's operating margin increased to 39.7% from 27.9% in the same period last year, demonstrating the scalability of our operating model and our focus on managing expenses.

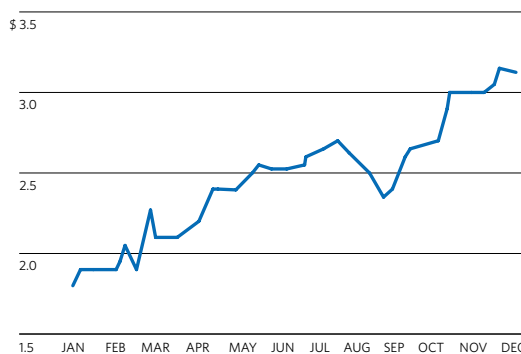
Capital spending in 2007 amounted to \$32.1 million. Investments were primarily in the systems division related to increased capacity, Hybrid Trading System enhancements, disaster recovery site and other trading systems enhancements.

Retained earnings increased to \$245.0 million and total members' equity at December 31, 2007 was \$266.4 million. At year end, the Exchange was debt-free with working capital of \$174.0 million.

**CBOE Year-End Seat Prices**  
In Millions of Dollars, 2000-2007



**2007 CBOE Seat Prices**  
In Millions of Dollars



## CONSOLIDATED STATEMENTS OF INCOME

Chicago Board Options Exchange, Incorporated and Subsidiaries  
Years ended December 31, 2007 and 2006 (in thousands)

	2007	2006
<b>Revenues:</b>		
Transaction fees	\$ 270,935	\$ 186,285
Other member fees	26,468	22,270
Options Price Reporting Authority income	18,892	19,965
Regulatory fees	14,346	13,817
Investment income	8,031	4,743
Other	13,629	10,906
<b>Total Revenues</b>	<b>352,301</b>	<b>257,986</b>
<b>Expenses:</b>		
Employee costs	83,538	79,782
Depreciation and amortization	25,338	28,189
Data processing	19,612	19,078
Outside services	23,374	20,455
Royalty fees	28,956	23,552
Travel and promotional expenses	9,640	7,209
Facilities costs	4,306	4,281
Net loss from investment in affiliates	939	757
Impairment of investment in affiliate and other assets	0	121
Other	16,647	2,535
<b>Total Expenses</b>	<b>212,350</b>	<b>185,959</b>
<b>Income Before Income Taxes</b>	<b>139,951</b>	<b>72,027</b>
<b>Provision for Income Taxes:</b>		
Current	57,724	34,495
Deferred	(941)	(4,576)
<b>Total Provision for Income Taxes</b>	<b>56,783</b>	<b>29,919</b>
<b>Net Income</b>	<b>\$ 83,168</b>	<b>\$ 42,108</b>

See notes to consolidated financial statements



## CONSOLIDATED BALANCE SHEETS

Chicago Board Options Exchange, Incorporated and Subsidiaries  
December 31, 2007 and 2006 (in thousands)

	2007	2006
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 181,425	\$ 82,520
Cash equivalents - restricted funds	4,249	0
Investments - available for sale	0	19,578
Accounts receivable - net of allowances of \$184 and \$76	28,802	27,838
Marketing fee receivable	8,256	7,499
Income taxes receivable	0	763
Prepaid medical benefits	2,517	2,558
Other prepaid expenses	2,780	3,398
Other current assets	555	795
<b>Total Current Assets</b>	<b>228,584</b>	<b>144,949</b>
<b>Investments in Affiliates</b>	<b>8,104</b>	<b>12,830</b>
<b>Land</b>	<b>4,914</b>	<b>4,914</b>
<b>Property and Equipment:</b>		
Construction in progress	405	5,516
Building	58,015	57,609
Furniture and equipment	180,302	157,859
Less accumulated depreciation and amortization	(174,375)	(161,013)
<b>Total Property and Equipment—Net</b>	<b>64,347</b>	<b>59,971</b>
<b>Other Assets:</b>		
Software development work in progress	10,320	4,839
Data processing software and other assets (less accumulated amortization - 2007, \$75,462; 2006, \$65,044)	25,426	28,323
<b>Total Other Assets—Net</b>	<b>35,746</b>	<b>33,162</b>
<b>Total</b>	<b>\$ 341,695</b>	<b>\$ 255,826</b>
<b>Liabilities and Members' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 35,414	\$ 36,836
Marketing fee payable	9,472	7,991
Deferred revenue	9,014	4,224
Membership transfer and other deposits	0	1,750
Post-retirement medical benefits	88	67
Income taxes payable	633	0
<b>Total Current Liabilities</b>	<b>54,621</b>	<b>50,868</b>
<b>Long-term Liabilities:</b>		
Post-retirement medical benefits	1,324	1,203
Deferred income taxes	19,383	20,366
<b>Total Long-term Liabilities</b>	<b>20,707</b>	<b>21,569</b>
<b>Total Liabilities</b>	<b>75,328</b>	<b>72,437</b>
<b>Commitments and Contingencies (Note 6)</b>		
<b>Members' Equity</b>		
Memberships	19,574	19,574
Additional paid-in-capital	2,592	2,592
Retained earnings	245,030	161,988
Accumulated other comprehensive loss	(829)	(765)
<b>Total Members' Equity</b>	<b>266,367</b>	<b>183,389</b>
<b>Total</b>	<b>\$ 341,695</b>	<b>\$ 255,826</b>

See notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Chicago Board Options Exchange, Incorporated and Subsidiaries  
Years ended December 31, 2007 and 2006 (in thousands)

	2007	2006
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ 83,168	\$ 42,108
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	25,338	28,189
Amortization of discount on investments available for sale	(422)	(67)
Provision for deferred income taxes	(941)	(4,576)
Interest expense on post-retirement benefit obligation	74	0
Equity in loss of OneChicago, LLC ("OneChicago")	733	832
Equity in loss of CBOE Stock Exchange ("CBSX")	206	0
Equity in income of National Stock Exchange ("NSX")	0	(75)
Impairment of investment in affiliates and other assets	0	121
Loss on sale of HedgeStreet, Inc.	3,607	0
Gain (net) on disposition of property	(203)	0
Changes in assets and liabilities:		
Accounts receivable	(964)	(6,117)
Marketing fee receivable	(757)	(3,865)
Net income taxes payable	1,396	(1,531)
Prepaid medical benefits	41	279
Other prepaid expenses	618	136
Other current assets	240	(132)
Deferred income taxes	0	42
Accounts payable and accrued expenses	(1,422)	10,160
Marketing fee payable	1,481	2,369
Deferred revenue	4,790	(269)
Post-retirement benefit obligation	(38)	0
Membership transfer and other deposits	(1,750)	1,750
<b>Net Cash Flows from Operating Activities</b>	<b>115,195</b>	<b>69,354</b>
<b>Cash Flows from Investing Activities:</b>		
Sale of investments available for sale	20,000	0
Purchase of investments available for sale	0	(19,511)
Restricted funds - temporary access fees	(4,249)	0
Capital and other assets expenditures	(32,095)	(28,700)
Sale of NSX certificates of proprietary membership, net of fees	0	3,000
HedgeStreet investment	0	(3,800)
HedgeStreet investment recovery	193	0
CBOE Stock Exchange investment	(13)	(193)
OneChicago investment	0	(1,215)
Membership purchase	0	(1,360)
<b>Net Cash Flows from Investing Activities</b>	<b>(16,164)</b>	<b>(51,779)</b>
<b>Cash Flows from Financing Activities:</b>		
Chicago Board of Trade exercise right purchases	(126)	(135)
<b>Net Cash Flows from Financing Activities</b>	<b>(126)</b>	<b>(135)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>98,905</b>	<b>17,440</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>82,520</b>	<b>65,080</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 181,425</b>	<b>\$ 82,520</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for income taxes	\$ 56,328	\$ 35,981
Non-cash activities:		
Sale of membership shares by OneChicago	\$ 0	\$ 4,320
Change in post-retirement benefit obligation	\$ 106	\$ 1,270

See notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

Chicago Board Options Exchange, Incorporated and Subsidiaries  
 Years ended December 31, 2007 and 2006 (in thousands)

	Members' Equity	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Members' Equity
<b>Balance -- December 31, 2005</b>	<b>\$ 20,934</b>	<b>\$ 0</b>	<b>\$ 119,974</b>	<b>\$ 0</b>	<b>\$ 140,908</b>
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)
<b>Balance -- December 31, 2006</b>	<b>19,574</b>	<b>2,592</b>	<b>161,988</b>	<b>(765)</b>	<b>183,389</b>
Net income			83,168		83,168
CBOT exercise right purchased			(126)		(126)
Post-retirement benefit obligation adjustment - net of tax of \$42				(64)	(64)
<b>Balance -- December 31, 2007</b>	<b>\$ 19,574</b>	<b>\$ 2,592</b>	<b>\$ 245,030</b>	<b>\$ (829)</b>	<b>\$ 266,367</b>

See notes to consolidated financial statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Chicago Board Options Exchange, Incorporated and Subsidiaries  
For the years ended December 31, 2007 and 2006

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Business** — The Chicago Board Options Exchange, Incorporated (“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, CBOE II, LLC, Market Data Express, 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. Transaction Fees revenue is presented net of any applicable discounts or fee caps. 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. Cash equivalents - restricted funds represents temporary membership access fees held in an escrow account, pending the final outcome of a legal matter. Cash equivalents - restricted funds are not included as cash and cash equivalents in the consolidated statements of cash flows.

**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”), HedgeStreet, Inc. and CBOE Stock Exchange, LLC (“CBSX”).

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

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.

CBOE owned 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, 2007. As of July 1, 2006, CBOE began accounting for the investment in NSX using the cost method due to the inability to exercise significant influence. NSX reacquired stock from CBOE and sold additional stock to new investors, thereby diluting CBOE’s ownership percentage (see note 2).

CBOE II, LLC previously owned 17.6% of HedgeStreet, Inc. capital stock, carried at cost because of the Exchange’s inability to exercise significant influence. On December 6, 2007, HedgeStreet, Inc. completed a merger, resulting in the transfer of all company assets and operations to IG Group and the sale of CBOE II, LLC equity in HedgeStreet, Inc. (note 2).

CBOE accounts for the investment in CBSX under the equity method due to the lack of effective control over operating and financing activities. CBOE received a 50% share in CBSX in return for non-cash property contributions.

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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**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. CBOE will adopt the provisions of FIN 48 in 2008. The impact of the adoption of FIN 48 on CBOE’s financial position and results of operations is being evaluated.

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. The adoption of SFAS No. 157 did not 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 was 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 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 provides companies with an option to report selected financial assets and liabilities at fair value with changes in fair value recorded in earnings. 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. CBOE did not select the fair value option for any assets and liabilities currently held, and therefore the adoption of SFAS No. 159 did not have a significant impact on CBOE’s financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements* which amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish new standards that will govern the accounting for and reporting of non-controlling interests in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Also, SFAS No. 160 requires that: (1) non-controlling interest, previously referred to as minority interest, be reported as part of equity in the consolidated financial statements; (2) losses be allocated to the non-controlling interest even when such allocation might result in a deficit balance, reducing the losses attributed to the controlling interest; (3) changes in ownership interests be treated as equity transactions if control is maintained; and, (4) upon a loss of control, any gain or loss on the interest sold be recognized in earnings. SFAS No. 160 is effective on a prospective basis for all fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which will be applied retrospectively. The impact of the adoption of SFAS No. 160 on CBOE’s financial position and results of operations is being evaluated.

## 2. INVESTMENTS IN AFFILIATES

CBOE and NSX executed a Termination of Rights Agreement (“TORA”) on September 27, 2004. The TORA provided that NSX would purchase from CBOE 153 (94%) of the NSX certificates of proprietary membership then owned by CBOE for a total of \$11 million over a period of four years from the anniversary of the initial closing date, subject to NSX minimum working capital levels after deducting the cost of buying the certificates. The TORA provided for CBOE to ultimately retain nine certificates of proprietary membership (10% of the total outstanding certificates of proprietary membership). 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, 2007 and 2006, CBOE’s investment in NSX was \$3.7 million which consisted of the 8,424 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. Subsequent Events (note 12) summarizes the January 28, 2008 sale of additional Class B shares to NSX. As of July 1, 2006, CBOE began accounting for the investment in NSX using the cost method due to the inability to exercise significant influence.

CBOE, Interactive Brokers Group, LLC (“IBG”) and the CME Group Inc. 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 in capital to OneChicago during the year ended December 31, 2006 and made no contribution in 2007. At December 31, 2007 and 2006, CBOE’s investment in OneChicago was \$4.1 million and \$4.8 million, respectively. During 2006, CBOE’s investment increased by \$4.3 million as a result of IBG’s investment as discussed above. CBOE had a receivable from OneChicago of \$0.8 million and \$0.5 million at December 31, 2007 and 2006, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CBOE II, LLC invested \$3.8 million in HedgeStreet, Inc. during 2006 and owned 17.6% of HedgeStreet, Inc. common and preferred shares. On December 6, 2007, HedgeStreet, Inc. completed a merger transaction resulting in the transfer of all company assets and operations to IG Group. CBOE II, LLC received \$193,000 for the initial payment from the sale of CBOE II, LLC's equity investment to IG. A potential maximum second payment to CBOE II, LLC of \$126,000 is held in escrow, along with similar amounts from other investors, for a period of one year to address any additional HedgeStreet, Inc. claims. Due to the uncertain nature of the receipt of the second payment in late 2008, CBOE has not recognized a receivable for the escrow amount since it may not be realized. The loss on the sale of HedgeStreet, Inc. stock amounted to \$3.6 million, assuming the second payment held in escrow is not realized.

CBSX trading operations began 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. Since CBOE's investment in CBSX was mainly non-cash assets, CBOE's investment on CBOE's balance sheet initially only reflected CBOE's share of organizational costs (\$0.2 million). CBOE accounts for the investment in CBSX under the equity method due to the lack of effective control over operating and financing activities. CBOE's equity in 2007 CBSX loss was recognized in the investment account balance until the account reached zero. As a result, the equity method was suspended during 2007 and will remain so until life-to-date profits are realized.

### 3. RELATED PARTIES

CBOE collected transaction and other fees of \$401.1 million and \$298.9 million by drawing on accounts of CBOE's members held at OCC for the years ended December 31, 2007 and 2006. The amount collected included \$125.0 million and \$96.5 million of marketing fees during the years ended December 31, 2007 and 2006, respectively. CBOE had a receivable due from OCC of \$29.4 million and \$23.0 million at December 31, 2007 and 2006, 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 \$18.9 million and \$20.0 million during the years ended December 31, 2007 and 2006, respectively. CBOE had a receivable from OPRA of \$4.5 million and \$5.4 million at December 31, 2007 and 2006, respectively.

CBOE incurred billable expenses on behalf of NSX for expenses such as employee costs, computer equipment and office space of \$1.2 million and \$2.9 million during the years ended December 31, 2007 and 2006, respectively. Services were terminated in the third quarter of 2007. CBOE had a receivable from NSX of \$0.2 million and \$0.9 million at December 31, 2007 and 2006, respectively.

CBOE incurred billable expenses on behalf of CBSX for expenses such as employee costs, computer equipment and software of \$2.6 million and \$2.4 million during the years ended December 31, 2007 and 2006, respectively. CBOE had a receivable from CBSX of \$0.6 million and \$0.5 million at December 31, 2007 and 2006, respectively.

CBOE provided hosting and joint marketing services for HedgeStreet, Inc. in 2007 and 2006 in the amounts of \$0.3 million and \$0.1 million, respectively. CBOE had no receivable from HedgeStreet at December 31, 2007 for these services.

CBOE incurred administrative expenses of \$57,600 and \$13,000 for its affiliate, the Chicago Board Options Exchange Political Action Committee (the "Committee"), during the years ended December 31, 2007 and 2006, 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 17 to 55 months as of December 31, 2007. Rent expenses related to leases for the twelve months ended December 31, 2007 and 2006 were \$0.5 million and \$0.6 million, respectively. Future minimum lease payments under these non-cancelable operating leases are as follows at December 31, 2007 (in thousands):

Year	Amount
2008	\$ 553
2009	304
2010	124
2011	127
2012	76
<b>Total</b>	<b>\$ 1,184</b>

### 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 \$4.3 million and \$4.0 million to the SMART Plan for the years ended December 31, 2007 and 2006, respectively.

Eligible employees may participate in the Supplemental Employee Retirement Plan ("SERP"), Executive Retirement Plan and Deferred Compensation Plan. These deferred compensation plans are defined contribution plans that are nonqualified by Internal Revenue Code regulations. CBOE contributed \$2.2 million and \$1.3 million to the plans for the years ended December 31, 2007 and 2006, 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, 2007 and 2006, CBOE contributed \$5.1 million and \$5.3 million, respectively, to the trust.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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. The adoption of SFAS No. 158 in 2006 had no effect on the computation of net periodic benefit expense for CBOE's postretirement benefits. CBOE estimates that postretirement benefits expense for the year ending December 31, 2008 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, 2007.

### 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, by the CBOT, CBOT Holdings and two members of the CBOT who purport to represent a class of individuals ("exercise members") who claimed that they were, or had 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 ("Article Fifth(b)"). Plaintiffs sought a judicial declaration that exercise members were entitled to receive the same consideration in the CBOE's restructuring transaction as all other CBOE members, and plaintiffs also sought 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 received the same stock and other consideration as other CBOE members.

On October 17, 2006, CBOT Holdings announced its intention to merge with and into CME Holdings (the "CME acquisition"). In response to that announcement, the CBOE determined that the proper interpretation of Article Fifth(b) was that, upon the closing of the CME acquisition, no one would qualify as a CBOT "member" for purposes of Article Fifth(b) or therefore as a person eligible to be an exercise member of the CBOE. The CBOE submitted its interpretation (the "eligibility rule filing") 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. On January 16, 2007, the CBOE and the director defendants moved to dismiss the second amended complaint to the extent it challenged the CBOE's interpretation, on the ground that the SEC's jurisdiction to consider such interpretations of Article Fifth(b) preempts any state law challenge to that interpretation.

On February 22, 2007, CBOE and the other defendants filed a brief in support of their motion to dismiss (on the ground of federal preemption) any complaint about CBOE's eligibility rule filing and to stay consideration of any other issues in the complaint. On February 28, 2007, CBOT and the other plaintiffs filed a brief in support of their motion for partial summary judgment. The Court ordered that the parties simultaneously brief both the defendants' motion to dismiss and plaintiffs' motion for partial summary judgment. On May 30, 2007, the Court heard argument on these motions.

On July 20, 2007, CBOT and the other plaintiffs filed a motion requesting that the Delaware Court enter a temporary restraining order prohibiting CBOE from implementing or enforcing its interim access rule, which granted temporary membership status during the period beginning with the closing of CME's acquisition of CBOT and to end when the SEC took action on CBOE's eligibility rule filing. The interim access rule had gone into effect upon its filing. On August 3, 2007, the Delaware Court denied the motion for a temporary restraining order.

On August 3, 2007, in response to defendants' motion to dismiss or for a stay, the Delaware Court stayed further litigation until the SEC had taken final action on CBOE's eligibility rule filing. The Delaware Court retained jurisdiction over any contract and property claims, and over any "economic rights," that might remain at issue after the SEC's action.

On August 23, 2007, after the Delaware Court denied the request for injunctive relief, plaintiffs filed a comment letter with the SEC (styled as an "Emergency Petition") requesting that the SEC abrogate the interim access rule. CBOE opposed this request. CBOT and others also requested that the SEC abrogate the interim access rule. However, the 60-day abrogation period set forth in Section 19 of the Exchange Act expired on August 31, 2007 without the SEC taking any action to abrogate. As a result, the interim access rule remained in effect pending SEC action on the eligibility rule filing.

On September 10, 2007, CBOE filed another interpretation of CBOE Rule 3.19 (the "continued membership rule filing"), which was effective on filing although it was to become operational only upon the SEC's approval of the eligibility rule filing. Under this new interpretation, the temporary membership status of persons who had been granted that status under the original interim access rule would continue in effect after the SEC's approval of the eligibility rule filing. CBOT and others requested that the SEC abrogate the continued membership rule filing, but the 60-day abrogation period set forth in Section 19 of the Exchange Act expired without the SEC taking any action to abrogate. As a result, the continued membership rule filing remains in effect.

On October 2, 2007, CBOT and the other plaintiffs filed a motion requesting that the Delaware Court lift the stay to allow them to file a third amended complaint and to begin discovery. CBOE filed its opposition to that motion on October 5, 2007. On October 10, 2007, the Delaware Court denied plaintiffs' motion to lift the stay because it found that the future course of the litigation, if any, will likely be influenced in significant part by the action taken by the SEC on the exercise right rule filing.

On January 15, 2008, the SEC issued a final order approving the eligibility rule filing. The SEC recognized that "the actions of the CBOT necessitated CBOE's interpretation of Article Fifth(b) to clarify whether the substantive rights of a former CBOT member would continue to qualify that person as a 'member of [the CBOT]' pursuant to Article Fifth(b) in response to changes in the ownership of the CBOT." Plaintiffs filed a third amended complaint on February 6, 2008. Plaintiffs' essential claims remain the same, although plaintiffs allege in their new complaint that the adoption of the interim access rule damaged so-called CBOT full members in their capacity as owners and lessors of such memberships and that CBOE's Board of Directors was dominated by interested directors when it approved the eligibility rule filing, the interim access rule and the continued membership rule filing. On February 7, 2008, CBOE moved for summary judgment in its favor on all counts, based principally on the SEC's approval of CBOE's rule interpretation that no person qualifies to become or remain an exerciser member of CBOE pursuant to Article Fifth(b) of CBOE's Certificate of Incorporation following CME Group's acquisition of the Board of Trade.

On February 5, 2008, plaintiffs submitted requests for documents and for answers to written interrogatories. The parties have agreed that, until the Court rules on CBOE's summary judgment motion, discovery should be limited to matters pertinent to that motion. CBOE and the other defendants produced a limited group of documents on March 11, 2008, and the parties thereafter will negotiate concerning whether other documents are reasonably related to the issues raised by CBOE's motion and therefore should be produced.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### *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.

In light of the reinstatement of the case against some of the defendants, plaintiffs filed, on April 19, 2007, a motion to voluntarily dismiss the appeal that they previously filed after the Court's September 2006 order dismissing their claims against all defendants. Plaintiffs, however, will be able to appeal the dismissal of their claims against CBOE after the Court disposes of all of the claims that remain pending against the Specialist Defendants. On September 26, 2007, plaintiffs served CBOE with a subpoena requesting the production of a vast amount of documents and information. CBOE has objected to the scope of the subpoena, and CBOE and the plaintiffs are in negotiations about a suitable narrowing of the subpoena. On February 7, 2008, twenty-four of the original thirty-five Specialist Defendants were dismissed. On February 15, 2008, in order to remain in compliance with the Court's scheduling order, Plaintiffs filed a motion to enforce compliance with the original subpoena. However, in light of the ongoing negotiations about the scope of the subpoena, the Court has suspended all proceedings on that motion pending the outcome of those negotiations.

### *Index Options Litigation*

On November 2, 2006, the International Securities Exchange ("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 or stay 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 opposed ISE's motion and on May 15, 2007, the Illinois circuit court denied ISE's motion to dismiss or stay. The ISE appealed this decision, and the Illinois Appellate Court denied the ISE's motion for leave to appeal the denial of the ISE's motion to dismiss on the basis that the Illinois court is an inconvenient forum. The federal court in New York granted a motion by Dow Jones and McGraw-Hill to stay the New York action pending resolution of the Illinois action. The ISE appealed the federal court's stay of the New York action it initiated.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The parties are awaiting a decision, or oral argument to be scheduled, by the Illinois Appellate Court on ISE's appeal of the Illinois circuit court's decision denying ISE's motion to dismiss or stay, which was based on ISE's argument that the case that should be decided is a prior-pending lawsuit by ISE in New York federal court. The parties are engaged in the exchange of discovery in the Illinois state action. No schedule has been set by the Illinois circuit court for the conclusion of discovery or trial. Dow Jones and McGraw-Hill are awaiting a date for oral argument before the federal Appellate Court in New York on ISE's appeal of the decision by the federal District Court in New York to stay ISE's New York lawsuit. Oral argument is expected to occur in the second quarter of 2008.

### 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. 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. On May 24, 2007, CBOE prevailed on its motion to transfer the case from the federal court in the Southern District of New York to the federal court in the Northern District of Illinois. On August 9, 2007, the Southern District of New York ruled in favor of CBOE and denied ISE's objections to the court's decision to transfer the New York case to Illinois. CBOE and ISE entered into a stipulated order for the dismissal of any patent infringement claims that ISE may have against CBOE for patent infringement of U.S. Patents Nos. 6,377,940 and/or 6,405,180. ISE has also executed a covenant not to sue CBOE in relation to U.S. Patents Nos. 6,377,940 and 6,405,180. Depositions of CBOE and ISE witnesses are proceeding, as is discovery, on the remaining patent infringement claim related to U.S. Patent No. 6,618,707.

### 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, 2007 and 2006, respectively, amounts held by CBOE on behalf of others included an accounts receivable balance of \$8.3 million and \$7.5 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, 2007 and 2006 is as follows:

	2007	2006
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	0.8%	1.7%
<b>Effective income tax rate</b>	<b>40.6%</b>	<b>41.5%</b>

The components of income tax expense for the years ended December 31, 2007 and 2006 are as follows (in thousands):

	2007	2006
<b>Current:</b>		
Federal	\$ 47,192	\$ 28,109
State	10,532	6,386
<b>Total current</b>	<b>57,724</b>	<b>34,495</b>
<b>Deferred:</b>		
Federal	(828)	(4,020)
State	(113)	(556)
<b>Total deferred</b>	<b>(941)</b>	<b>(4,576)</b>
<b>Total</b>	<b>\$ 56,783</b>	<b>\$ 29,919</b>

At December 31, 2007 and 2006, the net deferred income tax liability approximated (in thousands):

	2007	2006
Deferred tax assets	\$ 8,694	\$ 7,098
Deferred tax liabilities	28,077	27,464
<b>Net deferred income tax liability</b>	<b>\$ 19,383</b>	<b>\$ 20,366</b>

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, and investments in OneChicago and NSX.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. DEFERRED REVENUE

Through a rule interpretation that became operative when CME Holdings completed its acquisition of CBOT before final SEC action on CBOE rule filing SR-CBOE-2006-106, the Exchange temporarily extended the membership status of persons who were CBOE members pursuant to the exercise right at specified times just before that acquisition. SR-CBOE-2006-106 set forth CBOE's interpretation that there would no longer be CBOT members who qualify to become and remain exercise members of CBOE upon the consummation of the CME acquisition. In order to retain a temporary CBOE membership status in good standing until the SEC took final action on SR-CBOE-2006-106 (which the SEC approved on January 15, 2008), the temporary member needed to pay all applicable fees, dues, assessments and other charges and also needed to pay a monthly access fee to CBOE. The monthly access fee during 2007 was based on recent CBOT lease rates and became effective September 1, 2007. The monthly access fees have been held in an interest-bearing escrow account maintained by CBOE, pending the final outcome of legal matters. As of December 31, 2007, the access fees escrow account balance was \$4.2 million, including interest. This amount is included in deferred revenue pending final resolution of the matter.

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. During 2007, a liquidity provider transaction fee sliding scale replaced the fixed fee transaction fee program. Liquidity providers were required to prepay an entire year of transaction fees for the first two levels of the sliding scale in order to be eligible to participate in reduced fees assessed to contract volume above 1.0 million per month. The prepayment of the 2007 transaction fees totaled \$27.1 million. This amount was amortized and recorded as transaction fees revenue each month during 2007. The amount included in deferred revenue as of December 31, 2007 and 2006 was zero since all revenue was fully amortized to transaction fee revenue by year-end.

In December 2007 and 2006, CBOE collected \$8.8 million and \$8.2 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, 2007 and 2006 totaled \$4.4 million and \$4.1 million, respectively.

### 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.

### 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. At the time of the purchase offer, in order to utilize the exercise right, the holder of an exercise right privilege also was required to 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. In August 2006, one exercise right privilege was purchased at a price of \$135,000. In February 2007, one exercise right privilege was purchased at a price of \$127,000.

### 12. SUBSEQUENT EVENTS

On January 28, 2008, CBOE exercised a put pursuant to the TORA and sold 19,656 shares of Class B stock, resulting in a payment to CBOE of \$1.5 million. CBOE's investment in NSX was reduced to \$2.2 million which consisted of 8,424 Class A voting shares and 19,656 Class B non-voting shares.

### 13. PROPOSED RESTRUCTURING TRANSACTION

In response to the many changes that have taken place in U.S. options exchanges and other securities markets in recent years, the Board of Directors of the CBOE unanimously concluded that it would be in the best interest of the CBOE and its members for the CBOE to change its organizational structure from a non-stock corporation owned by its members to become a wholly-owned subsidiary of a new holding company, CBOE Holdings, Inc., organized as a stock corporation owned by its stockholders. This type of organizational restructuring is sometimes referred to as a "demutualization" transaction. Having changed our focus to that of a for-profit business beginning in 2006, the board determined that both our corporate and governance structures should be altered to follow suit and be more like that of other for-profit businesses. We believe these changes will provide us with greater flexibility to respond to the demands of a rapidly changing regulatory and business environment. In addition, by being structured as a stock corporation, we 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 are not available to us as a non-stock membership corporation.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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On February 9, 2007, CBOE filed an S-4 Registration Statement with the SEC setting forth the details of CBOE's proposed demutualization. Amendment No. 1 to the S-4 was filed on May 11, 2007. In the proposed restructuring transaction, memberships in the CBOE will be exchanged for shares of common stock of the new holding company. Following the restructuring transaction, the CBOE will become a wholly-owned subsidiary of CBOE Holdings, the newly formed holding company.

The CBOE Holdings common stock issued in the restructuring transaction will not provide its holders with physical or electronic access to the CBOE's trading facilities. Following the restructuring transaction, physical and electronic access to the CBOE trading facilities, subject to such limitations and requirements as may be specified in the rules of the CBOE, will be available to individuals and organizations that have obtained a trading permit from the CBOE. Revenue from access is proposed to be retained by CBOE.

Completion of the restructuring transactions is subject to a number of conditions, including membership approval. The accompanying consolidated financial statements do not reflect the effects of the proposed restructuring transactions.

### INDEPENDENT AUDITORS' REPORT

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, 2007 and 2006, and the related consolidated statements of income, members' equity, and 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 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 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

Chicago, Illinois  
April 15, 2008



## Office of the Chairman

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



**Edward J. Joyce**  
*President and  
Chief Operating Officer*



**Edward T. Tilly**  
*Executive Vice Chairman*



**Bradley G. Griffith**  
*Vice Chairman*

## 2007 Board of Directors

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



**James R. Boris**  
*Public Director*  
*Retired Chairman and  
Chief Executive Officer  
EVEREN Securities, Inc.  
(now Wachovia Securities)*



**Mark F. Duffy**  
*Floor Director*  
*Managing Member  
Cornerstone Trading, LLC  
General Partner  
Fugue*



**Jonathan G. Flatow**  
*At-Large Director*  
*Vice President  
S.G. Marx & Associates, Inc.*



**Janet P. Froetscher**  
*Public Director*  
*President and  
Chief Executive Officer  
United Way of  
Metropolitan Chicago*



**Paul J. Jiganti**  
*Floor Director*  
*Associate Director  
Susquehanna Investment  
Group, LLP*



**Stuart J. Kipnes**  
*At-Large Director*  
*President  
Associated Options, Inc.*



**Duane R. Kullberg**  
*Public Director*  
*Former Chief Executive Officer,  
1980-1989  
Arthur Andersen & Co., S.C.*



**James P. MacGilvray**  
*Off-Floor Director*  
*Executive Vice President  
Fidelity Brokerage Company*



**R. Eden Martin**  
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*Lead Director*  
*Of Counsel*  
 Sidley Austin LLP  
*President*  
 The Commercial Club  
 of Chicago



**Anthony D. McCormick**  
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*Vice President*  
*Equities and Options*  
 Charles Schwab & Co., Inc.



**Kevin L. Murphy**  
*Off-Floor Director*  
*Managing Director*  
*Head of U.S. Broker Dealer Sales*  
 Citigroup Global Markets, Inc.



**Roderick Palmore**  
*Public Director*  
*Executive Vice President,*  
*General Counsel and*  
*Chief Compliance and Risk*  
*Management Officer*  
 General Mills



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



**William R. Power**  
*Lessor Director*  
*Member*  
 Chicago Board Options  
 Exchange



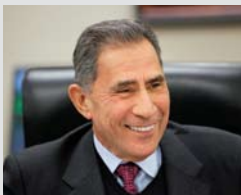
**Samuel K. Skinner**  
*Public Director*  
*Former Chairman of the Board*  
 USF Corporation  
*Former Chief of Staff and*  
*Former U.S. Secretary of*  
*Transportation*  
 Under President  
 George H.W. Bush



**John E. Smollen**  
*Floor Director*  
*Managing Director*  
 Goldman Sachs & Co.



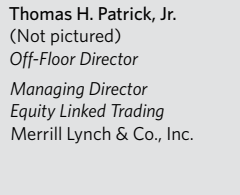
**Carole E. Stone**  
*Public Director*  
*Former Director*  
 New York State  
 Division of the Budget



**Howard L. Stone**  
*Public Director*  
*Retired Senior Managing Director*  
 American Express Tax and  
 Business Services



**Eugene S. Sunshine**  
*Public Director*  
*Senior Vice President*  
*Business and Finance*  
 Northwestern University



**Thomas H. Patrick, Jr.**  
 (Not pictured)  
*Off-Floor Director*  
*Managing Director*  
*Equity Linked Trading*  
 Merrill Lynch & Co., Inc.

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R. Eden Martin\*  
Roderick Palmore  
Carole E. Stone

### Compensation Committee

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*Chair*

James R. Boris  
Bradley G. Griffith  
James P. MacGilvray  
R. Eden Martin  
William R. Power

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*Chair*

Robert J. Birnbaum  
Mark F. Duffy  
Bradley G. Griffith  
Stuart J. Kipnes  
R. Eden Martin  
Susan M. Phillips  
Eugene S. Sunshine

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*Chair*

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Jonathan G. Flatow  
Paul J. Jiganti  
Stuart J. Kipnes  
William R. Power\*\*  
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R. Eden Martin  
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Samuel K. Skinner

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R. Eden Martin  
Eugene S. Sunshine

\**Ex Officio Non-Voting Member as Lead Director*

\*\**Non-Voting Member*

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---

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William R. Power  
John E. Smollen  
Eugene S. Sunshine

\**Ex Officio Non-Voting Member as Lead Director*

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---

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Peter Bottini  
*optionsXpress Holdings, Inc.*

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*Penson Financial Services, Inc.*

James Boyle  
*UBS Securities, LLC*

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*Bear, Stearns & Co., Inc.*

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*Compass Execution Services*

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Exchange

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