



Date: March 3, 2004 Information Circular IC04-31

To: CBOE Membership

From: The Board of Directors

Re: CBOE Proposal to Purchase CBOT Exercise Rights  
& Notice of Membership Meeting

On March 2, 2004, the CBOE Board of Directors approved a proposal to initiate a purchase offer to CBOT full seat owners for a significant number of CBOE exercise rights. The CBOE membership will be asked to approve this plan, and the requisite financing, in a vote to be held during a special membership meeting in early April, 2004. In advance of this vote, the membership will receive detailed information regarding the proposed transaction. Until those materials are distributed, the following is a brief summary of the proposal.

Since CBOE's inception in 1973, the exercise right as codified in Article Fifth of the CBOE Constitution has entitled any Full Member of the Chicago Board of Trade to all rights and privileges of CBOE membership. This includes the right to access the CBOE trading floor and the right to take part in Exchange business, including voting on matters before the membership, only when exercised, and taking part in any special distribution of dividends, even if not exercised, should such an event ever occur. Throughout the course of our history, the number of CBOT exercisers present at the CBOE has fluctuated, recently ranging from the low 300's to over 700 additional members.

In mid 2002, a working group comprised of CBOE Board members and staff began meeting to discuss ways to reduce the number of outstanding exercise rights. The working group also retained the services of an investment bank, Dresdner Kleinwort Wasserstein, to assist in developing alternatives for taking such a step and to arrange for the necessary financing. In April 2003, the CBOE Board of Directors authorized the group to continue to develop a final purchase offer proposal. In late 2003, the Board approved a final framework for the transaction and Mark Duffy, CBOE's then Vice Chairman, informed the membership of the potential plan during a membership meeting in December 2003. In February 2004, the Chicago Board of Trade membership approved a rule change to allow the transfer of exercise rights to occur, allowing CBOE to move forward with this transaction.

The final step is for the CBOE membership to understand and endorse the purchase offer proposal and the related financing arrangements. The offer price and other terms were approved by the Board of Directors yesterday and the financing arrangements are nearly complete. All of the details will be described in the ballot materials. If approved by the membership, the purchase offer will immediately be opened to all interested CBOT full seat holders. CBOE will offer to purchase up to 1000 but we will only be obligated to purchase 500 exercise rights from CBOT Full Members. The offer price per exercise right is \$100,000 each. Details regarding the exact terms and conditions of this offer will be included with the ballot materials.

Your Board of Directors views this as very significant in the history of the Exchange. We look forward to presenting you with the proposal in detail, and welcome any comments you may have following your review. **To answer your questions, a membership meeting has been scheduled for Monday, March 8, 2004 at 3:30 PM. For members who are unable to participate in person, we have made arrangements for members only to participate by telephone. Members may participate by calling 1-800-640-5128, passcode: Chicago, conference leader: Ed Provost. To help reduce the waiting time experienced by members and to ensure that everyone is on line by 3:30 p.m., members should begin calling in as early as 3:15 p.m. on the day of the meeting.**