GLOSSARY

It is hoped that the following brief explanations of various terms and acronyms used in the Option Study's report will be helpful, particularly to the non-professional reader, in understanding the text of the report. Of course, no attempt has been made here to formulate legal definitions.

Account Statements	:	Brokerage firm statements sent periodically to customers, usually itemizing all securities held in an account and the cash balance.
At-the-money	:	When the option's exercise price is the same as the current trading price of the underlying stock.
AMEX	:	American Stock Exchange, Inc., on which stocks and listed stock options are traded.
Arbitrage	:	Trading to take advantage of a perceived temporary pricing disparity between two securities.
Audit Trail	:	The physical record of trading information identifying, for example, the brokers participating in each transaction, the firms clearing the trade, the terms and time of the trade and, ultimately and when applicable, the customers involved.
Bearish	:	An investor's attitude when he believes the market or a particular security's price will decline.
Bear Market	:	A market in which the general trend of securities prices is down.
Bear Vertical Spread	:	A hedged strategy employed when an investor expects a decline in the security price but at the same time seeks to limit the potential loss if he is wrong. This spread requires the simultaneous purchase and sale of options of the same class and expiration date but different strike prices — e.g., if call options are "spread," the purchased option must have a higher exercise price than the sold option (for a higher premium on the sale).
Beta	:	A measure of a stock's sensitivity to the movement of the general market.

Bid/Ask	:	The market quotation for a stock or option. A bid is the price at which a potential buyer is willing to buy. An ask is the price at which a potential seller is willing to sell *i.e.*, his asking price.
Block Trade	:	A single transaction involving a large number of shares or option contracts. The NYSE defines a block as a transaction of 10,000 shares or more.
Broker-Dealer	:	A securities firm, generally one that does business on behalf of customers (as a broker) and for its own account (as a dealer).
Bullish	:	An investor's attitude when he believes the general market or a particular security's price will advance.
Bull Market	:	A market in which the general trend of securities prices is up.
Bull Vertical Spread	:	A hedged strategy used when an investor expects that the price of a security will go up but at the same time seeks to limit his potential loss should his judgment be in error. This strategy involves the simultaneous purchase and sale of options of the same class and expiration date but different strike prices -- *e.g.*, if call options are "spread," the purchased option must have a lower exercise price than the sold option.
Butterfly Spread	:	An options position involving the simultaneous purchase and sale of options in the same class, with the same expiration date, so that for every two options sold, two options-one with a higher exercise price and one with a lower exercise price-are bought.
Call Option	:	A contract giving the holder the right to buy a specified number of shares (usually 100) of the underlying stock at a specified price within a specified period of time.

Called	:	Another term for "exercised" when the option is a call. The writer of a call must deliver the indicated underlying stock when the option is exercised or called.
Capping	:	Effecting stock transactions shortly prior to an options expiration date to depress or prevent a rise in the price of a stock so that previously written call options will expire worthless and the premium received therefrom will be protected.
CBOE	:	Chicago Board Options Exchange.
Class of Options	:	Options contracts of the same type (put or call) covering the same underlying security.
Clearing Firm	:	A broker-dealer member of the Options Clearing Corporation (OCC) engaged in the business of clearing, through OCC, listed options transactions for its own account or on behalf of other firms. Called a "marketmaker clearing firm" when it clears for marketmakers.
Closing Purchase	:	A transaction in which an option writer terminates his obligation by buying an option with the identical terms as the option previously sold.
Closing Sale	:	A transaction in which the holder of an option liquidates his position by selling an option having the same terms as the option he previously purchased.
Commissions	:	A fee charged each customer by his brokerage firm for stock or options transactions made on his behalf.
Compliance Programs	:	Activities conducted by self-regulatory organizations to detect and discipline violations of the Federal securities laws and securities industry rules concerning retail sales and certain other practices of their member firms and employees. Broker-dealers conduct similar programs respecting the activities of their own sales personnel.

Conversion	:	An arbitrage technique involving buying an underlying stock, selling the related calls and buying puts corresponding to the calls.
Cover	:	A writer's purchase of stock to deliver to the holder when the holder exercises a call option and the writer does not then own the stock he wrote the call on. Also, to purchase options to eliminate a short options position.
Delta Factor	:	The amount of change in an option's theoretical value relative to small changes in the price of the underlying stock over a short period.
Demand	:	The degree of investor interest in purchasing a security.
Equity	:	The net worth of an account, determined by subtracting the market value of short security positions and the debit balance (if any) from the market value of long security positions and the credit balance (if any). Equity represents ownership in the account.
Equity Securities	:	Corporate securities, usually common stocks, which represent ownership in the issuing corporations.
Excessive Trading	:	Transactions that do not have a valid investment purpose but, instead, are made for the purpose of generating commissions for the salesman or brokerage firm. Often called "churning."
Exercise Price (Striking Price)	:	The price per share at which the option buyer may buy, in the case of call, or sell, in the case of a put, 100 shares of the underlying stock.
Expiration Date	:	The date on which an options contract expires. The date is listed by month only (e.g. January, April, July) and refers to the Saturday following the third Friday of the month.
Fictitious Trades	:	Reports of transactions submitted to a price reporting system of an exchange but which, in fact, did not occur.

Firm Proprietary Trading	:	Securities transactions entered into by a broker-dealer for its own account.
Frontrunning	:	The practice of effecting an options transaction based upon non-public information regarding an impending block transaction in the underlying stock, in order to obtain a profit when the options market adjusts to the price at which the block trades.
Haircut	:	An amount deducted from a broker-dealer's net worth in determining its net capital. It is a percentage of the value of a broker-dealer's marketable securities and is designed to provide a cushion of capital in the event of adverse price movement. The percentage amounts generally range from 1/8 of a percent for commerical paper to 30 percent for common stock.
Hedging	:	Lessening a risk of loss by, for example, offsetting a long position in one security with a short position in a related security, or vice-versa.
Holder	:	Person who purchases an option, also called a buyer.
In-the-Money	:	When the exercise price for a call is lower than the current market price of its underlying stock; or for a put, when the exercise price is higher than the stock's current market price.
Initial Margin	:	A deposit a customer must make in accordance with Regulation T as a result of a securities transaction. Naked call writers, for instance, must deposit cash or margin securities whose loan value equals at least 30% of the value of the underlying securities, less the proceeds of the option sale.
Institutional Investors	:	An investment company, bank, insurance company, endowment, pension fund or other organization which has substantial funds committed to securities investments.
Intrinsic Value (of an option)	:	The amount by which the current market price of the underlying stock exceeds the exercise price of a call option, or is less than the exercise price of a put.

Listed Option	:	An option traded on a national securities exchange.
Long Option Position	:	The number of option contracts of a particular option series held in an individual account or group of accounts.
Maintenance Margin	:	The minimum amount of margin (equity) that must be maintained in a general account as required by exchange or association rules.
Marketmaker	:	A dealer who holds himself out as being willing to buy and sell securities for his own account on a regular or continuous basis. On the options exchanges, certain rules are designed to require such market participation for members dealing on their floors, and such members may be called competitive marketmakers, registered options traders, etc. See "Specialist" below.
Mini-manipulation	:	An attempt to influence, over a relatively small range, the price movement in a stock to benefit a previously established options position.
MSE	:	Midwest Stock Exchange.
NASD	:	National Association of Securities Dealers, Inc., a self-regulatory organization of broker-dealer members involved in the over-the-counter securities markets.
Naked (Uncovered) Option Writing	:	An option writing position collateralized by cash or by securities unrelated to those on which the stock option is written.
Near Term	:	Close to expiration.
NYSE	:	New York Stock Exchange, on which most of the stocks underlying listed options are traded.
OCC	:	Options Clearing Corporation.

OCC Prospectus : The required disclosure document for listed options. Exchange rules require that a current prospectus be provided to options customers at or prior to the time their accounts are approved for options trading.

Open Interest : The number of listed options contracts of a class outstanding at any given time.

Opening Purchase Transaction : A transaction in which an investor becomes the holder of an option.

Opening Sale Transaction : A transaction in which an investor becomes obligated as the writer of an option.

Option : A contract which allows the buyer, by exercise, to buy or sell stock (usually in 100-share units) at a certain price (exercise or striking price) over a certain period of time, regardless of how high or low the price of the stock (the underlying security) moves during that time.

Options (OTC) : Non-listed put and call options whose expiration dates and exercise prices are not standardized; OTC options are not cleared or guaranteed by the Options Clearing Corporation (OCC).

Out-of-the-Money : When the exercise price for a call is higher than the current market price of the underlying stock or, for puts, when the exercise price is lower than the stock's price.

Parity : When the premium (market value) of an option at least equals its intrinsic value.

Pegging : Eff[illegible] stock transactions to prevent a decline in th[illegible]rice of the stock so that previously written put opt[illegible]ns will expire worthless, thus protecting premiums previously received.

Performance Reports	: Written materials used by sales personnel to present to options customers the results of actual options transactions, usually in the form of a profit and loss statement.
PHLX	: The stock exchange headquartered in Philadelphia on which stocks and listed options are traded.
Position Adjustments	: Changes initiated by clearing member firms in their customer, market maker or firm proprietary options position records maintained by OCC.
Position Limits	: Limits set upon the number of options contracts relating to an underlying security which an investor may own or control.
Prearranged Trades	: Transactions on the floor of an exchange which are effected pursuant to a prior agreement among the parties. An order to buy or sell an option is entered with the knowledge that another person will enter an order of substantially the same size, at substantially the same time, and at substantially the same price. Two variations are called "wash sales" and "trade reversals."
Premium	: The money paid for an option contract by a buyer and received by the option's writer. The premium is kept by the writer whether or not the option is exercised.
Professional Traders	: Persons who earn their livelihood from buying and selling securities on the floor of an exchange, such as an institutional money manager, or a dealer trading from off-floor, etc.
PSE	: Pacific Stock Exchange. Listed options are traded on the San Francisco floor of this exchange.
Public Customers	: Persons who pay commissions to effect securities transactions through broker-dealers, and who are not professional traders.

Put Option : A contract giving the purchaser the right to sell a specified number of shares (usually 100) of the underlying stock at a specified price within a specified period of time.

Registered Representative : A salesperson employed by a brokerage firm who handles customer accounts.

Regulation T : The Federal Reserve Board rule governing, among other things, the amount of credit (if any) that initially may be extended by a broker to his customer on a securities transaction.

Restricted Options : An options series in which prohibitions on opening purchase and sale transactions are in effect.

Reverse Conversion : An arbitrage technique involving the short sale of an underlying stock, the purchase of related calls and the sale of puts corresponding to the calls.

Registered Options Principal ("ROP") : An employee of a broker-dealer firm who is responsible for supervising the customer options account activities. He is required to pass a special qualifying examination in options.

Scalping : An option marketmaking strategy involving the purchase of options at the bid price and sale at the asked price in order to earn the differential or spread, sometimes referred to as the "jobber's turn".

Secondary Market : Provides for the selling and/or buying of previously bought or sold options through closing transactions.

Self-Regulatory Conference : A series of meetings commenced in August, 1978, attended by representatives of the self-regulatory organizations to discuss issues raised by the Options Study.

Series	:	Options of the same class having the same exercise price and expiration date.
Short Option Position	:	The open position of the writer or seller of an option.
Short Term	:	Of limited duration. All listed option trading is generally referred to as short term because options expire in a maximum of nine months.
SIAC	:	Securities Industry Automation Corp. An organization jointly owned by the American Stock Exchange and the New York Stock Exchange that acts as facilities manager and data processor for various securities related activities of the SRO's.
SIPC	:	Securities Investor Protection Corp. A non-profit membership corporation established by Congress to afford certain protection against financial loss to customers of its members which fail. Its members, with certain exceptions, are all registered brokers or dealers.
Specialist	:	A member of a specialist exchange (e.g., Amex, NYSE), as distinguished from a marketmaker exchange, who is permitted to deal on the exchange floor for his own account while at the same time effecting transactions as broker for the accounts of others. For some purposes, however, marketmakers are sometimes referred to as specialists. All specialists have certain obligations to maintain fair and orderly markets. Among the benefits they enjoy by virtue of their specialist status is special margin treatment under the Federal Reserve Board Regulations T and U.
Spread	:	The difference between one price and another (for example, between the bid and the ask prices); or an options position created by buying and selling of different series of options of the same class.
SRO	:	Self-regulatory organization—includes the national securities exchanges and the National Association of Securities Dealers (NASD). Each is required to regulate and oversee its broker-dealer member firms and their employees.

Straddle	A combination option position consisting of one put and one call of the same class. Either option is exercisable or salable separately and the exercise prices and expiration dates are usually identical.
Striking Price	Also called exercise price. The price at which an option is exercisable.
Suitability	Suitability is a concept designed to protect customers by obligating brokerage firms and registered representatives to recommend for a customer only those securities transactions which they reasonably believe are not unsuitable for the customer in light of his financial situation and needs.
Surveillance Programs	The methods by which the self-regulatory organizations detect trading practices that may be inconsistent with the Securities Exchange Act, the rules thereunder, and the rules of those organizations.
Transactions Costs	Expenses incurred in buying or selling securities, the most important of which are commissions.
Uncovered (Naked) Writer	A writer who does not own the underlying stock which is the subject of an option.
Underlying Stock	The stock subject to being bought or sold upon exercise of an option.
Upstairs Dealer Firms	Securities dealers that initiate exchange transactions from off the floor of the exchange.
Worksheets	Written materials used by sales personnel to portray to customers the potential profits and risks of proposed options transactions.
Writer	The seller of an option contract.