



## Information Circular IC 06- 92

DATE: July 27, 2006  
TO: CBOE Members and Staff  
FROM: Bill Brodsky  
RE: CBOE Announcements

Attached are three CBOE press releases that were issued at a press conference following a CBOE Board Meeting held today in New York.

We are pleased to report that the Board has approved the filing of CBOE's S-4 statement. The S-4 sets forth the terms of CBOE's demutualization and represents a major step forward in the demutualization process. The general aspects of the S-4 will be discussed preliminarily at the CBOE membership meeting on August 3<sup>rd</sup>. We expect the actual filing of the S-4 to made to the SEC in the coming weeks, and a more detailed educational program for CBOE owners will follow.

The second press release announces that CBOE Vice Chairman Ed Tilly will be joining CBOE's senior management team as Executive Vice Chairman. Over the past 2½ years as Vice Chairman, Ed has had the opportunity to work on a number of major strategic initiatives. We are pleased that in his new role as Executive Vice Chairman, Ed will now be part of CBOE's Office of the Chairman in an ongoing, full-time capacity.

It is imperative that we strengthen and streamline our management team to move forward aggressively as a demutualized structure. As Executive Vice Chairman, Ed Tilly will be responsible for Strategic Planning and Business Development. Ed Joyce, CBOE President and COO will continue to oversee operations, including the Legal, Finance, Systems, Trading Operations and Market Regulation areas. Both Ed Joyce and Ed Tilly will report directly to me.

As a result of Ed's move to the CBOE staff side, it was the Board's obligation to fill the Vice Chairman slot. Floor Directors nominated, and the Board endorsed, John Smollen to replace Ed Tilly as CBOE Vice Chairman. John's years of experience as a CBOE floor director and committee chair will ensure a smooth transition when he assumes his new role, and we look forward to working closely with him in the months ahead.

Finally, we are happy to announce the creation of the CBOE Stock Exchange. In a resounding endorsement of the CBOE Hybrid Trading System, four of the largest and most respected firms in the business have joined us in this exciting new venture. We believe that the stock trading expertise of these firms, combined with the proven benefits of our Hybrid Trading System, will enable the CBOE Stock Exchange to provide a proven alternative market for stock trading.

There are exciting changes underway at CBOE. We will continue to keep you informed as best as we are able as new developments occur. Our next member meeting is August 3<sup>rd</sup>, with additional meetings and correspondence to follow.

Thank you for your continued support.

Chicago Board Options Exchange  
400 S. LaSalle Street  
Chicago, IL 60605

**FOR IMMEDIATE RELEASE**

**CBOE BOARD UNANIMOUSLY APPROVES FILING TO DEMUTUALIZE; CBOE  
REPORTS EARNINGS FOR FIRST SIX MONTHS OF 2006**

**Chicago and New York**, July 27, 2006 – The Chicago Board Options Exchange announced today that its Board of Directors unanimously authorized the filing of an S-4 Registration Statement with the Securities and Exchange Commission (SEC). The filing of the S-4 is a key step in CBOE's demutualization process, which will result in the conversion of CBOE from a membership organization to a wholly owned subsidiary of a new holding company, CBOE Holdings, Inc. CBOE expects to submit the filing to the SEC in the coming weeks. CBOE's proposed restructuring must be approved by the SEC and by a vote of the CBOE membership.

CBOE is currently a mutually-owned membership organization. In its demutualization, memberships will be converted into shares of the new company. The conversion of memberships to shares also provides CBOE Holdings, Inc. with the ability to pursue an IPO, should it decide to become a publicly traded company.

In anticipation of its eventual demutualization, CBOE began its transition to a for-profit corporation in January 2006. The Exchange streamlined its 2006 operating budget and reconstituted the composition and functions of its governance and advisory committees to reflect those of a for-profit enterprise. For the first six months of 2006, CBOE reported revenues of \$129.6 million, versus \$98.2 million for the same time period last year; income before taxes of \$32.0 million, versus \$8.7 million last year; and retained earnings of \$139.2 million, versus \$114.3 million a year ago.

"The willingness to change has enabled CBOE to continue to lead an industry vastly different than the one it launched 33 years ago. Our for-profit transition has enabled CBOE to operate more efficiently, and this next step will further increase CBOE's autonomy and agility. Demutualization provides the "strategic optionality" necessary to chart the course for years to come. The conversion of seats to shares allows us to deal in the same currency as our competitors and potential partners at a time when the marketplace embraces the new structure," said William J. Brodsky, CBOE Chairman and CEO.

CBOE, the world's largest options exchange and creator of listed options, is regulated by the Securities and Exchange Commission (SEC). For additional information about the CBOE and its products, visit the CBOE website at: [www.cboe.com](http://www.cboe.com).

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**FOR IMMEDIATE RELEASE**

**CBOE BOARD NAMES EDWARD TILLY AS CBOE EXECUTIVE VICE  
CHAIRMAN AND JOHN SMOLLEN AS CBOE MEMBER VICE CHAIRMAN**

**Chicago and New York**, July 27, 2006 – The Chicago Board Options Exchange announced today that its Board of Directors has named Edward T. Tilly, currently Member Vice Chairman, as Executive Vice Chairman. The Board appointed John Smollen, currently a CBOE Floor Director, to replace Mr. Tilly as Member Vice Chairman effective when Mr. Tilly vacates his current role as Member Vice Chairman on August 7, 2006.

Mr. Tilly will terminate his status and affiliation as a CBOE member prior to assuming his duties as CBOE's Executive Vice Chairman, a position that was newly created as part CBOE's ongoing transition to a for-profit, demutualized company. The Executive Vice Chairman will be responsible for CBOE's Business Development and Strategic Planning functions and will report directly to CBOE Chairman and CEO William J. Brodsky.

"We are thrilled that Ed will remain on the CBOE team and play a key role in CBOE's management," said CBOE Chairman and CEO Brodsky. "The position of Executive Vice Chairman streamlines our executive team and plays to Ed's strengths and experience. He had a leadership role in the conceptualization and rollout of CBOE's highly successful Hybrid Trading System. In his three terms as Vice Chairman, Ed worked closely with CBOE management in developing CBOE's strategic direction and he will continue to do so as Executive Vice Chairman."

"This is an exciting time in the history of our industry, and CBOE is at its forefront. It is extremely gratifying to have the opportunity to continue the important work already underway at CBOE and to play a role in the Exchange's next chapter," said Ed Tilly. "I have had the privilege over the last several years at CBOE to work alongside some of the most talented men and women in the industry. The dedication of our staff and membership is without equal, and I look forward to playing a new role on that winning team."

As a 20-year veteran of the options industry, Mr. Tilly (age 42), has traded as a market maker and DPM on the CBOE, headed a market making firm and, most recently, served as CBOE Vice Chairman. He served as a member of the CBOE Board of Directors from 1998 to 2000 and from 2003 to 2006. Mr. Tilly chaired the CBOE Competition Task Force and served on the Executive and Compensation Committees of the Board. He was previously a member of the Board of Directors of OneChicago and the National Stock Exchange (NSX). Mr. Tilly received a Bachelor's degree in Economics from Northwestern University in 1987.

John Smollen (age 46), who will succeed Ed Tilly as CBOE Member Vice Chairman, has been a CBOE member since 1997, and a CBOE Floor Director and Board Member since 2002. He began

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## **Page 2 of 2/ CBOE Board Names Edward Tilly CBOE Executive Vice Chairman**

his career in 1983 at the American Stock Exchange, eventually becoming a managing partner of Cohn, Duffy and McGowan. Mr. Smollen moved to Chicago in 1997 following the relocation of the New York Stock Exchange's option division to the CBOE. In 1998, Spear, Leeds and Kellogg (SLK) acquired the Chicago trading operation of Cohn, Duffy and McGowan. Mr. Smollen joined SLK and eventually became responsible for the DPM and market making business in Chicago. SLK was acquired by Goldman Sachs in September 2000, and in November 2001, Mr. Smollen was made managing director at Goldman Sachs. Since December, 2001, Mr. Smollen has been part of the SLK-Hull Derivatives trading group and serves on its Management Committee. Mr. Smollen was elected to the CBOE Board in November 2001. He is currently chairman of CBOE's Equity Market Performance Committee and serves on CBOE's Financial Planning Committee as well as on the Executive Committee of the Board.

"We're delighted that John has agreed to serve as CBOE Vice Chairman," said William Brodsky. "His experience as a CBOE member since 1997, and the many years he has served on numerous membership committees and as a floor director and board member will enable him to hit the ground running. We are fortunate that John is willing and able to step up to this new role on behalf of the CBOE membership."

"I'm honored to serve CBOE's membership and look forward to working with my fellow board members on the many important initiatives already underway at CBOE. We have a solid, experienced team in place and I look forward to all that we can accomplish in the months ahead," said John Smollen.

CBOE, the world's largest options exchange and creator of listed options, is regulated by the Securities and Exchange Commission (SEC). For additional information about the CBOE and its products, visit the CBOE website at: [www.cboe.com](http://www.cboe.com).

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**For Immediate Release**

**CHICAGO BOARD OPTIONS EXCHANGE TO ENTER STOCK TRADING;  
Partners With Four Firms In Launching CBOE Stock Exchange, LLC**

**CHICAGO & NEW YORK, July 27, 2006** — The Chicago Board Options Exchange (CBOE) announced today at a press conference in New York City that it is partnering with Interactive Brokers Group, LLC; LaBranche & Co Inc.; Susquehanna International Group, LLP; and VDM Specialists, LLC to launch the CBOE Stock Exchange, LLC (CBSX), a new securities trading marketplace.

The CBOE Stock Exchange will feature a Hybrid market model that will combine elements of both screen and floor-based trading; and provide a new venue for the trading of New York Stock Exchange, NASDAQ Stock Market, and American Stock Exchange listed securities. CBSX is expected to launch in early 2007, pending final regulatory approval from the Securities and Exchange Commission (SEC).

**Hybrid Market Model**

CBOE Stock Exchange will employ a Hybrid Trading System, similar to the highly successful Hybrid environment currently being utilized for options trading at CBOE, the largest options exchange in the United States. Hybrid combines the point-and-click functionality of screen-based trading with the versatility of floor trading, providing for a best-of-both-worlds trading experience. CBOE's Hybrid model was created to provide flexibility for all customers, including those who prefer to have their orders negotiated in an open-outcry setting, as well as those who seek a screen-based trading experience. CBOE's Hybrid Trading System has been highly successful in the extremely competitive U.S. options industry. In 2006, CBOE market share of total industry volume has increased seven percentage points during the first six months of the year, climbing from 30% in January to 37% at the end of June.

"We're privileged to be partnering with some of the largest, most respected trading firms in the securities industry to launch this exciting new venture. Collectively, these firms represent significant portions of volume at our nation's securities exchanges and the expertise and liquidity they will bring to the CBSX marketplace will be invaluable," said William J. Brodsky, Chairman and Chief Executive Officer of the Chicago Board Options Exchange. "This venture recognizes the proven success of CBOE's Hybrid market model, which enables professional brokers to represent customer orders in an open outcry environment that is integrated with a state-of-the-art electronic system offering sub-second execution. We believe the CBOE Stock Exchange and its Hybrid market model can extend these same advantages to the stock world by providing it with this economical and proven alternative market."

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## Chicago Board Options Exchange Creates New Stock Exchange

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#### DPMs & Market Makers

Each stock that is traded on CBSX will have an assigned Designated Primary Market Maker (DPM). CBSX DPMs will be located at a designated trading post on the CBOE trading floor and will have the primary responsibility for maintaining a fair and orderly market in the stock. Additional liquidity will be provided by multiple competing Remote Market Makers (RMMs) who will have the ability to stream quotes and trade electronically from any location; greatly expanding the number of potential participants in the trading universe.

#### Order Handling

It is anticipated that CBSX will feature a matching algorithm that emphasizes price/time priority. CBOE and CBSX floor brokers will represent orders in the open outcry portion of the Hybrid Trading System. Unlike traditional Specialist roles, CBSX DPMs will not act as agents on behalf of orders.

#### Products

Products available for trading at CBSX will include the most active 2500 New York Stock Exchange, NASDAQ Stock Market, and American Stock Exchange listed stocks, as well as exchange traded funds (ETFs) and other listed securities.

#### Trade Engine

CBOE*direct*, the highly versatile and incredibly robust trading platform developed by CBOE that currently serves as the trade engine that powers CBOE's Hybrid Trading System; OneChicago, the all-electronic single stock futures exchange that is a joint venture between CBOE, the Chicago Mercantile Exchange (CME) and Chicago Board of Trade (CBOT); and the all-electronic CBOE Futures Exchange (CFE), will serve as the trade engine for CBSX. Built entirely in-house by CBOE, CBOE*direct* was constructed to be extremely flexible and easily adaptable for a variety of uses.

#### Access

Access to CBSX will be assigned through a trading permit program. Any qualified members of CBOE will automatically receive a trading permit and be granted access to CBSX. Non-CBOE members will be issued a permit to trade at CBSX upon completion of a standard membership-application process.

#### Business Model

CBOE Stock Exchange, LLC is a facility of the Chicago Board Options Exchange, Incorporated. Ownership of CBSX will be divided between CBOE and the partner firms, with approximately 50% of the venture owned by CBOE and 50% owned by the partner firms.

#### Market Regulation

CBOE's Regulatory Services Division will provide all market surveillance services for CBSX. CBSX will be regulated by the Securities and Exchange Commission (SEC).

#### About CBSX

The CBOE Stock Exchange, LLC (CBSX) is a newly created stock trading facility of the Chicago Board Options Exchange, Incorporated (CBOE).

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### **About InterActive Brokers**

Interactive Brokers provides professional traders and investors with direct access to stocks, options, futures, bonds, and forex on over 60 market centers worldwide from a single IB Universal Account. With consolidated equity capital that exceeds US \$2.5 billion, IB and its affiliates execute in excess of 500,000 trades/day and trade 20% of US options. In 2006 Barron's awarded Interactive Brokers its top star ranking overall and for lowest cost broker. For more information, please see the Interactive Brokers Web site at [www.InteractiveBrokers.com](http://www.InteractiveBrokers.com).

### **About LaBranche**

LaBranche & Co Inc. (LaBranche) is the parent of LaBranche & Co. LLC, one of the largest Specialists in equity securities listed on the New York and American Stock Exchanges. LaBranche is also the parent of LaBranche Structured Holdings, Inc., whose subsidiaries are Specialists and market-makers in options, exchange-traded funds and futures on various exchanges domestically and internationally. Our specialists and market makers are leading liquidity providers, bringing capital and critical expertise to securities markets. Another subsidiary of LaBranche, LaBranche Financial Services, Inc., provides securities execution, clearing and direct-access floor brokerage services to institutional investors. For more information, visit [www.labranche.com](http://www.labranche.com).

### **About Susquehanna International Group, LLP**

The Susquehanna International Group of Companies (SIG) is a leading institutional sales, research, investment banking and market making firm. For institutional investors, SIG offers brokerage in listed and NASDAQ stocks, Exchange Traded Funds (ETFs), options, program trading and American Depositary Receipts (ADRs), as well as differentiated equity research. For corporate clients, SIG offers a range of traditional investment banking services. SIG encompasses a market making operation in over 6,000 stocks, is among the nation's largest option market makers, is the leading sector index options trading firm and is one of the largest liquidity providers in ETFs. SIG's domestic and international market making, specialist and electronic trading operations are among the most sophisticated in the industry, ranking SIG among the leading liquidity providers. SIG has offices in Bala Cynwyd, Boston, Chicago, Dublin, Los Angeles, New York, Philadelphia, San Francisco, Shanghai, Stamford and Sydney. For more information, visit [www.sig.com](http://www.sig.com).

### **About VDM Specialist, LLC**

VDM Specialists represents over 400 leading issues, including Pfizer, Hewlett-Packard, Disney, and Tiffany & Co. The company is part of publicly traded Van der Moolen Holdings NV (NYSE: VDM). An affiliate of VDM Specialists recently began market-making in equity and index options traded on the Chicago Board Options Exchange. For more information about VDM Specialists, please visit [www.vdm-usa.com](http://www.vdm-usa.com).

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