

CHAPTER III

OPTIONS ON EQUITY SECURITIES

The term "stock options" is used broadly in this booklet to include not only options on common stocks but also options on all other types of equity securities, such as limited partnership interests, "American Depositary Receipts" and "American Depositary Shares" representing interests in foreign entities, and preferred stocks. Options are available on exchange-traded equity securities, on unlisted equity securities traded in the NASDAQ stock market and designated as national market system securities, and on equity securities traded both in the NASDAQ stock market and on exchanges. The NASDAQ stock market is primarily an inter-dealer trading system as contrasted with exchange auction markets.

Issuers of underlying equity securities do not participate in the selection of their securities for options trading (although some options markets may determine not to select an underlying security without the consent of the issuer of that security). Issuers of underlying equity securities have no responsibility regarding the issuance, the terms, or the performance of options, and option holders have no rights as security holders of such issuers.

The principal risks of holders and writers of stock options are discussed in Chapter X. Readers interested in buying or writing stock options should carefully read that chapter.

FEATURES OF STOCK OPTIONS

Each stock option generally covers 100 shares of the underlying security, although, as described below, the number of underlying shares may be adjusted as a result of certain events.

The exercise prices of the stock options that are traded at the date of this booklet are stated in U.S. dollars per share. The exercise price of an option must each be multiplied by the number of shares underlying the option in order to determine the aggregate exercise price and aggregate premium of that option.