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CBOE Holdings, Inc.  
Form 10-Q  
August 07, 2012  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-34774

CBOE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

20-5446972

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

400 South LaSalle Street

60605

Chicago, Illinois

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code  
(312) 786-5600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class

July 31, 2012

Unrestricted Common Stock, par value \$0.01

87,271,635 shares



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CERTAIN DEFINED TERMS

Throughout this document, unless otherwise specified or the context so requires:

"CBOE Holdings" refers to CBOE Holdings, Inc. and its subsidiaries after the completion of the restructuring transaction, which occurred on June 18, 2010.

"CBOE" or the "Exchange" refers to (1) prior to the completion of the restructuring transaction, Chicago Board Options Exchange, Incorporated, a Delaware non-stock corporation, and (2) after the completion of the restructuring transaction, Chicago Board Options Exchange, Incorporated, a Delaware stock corporation. CBOE became a wholly-owned subsidiary of CBOE Holdings, Inc. on June 18, 2010.

"C2" refers to C2 Options Exchange, Incorporated, which became a wholly-owned subsidiary of CBOE Holdings, Inc. on June 18, 2010.

"CFE" refers to CBOE Futures Exchange, LLC, which became a wholly-owned subsidiary of CBOE Holdings, Inc. on June 18, 2010.

"CFTC" refers to the U.S. Commodity Futures Trading Commission.

"FASB" refers to the Financial Accounting Standards Board.

"GAAP" refers to Generally Accepted Accounting Principles in the United States.

"Member" or "Members" refers to, prior to the completion of the restructuring transaction, any person or organization (or any designee of any organization) that held a membership in the CBOE.

"OPRA" refers to the Options Price Reporting Authority.

"Our exchanges" refers to CBOE, C2 and CFE.

The "restructuring transaction" refers to the transaction on June 18, 2010 in which CBOE converted from a Delaware non-stock corporation owned by its Members to a Delaware stock corporation and a wholly-owned subsidiary of CBOE Holdings.

"SEC" refers to the U.S. Securities and Exchange Commission.

"SPX" refers to our a.m. settled S&P 500 exchange traded option.

"We," "us," "our" or "the Company" refers to (1) prior to the completion of the restructuring transaction, CBOE, and, as the context may require, its wholly-owned subsidiaries including CBOE Holdings, and (2) after the completion of the restructuring transaction, CBOE Holdings and its wholly-owned subsidiaries.

"VIX" refers to the CBOE Volatility Index methodology.

References to "options" or "options contracts" in the text of this document refer to exchange-traded options and references to "futures" refer to futures contracts or options on futures.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties. You can identify these statements by forward-looking words such as "may," "might," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," and the negative of these terms and other comparable terminology. All statements that reflect our expectations, assumptions or projections about the future other than statements of historical fact are forward-looking statements, including statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations." These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from that expressed or implied by the forward-looking statements. In particular, you should consider the risks and uncertainties described under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011, Part II, Item 1A of this Quarterly Report on Form 10-Q and our other filings with the SEC.

While we believe we have identified material risks, these risks and uncertainties are not exhaustive. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible to predict all risks and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Some factors that could cause actual results to differ include:

- the loss of our right to exclusively list certain premium products;
- decreases in the amount of trading volumes or a shift in the mix of products traded on our exchanges;
- compliance with legal and regulatory obligations;
- increasing competition by foreign and domestic entities, including increased competition from new entrants into our markets and consolidation of existing entities;
- increasing price competition;
- our ability to maintain access fee revenues;
- economic, political and market conditions;
- our ability to operate our business without violating the intellectual property rights of others and the costs associated with protecting our intellectual property rights;
- our ability to accommodate trading volume and order transaction traffic, including increases in trading volume and order transaction traffic, without failure or degradation of performance of our systems;
- our ability to protect our systems and communication networks from security risks, including cyber attacks;
- our ability to attract and retain skilled management and other personnel;
- our ability to maintain our growth effectively;
- our dependence on third party service providers; and
- the ability of our compliance and risk management methods to effectively monitor and manage our risks.

For a detailed discussion of these and other factors that might affect our performance, see Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011, Part II, Item 1A of this Quarterly Report on Form 10-Q and our other filings with the SEC. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this filing.

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## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements (Unaudited)

CBOE Holdings, Inc. and Subsidiaries  
Condensed Consolidated Statements of Income  
Three and Six Months Ended June 30, 2012 and 2011

| (in thousands, except per share amounts)                           | Three Months Ended June 30, |          | Six Months Ended June 30, |           |
|--|-----------------------------|----------|---------------------------|-----------|
|  | 2012                        | 2011     | 2012                      | 2011      |
|  | (unaudited)                 |          |                           |           |
| Operating Revenues:  |                             |          |                           |           |
| Transaction fees   | \$94,885                    | \$86,240 | \$179,719                 | \$176,179 |
| Access fees  | 16,162                      | 17,041   | 32,142                    | 34,646    |
| Exchange services and other fees                                   | 7,851                       | 4,276    | 15,300                    | 8,966     |
| Market data fees   | 6,376                       | 4,836    | 12,749                    | 9,938     |
| Regulatory fees  | 4,080                       | 4,770    | 8,776                     | 9,728     |
| Other revenue  | 3,195                       | 3,127    | 5,255                     | 4,875     |
| Total Operating Revenues   | 132,549                     | 120,290  | 253,941                   | 244,332   |
| Operating Expenses:  |                             |          |                           |           |
| Employee costs   | 25,300                      | 24,504   | 50,590                    | 50,240    |
| Depreciation and amortization                                      | 8,320                       | 8,996    | 16,640                    | 17,692    |
| Data processing  | 4,927                       | 4,905    | 9,826                     | 9,333     |
| Outside services   | 9,265                       | 7,190    | 16,435                    | 13,769    |
| Royalty fees   | 12,001                      | 10,373   | 23,192                    | 21,519    |
| Trading volume incentives  | 1,176                       | 2,515    | 3,825                     | 8,274     |
| Travel and promotional expenses                                    | 3,303                       | 2,368    | 5,469                     | 4,053     |
| Facilities costs   | 1,226                       | 1,400    | 2,529                     | 2,892     |
| Other expenses   | 962                         | 1,587    | 1,950                     | 2,573     |
| Total Operating Expenses   | 66,480                      | 63,838   | 130,456                   | 130,345   |
| Operating Income   | 66,069                      | 56,452   | 123,485                   | 113,987   |
| Other Income/(Expense):  |                             |          |                           |           |
| Investment income  | 26                          | 61       | 48                        | 103       |
| Net loss from investment in affiliates                             | (437)                       | ) —      | (914)                     | ) (460)   |
| Interest and other borrowing costs                                 | —                           | (223)    | ) —                       | (448)     |
| Total Other Income/(Expense)                                       | (411)                       | ) (162)  | ) (866)                   | ) (805)   |
| Income Before Income Taxes   | 65,658                      | 56,290   | 122,619                   | 113,182   |
| Income tax provision   | 27,162                      | 22,889   | 50,706                    | 46,910    |
| Net Income   | 38,496                      | 33,401   | 71,913                    | 66,272    |
| Net income allocated to participating securities                   | (593)                       | ) (792)  | ) (1,146)                 | ) (1,571) |
| Net Income Allocated to Common Stockholders                        | \$37,903                    | \$32,609 | \$70,767                  | \$64,701  |
| Net Income Per Share Allocated to Common Stockholders<br>(Note 4): |                             |          |                           |           |
| Basic  | \$0.44                      | \$0.36   | \$0.81                    | \$0.72    |
| Diluted  | 0.44                        | 0.36     | 0.81                      | 0.72      |
| Weighted average shares used in computing income per share:        |                             |          |                           |           |
| Basic  | 87,153                      | 90,164   | 87,649                    | 90,124    |
| Diluted  | 87,153                      | 90,164   | 87,649                    | 90,124    |

See notes to condensed consolidated financial statements

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CBOE Holdings, Inc. and Subsidiaries  
 Condensed Consolidated Statements of Comprehensive Income  
 Three and Six Months Ended June 30, 2012 and 2011

| (in thousands)   | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2012                        | 2011     | 2012                      | 2011     |
|  | (unaudited)                 |          |                           |          |
| Net Income   | \$38,496                    | \$33,401 | \$71,913                  | \$66,272 |
| Comprehensive Income (Loss) - net of tax:                  |                             |          |                           |          |
| Post retirement benefit obligation                         | 14                          | 13       | (23                       | ) 47     |
| Comprehensive Income                                       | 38,510                      | 33,414   | 71,890                    | 66,319   |
| Comprehensive income allocated to participating securities | (593                        | ) (792   | ) (1,146                  | ) (1,571 |
| Comprehensive Income allocated to common stockholders      | \$37,917                    | \$32,622 | \$70,744                  | \$64,748 |

See notes to condensed consolidated financial statements



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Condensed Consolidated Balance Sheets  
June 30, 2012 and December 31, 2011

| (in thousands, except share amounts)   | June 30,<br>2012<br>(unaudited) | December 31,<br>2011 |
|--|---------------------------------|----------------------|
| Assets   |                                 |                      |
| Current Assets:  |                                 |                      |
| Cash and cash equivalents  | \$127,137                       | \$134,936            |
| Accounts receivable—net allowances of \$329 and \$304  | 48,429                          | 37,578               |
| Marketing fee receivable   | 7,527                           | 5,195                |
| Income taxes receivable  | 8,987                           | 6,756                |
| Other prepaid expenses   | 9,139                           | 4,152                |
| Other current assets   | 728                             | 1,065                |
| Total Current Assets   | 201,947                         | 189,682              |
| Investments in Affiliates  | 14,212                          | 14,305               |
| Land   | 4,914                           | 4,914                |
| Property and Equipment:  |                                 |                      |
| Construction in progress   | 7,878                           | 1,264                |
| Building   | 60,917                          | 60,917               |
| Furniture and equipment  | 256,771                         | 252,905              |
| Less accumulated depreciation and amortization   | (246,310)                       | (238,288)            |
| Total Property and Equipment—Net   | 79,256                          | 76,798               |
| Other Assets:  |                                 |                      |
| Software development work in progress  | 10,364                          | 6,168                |
| Data processing software and other assets (less accumulated amortization of \$127,901 and \$121,173)   | 33,113                          | 36,001               |
| Total Other Assets—Net   | 43,477                          | 42,169               |
| Total  | \$343,806                       | \$327,868            |
| Liabilities and Stockholders' Equity   |                                 |                      |
| Current Liabilities:   |                                 |                      |
| Accounts payable and accrued expenses  | \$38,375                        | \$46,071             |
| Marketing fee payable  | 8,117                           | 5,765                |
| Deferred revenue and other liabilities   | 17,365                          | 351                  |
| Post-retirement medical benefits   | 51                              | 100                  |
| Total Current Liabilities  | 63,908                          | 52,287               |
| Long-term Liabilities:   |                                 |                      |
| Post-retirement medical benefits   | 1,861                           | 1,781                |
| Income taxes payable   | 14,335                          | 12,185               |
| Other long-term liabilities  | 3,990                           | 3,906                |
| Deferred income taxes  | 19,805                          | 21,439               |
| Total Long-term Liabilities  | 39,991                          | 39,311               |
| Commitments and Contingencies  |                                 |                      |
| Total Liabilities  | 103,899                         | 91,598               |
| Stockholders' Equity:  |                                 |                      |
| Preferred stock, \$0.01 par value: 20,000,000 shares authorized, no shares issued and outstanding at June 30, 2012 and December 31, 2011                     | —                               | —                    |
| Unrestricted common stock, \$0.01 par value: 325,000,000 shares authorized; 91,270,199 issued and 87,271,635 outstanding at June 30, 2012; 90,781,222 issued | 913                             | 908                  |

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and 88,768,885 outstanding at December 31, 2011

|  |           |           |   |
|--|-----------|-----------|---|
| Additional paid-in-capital   | 61,430    | 55,469    |   |
| Retained earnings  | 282,686   | 232,121   |   |
| Treasury stock at cost – 3,998,564 shares at June 30, 2012 and 2,012,337 shares at December 31, 2011 | (104,200) | (51,329)  | ) |
| Accumulated other comprehensive loss   | (922)     | (899)     | ) |
| Total Stockholders' Equity   | 239,907   | 236,270   |   |
| Total  | \$343,806 | \$327,868 |   |

See notes to condensed consolidated financial statements

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Condensed Consolidated Statement of Stockholders' Equity  
(Unaudited)

| (in thousands)  | Preferred<br>Stock | Unrestricted<br>Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Stockholders'<br>Equity |
|---|--------------------|---------------------------------|----------------------------------|----------------------|-------------------|---|----------------------------------|
| Balance—January 1, 2012   | \$—                | \$ 908                          | \$ 55,469                        | \$ 232,121           | \$(51,329 )       | \$ (899 )                                     | \$ 236,270                       |
| Cash dividends on<br>common stock   |                    |                                 |                                  | (21,348 )            |                   |   | (21,348 )                        |
| Stock based<br>compensation   |                    |                                 | 5,966                            |                      |                   |   | 5,966                            |
| Issuance of vested<br>restricted stock granted<br>to employees                |                    | 5                               | (5 )                             |                      |                   |   | —                                |
| Purchase of unrestricted<br>stock from employees                              |                    |                                 |                                  |                      | (3,127 )          |   | (3,127 )                         |
| Purchase of unrestricted<br>common stock under<br>announced program           |                    |                                 |                                  |                      | (49,744 )         |   | (49,744 )                        |
| Net income  |                    |                                 |                                  | 71,913               |                   |   | 71,913                           |
| Post-retirement benefit<br>obligation adjustment—net<br>of tax expense of \$2 |                    |                                 |                                  |                      |                   | (23 )   | (23 )                            |
| Balance—June 30, 2012   | \$—                | \$ 913                          | \$ 61,430                        | \$ 282,686           | \$(104,200 )      | \$ (922 )                                     | \$ 239,907                       |

See notes to condensed consolidated financial statements

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CBOE Holdings, Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
Six Months Ended June 30, 2012 and 2011

| (in thousands)   | Six Months Ended |               |
|--|------------------|---------------|
|  | June 30, 2012    | June 30, 2011 |
|  | (unaudited)      |               |
| Cash Flows from Operating Activities:  |                  |               |
| Net income   | \$71,913         | \$66,272      |
| Adjustments to reconcile net income to net cash flows from operating activities: |                  |               |
| Depreciation and amortization  | 16,640           | 17,692        |
| Other amortization   | 44               | 45            |
| Provision for deferred income taxes  | (1,661)          | ) 1,202       |
| Stock-based compensation   | 5,966            | 6,632         |
| Loss on disposition of property  | —                | 729           |
| Loss on investment of affiliate  | 914              | —             |
| Impairment of investment in affiliate  | —                | 460           |
| Change in assets and liabilities:  |                  |               |
| Accounts receivable  | (10,851          | ) (8,055 )    |
| Marketing fee receivable   | (2,332           | ) 564         |
| Income taxes receivable  | (2,231           | ) (3,899 )    |
| Prepaid expenses   | (4,987           | ) (3,218 )    |
| Other current assets   | 337              | (21 )         |
| Accounts payable and accrued expenses  | (8,609           | ) (5,997 )    |
| Marketing fee payable  | 2,352            | (584 )        |
| Deferred revenue and other liabilities   | 17,098           | 20,173        |
| Post-retirement benefit obligations  | (9               | ) (2 )        |
| Income taxes payable   | 2,150            | 571           |
| Net Cash Flows provided by Operating Activities                                  | 86,734           | 92,564        |
| Cash Flows from Investing Activities:  |                  |               |
| Capital and other assets expenditures  | (19,492          | ) (18,334 )   |
| Investment in affiliates   | (822             | ) —           |
| Other  | —                | 57            |
| Net Cash Flows used in Investing Activities                                      | (20,314          | ) (18,277 )   |
| Cash Flows from Financing Activities:  |                  |               |
| Payment of quarterly dividends   | (21,348          | ) (18,456 )   |
| Purchase of unrestricted stock from employees                                    | (3,127           | ) (3,075 )    |
| Purchase of unrestricted common stock under announced program                    | (49,744          | ) —           |
| Net Cash Flows used in Financing Activities                                      | (74,219          | ) (21,531 )   |
| Net Increase in Cash and Cash Equivalents  | (7,799           | ) 52,756      |
| Cash and Cash Equivalents at Beginning of Period                                 | 134,936          | 53,789        |
| Cash and Cash Equivalents at End of Period                                       | \$127,137        | \$106,545     |
| Supplemental Disclosure of Cash Flow Information                                 |                  |               |
| Cash paid for income taxes   | \$52,473         | \$49,037      |
| Non-cash activities:   |                  |               |
| Unpaid liability to acquire equipment and software                               | 2,451            | 1,114         |

See notes to condensed consolidated financial statements



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CBOE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2012 and 2011  
(unaudited)

NOTE 1 —DESCRIPTION OF BUSINESS

CBOE Holdings is the holding company of registered securities exchanges, subject to oversight by the SEC, and of a designated contract market subject to the oversight of the CFTC.

The primary business of the Company is the operation of markets for the trading of listed options contracts on three broad product categories: 1) the stocks of individual corporations (equity options), 2) various market indexes (index options) and 3) other exchange-traded products such as exchange-traded funds (ETF options) and exchange-traded notes (ETN options). We also offer futures and options on futures products through a futures market. The Company owns and operates three stand-alone exchanges, but reports the results of its operations in one reporting segment. CBOE is our largest exchange by volume and offers trading for listed options through a single system that integrates electronic trading and traditional open outcry trading on our trading floor in Chicago. This integration of electronic trading and traditional open outcry trading into a single market is known as our Hybrid trading model. C2 our all-electronic exchange also offers trading for listed options, but with a different market model and fee schedule than CBOE. Finally, CFE, our all-electronic futures exchange, offers futures and options on futures on the CBOE Volatility Index (the VIX Index), as well as on other products. All of our exchanges operate on our proprietary technology platform known as CBOE Command.

NOTE 2 — BASIS OF PRESENTATION

These interim unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of operating revenues and expenses. On an ongoing basis, the Company evaluates its estimates, including those related to matters that require a significant level of judgment or are otherwise subject to an inherent degree of uncertainty. These estimates are based on management's knowledge and judgments, historical experience and observance of trends in particular matters. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. The results of operations for interim periods are not necessarily indicative of the results of operations for the full year.

NOTE 3 — SHARE REPURCHASE PROGRAM

On August 2, 2011, the Company announced that its Board of Directors had approved a share repurchase program that authorizes the Company to purchase up to \$100.0 million of its unrestricted common stock. The program permits the Company to purchase shares through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. It does not obligate the Company to make any repurchases at any specific time or situation.

From August 2011 through June 30, 2012, the Company purchased 3,707,424 shares of unrestricted common stock at an average cost per share of \$26.09 totaling \$96.7 million in purchases under the program (See Note 14 - Subsequent Events).

For the six months ended June 30, 2012, the Company purchased 1,871,424 shares of unrestricted common stock at an average cost per share of \$26.58 totaling \$49.7 million in purchases under the program.

**NOTE 4 — NET INCOME PER COMMON SHARE**

The unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and are included in the computation of net income per common share

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pursuant to the two-class method. Our restricted stock awards granted to officers, directors and employees qualify as participating securities.

The Company computes net income per common share using the two-class method, which is an allocation formula that determines the net income for common shares and participating securities. Under the authoritative guidance, the presentation of basic and diluted earnings per share is required for each class of common stock and not for participating securities. As such, the Company presents basic and diluted net income per share for its one class of common stock.

The computation of basic net income allocated to common stockholders is calculated by reducing net income for the period by dividends paid or declared and undistributed net income for the period that are allocated to the participating securities to arrive at net income allocated to common stockholders. Net income allocated to common stockholders is divided by the weighted average number of common shares outstanding during the period to determine basic net income per common share.

The dilutive effect of participating securities is calculated using the more dilutive of the treasury stock or the two-class method. Diluted net income per common share is calculated by dividing net income allocated to common stockholders by the sum of the weighted average number of common shares outstanding plus all additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

The following table reconciles net income allocated to common stockholders and the number of shares used to calculate the basic and diluted net income per common share for the three and six months ended June 30, 2012 and 2011:

| (in thousands, except per share amounts)                     | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2012                        | 2011     | 2012                      | 2011     |
| Basic EPS Numerator:   |                             |          |                           |          |
| Net Income   | \$38,496                    | \$33,401 | \$71,913                  | \$66,272 |
| Less: Earnings allocated to participating securities         | (593)                       | (792)    | (1,146)                   | (1,571)  |
| Net Income allocated to common stockholders                  | \$37,903                    | \$32,609 | \$70,767                  | \$64,701 |
| Basic EPS Denominator:                                       |                             |          |                           |          |
| Weighted average shares outstanding                          | 87,153                      | 90,164   | 87,649                    | 90,124   |
| Basic net income per common share                            | \$0.44                      | \$0.36   | \$0.81                    | \$0.72   |
| Diluted EPS Numerator:                                       |                             |          |                           |          |
| Net Income   | \$38,496                    | \$33,401 | \$71,913                  | \$66,272 |
| Less: Earnings allocated to participating securities         | (593)                       | (792)    | (1,146)                   | (1,571)  |
| Net Income allocated to common stockholders                  | \$37,903                    | \$32,609 | \$70,767                  | \$64,701 |
| Diluted EPS Denominator:                                     |                             |          |                           |          |
| Weighted average shares outstanding                          | 87,153                      | 90,164   | 87,649                    | 90,124   |
| Dilutive common shares issued under restricted stock program | —                           | —        | —                         | —        |
| Diluted net income per common share                          | \$0.44                      | \$0.36   | \$0.81                    | \$0.72   |

**NOTE 5 — STOCK-BASED COMPENSATION**

Stock-based compensation is based on the fair value of the award on the date of grant, which is recognized over the related service period, net of estimated forfeitures. The service period is the period over which the related service is performed, which is generally the same as the vesting period.



On June 14, 2012, the Company granted 38,990 shares of restricted stock to non-employee members of the board of directors at a fair value of \$27.33 per share, which is equal to the closing price of the Company's stock on the grant date. The shares have a one year vesting period and vesting accelerates upon the occurrence of a change in control of the Company. Unvested portions of the restricted stock will be forfeited if the member leaves the board prior to the applicable vesting date, except in limited circumstances.

For the three and six months ended June 30, 2012 and 2011, the Company recognized \$3.0 million and \$3.2 million

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and \$6.0 million and \$6.6 million of stock-based compensation expense, respectively. The six months ended June 30, 2012 and 2011 includes accelerated stock-based compensation expense of \$0.2 million and \$0.5 million, respectively, resulting from departures of members of the board of directors. Stock-based compensation expense is included in employee costs in the condensed consolidated statements of income.

As of June 30, 2012, the Company had unrecognized stock-based compensation of \$23.7 million. The remaining unrecognized stock-based compensation is expected to be recognized over a weighted average period of 23.0 months. The Company is projecting a forfeiture rate of 5%.

The activity in the Company's restricted stock for the six months ended June 30, 2012 was as follows:

|  | Number of Shares<br>of Restricted<br>Stock | Weighted Average<br>Grant-Date Fair<br>Value |
|--|--|--|
| Unvested restricted stock at January 1, 2012 | 1,252,239                                  | \$29.00                                      |
| Granted                                      | 38,990                                     | 27.33  |
| Vested                                       | (411,279                                   | ) 29.00                                      |
| Forfeited                                    | (44,675                                    | ) 29.00                                      |
| Unvested restricted stock at June 30, 2012   | 835,275                                    | \$28.92                                      |

## NOTE 6 — INVESTMENT IN AFFILIATES

At June 30, 2012 and December 31, 2011, the investment in affiliates was composed of the following (in thousands):

|   | June 30,<br>2012 | December 31,<br>2011 |
|---|------------------|----------------------|
| Investment in OCC                         | \$333            | \$333                |
| Investment in Signal Trading Systems, LLC | 11,379           | 11,472               |
| Investment in IPXI Holdings, LLC          | 2,500            | 2,500                |
| Investments in Affiliates                 | \$14,212         | \$14,305             |

## NOTE 7 — ACCOUNTS PAYABLE AND ACCRUED EXPENSES

At June 30, 2012 and December 31, 2011, accounts payable and accrued expenses consisted of the following (in thousands):

|  | June 30,<br>2012 | December 31,<br>2011 |
|--|------------------|----------------------|
| Compensation and benefit-related liabilities | \$10,492         | \$18,349             |
| Royalties                                    | 10,610           | 10,795               |
| Facilities                                   | 1,919            | 2,229                |
| Legal  | 2,170            | 962                  |
| Accounts payable                             | 3,665            | 1,877                |
| Purchase of unrestricted common stock (1)    | —                | 2,018                |
| Linkage                                      | 1,460            | 1,653                |
| Other  | 8,059            | 8,188                |
| Total  | \$38,375         | \$46,071             |

(1) Reflects shares purchased at the end of the period that are not settled until three days after the trade occurs.

NOTE 8 — MARKETING FEE

CBOE facilitates the collection and payment of marketing fees assessed on certain trades taking place at CBOE Funds

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resulting from the marketing fees are made available to Designated Primary Market Makers and Preferred Market Makers as an economic inducement to route orders to CBOE. Pursuant to ASC 605-45, Revenue Recognition—Principal Agent Considerations, the Company reflects the assessments and payments on a net basis, with no impact on revenues or expenses.

As of June 30, 2012 and December 31, 2011, amounts assessed by the Company on behalf of others included in current assets totaled \$7.5 million and \$5.2 million, respectively, and payments due to others included in current liabilities totaled \$8.1 million and \$5.8 million, respectively.

## NOTE 9 — DEFERRED REVENUE

The following table summarizes the activity in deferred revenue for the six months ended June 30, 2012 (in thousands):

|                                      | Balance at<br>December 31,<br>2011 | Cash<br>Additions | Revenue<br>Recognition | Balance at<br>June 30, 2012 |
|--------------------------------------|------------------------------------|-------------------|------------------------|-----------------------------|
| Other – net                          | \$351                              | \$2,639           | \$(1,927)              | ) \$1,063                   |
| Liquidity provider sliding scale (1) | —                                  | 29,759            | (13,457)               | ) 16,302                    |
| Total deferred revenue               | \$351                              | \$32,398          | \$(15,384)             | ) \$17,365                  |

(1) Liquidity providers who prepay transaction fees, at a minimum, for the first two levels of the liquidity provider sliding scale are eligible to participate in reduced fees assessed to contract volume above 800,000 per month. The prepayment of 2012 transaction fees totaled \$29.8 million. This amount is amortized and recorded as transaction fees over the respective period.

## NOTE 10 — EMPLOYEE BENEFITS

Employees are eligible to 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). The Company contributed \$2.0 million and \$1.9 million for the six months ended June 30, 2012 and 2011, respectively.

Eligible employees may participate in the Supplemental Employee Retirement Plan (“SERP”), Executive Retirement Plan (“ERP”) and Deferred Compensation Plan. The SERP, ERP and Deferred Compensation Plan are defined contribution plans that are nonqualified by Internal Revenue Code regulations. The Company contributed \$0.7 million and \$0.6 million to the above plans for the six months ended June 30, 2012 and 2011, respectively.

The Company has a postretirement medical plan for certain current and former members of senior management. The Company recorded immaterial postretirement benefits expense for the three and six months ended June 30, 2012 and 2011.

## NOTE 11 — INCOME TAXES

For the three and six months ended June 30, 2012 and 2011, the Company recorded income tax provisions of \$27.2 million and \$22.9 million and \$50.7 million and \$46.9 million, respectively. The effective tax rate for the six months ended June 30, 2012 and 2011 was 41.4%. Although the effective tax rate is the same for both periods, the effective tax rate for the six months ended June 30, 2012 reflects the impact of an increase of an uncertain tax position partially offset by a reduction in the statutory apportionment rates assigned to the Company by the State of Illinois.

As of June 30, 2012 and December 31, 2011, the Company had \$13.3 million and \$11.4 million, respectively, of uncertain tax positions excluding interest and penalties, which, if recognized in the future, would affect the annual effective income tax rate. Reductions to uncertain tax positions primarily from the lapse of the applicable statutes of limitations during the next twelve months are estimated to be approximately \$1.5 million, not including any potential new additions.

Estimated interest costs and penalties, which are classified as part of the provision for income taxes in the Company's condensed consolidated statements of income, were \$0.2 million for the three months ended June 30, 2012 and 2011 and \$0.3 million for the six months ended June 30, 2012 and 2011. Accrued interest and penalties were \$1.1 million and \$0.8 million as of June 30, 2012 and December 31, 2011.

The Company is subject to U.S. federal tax, Illinois, New Jersey and New York state taxes and Washington D.C. taxes, as well as other local jurisdictions. The Company's tax returns have been examined by the Internal Revenue Service through

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2009 and the Illinois Department of Revenue through 2008. For New Jersey and Washington D.C., the open years are 2008 and forward. The Company is currently under audit by the Internal Revenue Service for 2010, the State of New York for the 2007-2009 tax years and the State of Illinois for the 2009 and 2010 tax years.

## NOTE 12 — FAIR VALUE MEASUREMENTS

Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk, including the Company's own credit risk.

The Company applied FASB ASC 820, Fair Value Measurement and Disclosure (formerly, FASB Statement No. 157, Fair Value Measurements), which provides guidance for using fair value to measure assets and liabilities by defining fair value and establishing the framework for measuring fair value. ASC 820 applies to financial and nonfinancial instruments that are measured and reported on a fair value basis. The three-level hierarchy of fair value measurements is based on whether the inputs to those measurements are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The fair-value hierarchy requires the use of observable market data when available and consists of the following levels:

Level 1—Unadjusted inputs based on quoted markets for identical assets or liabilities.

- Level 2—Observable inputs, either direct or indirect, not including Level 1, corroborated by market data or based upon quoted prices in non-active markets.

Level 3—Unobservable inputs that reflect management's best assumptions of what market participants would use in valuing the asset or liability.

The Company has included a tabular disclosure for financial assets that are measured at fair value on a recurring basis in the condensed consolidated balance sheet as of June 30, 2012 and December 31, 2011. The Company holds no financial liabilities that are measured at fair value on a recurring basis.

| (amounts in thousands)                      | Level 1    | Level 2 | Level 3 | Total      |
|---|------------|---------|---------|------------|
| Assets at fair value:                       |            |         |         |            |
| Money market funds                          | \$ 120,000 | \$—     | \$—     | \$ 120,000 |
| Total assets at fair value at June 30, 2012 | \$ 120,000 | \$—     | \$—     | \$ 120,000 |

| (amounts in thousands)                          | Level 1    | Level 2 | Level 3 | Total      |
|---|------------|---------|---------|------------|
| Assets at fair value:                           |            |         |         |            |
| Money market funds                              | \$ 126,000 | \$—     | \$—     | \$ 126,000 |
| Total assets at fair value at December 31, 2011 | \$ 126,000 | \$—     | \$—     | \$ 126,000 |

In March 2011, the Company revalued its investment in NSX Holdings, Inc. as a result of an other-than-temporary impairment resulting in a full impairment totaling \$0.5 million, which represented the carrying value of the investment. The investment was classified as level 3 as the fair value was based on both observable and unobservable inputs.

In December 2011, the Company, through DerivaTech Corporation, a wholly-owned subsidiary, acquired a 6.25% interest in IPXI Holdings, LLC ("IPXI") for \$2.5 million. The Company contributed cash of \$1.3 million and has

accrued a liability of \$1.2 million, which based on the achievement of certain deliverables, will become due in December 2012 and will increase the Company's share of IPXI to 10.0%. The investment, measured at fair value on a non-recurring basis, is classified as level 3 as the fair value was based on both observable and unobservable inputs.

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NOTE 13 — LEGAL PROCEEDINGS

As of June 30, 2012, the end of the period covered by this report, the Company was subject to the various legal proceedings and claims discussed below, as well as certain other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business.

The Company reviews its legal proceedings and claims, regulatory reviews and inspections and other legal proceedings on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. The Company establishes accruals for those contingencies where the incurrence of a loss is probable and can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. The Company does not record liabilities when the likelihood that the liability has been incurred is probable, but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote. The Company's assessment of whether a loss is reasonably possible or probable is based on its assessment of the ultimate outcome of the matter following all appeals.

Estimates of probable losses resulting from patent litigation involving the Company are inherently difficult to make, particularly when the Company's view of the case is significantly different than that expressed by the plaintiff. The Company has not recorded a liability related to damages in connection with these matters.

As of June 30, 2012, the Company does not think that there is a reasonable possibility that any material loss exceeding the amounts already recognized for these reviews, inspections or other legal proceedings, if any, has been incurred. While the consequences of certain unresolved proceedings are not presently determinable, the outcome of any litigation is inherently uncertain and an adverse outcome from certain matters could have a material effect on our earnings in any given reporting period. However, in the opinion of management, the ultimate liability is not expected to have a material effect on our financial position, liquidity or capital resources.

Index Options Litigation

On May 25, 2012, the Illinois Appellate Court (the "Appellate Court") affirmed the ruling of the Circuit Court of Cook County, Illinois granting CBOE, The McGraw-Hill Companies, Inc and CME Group Index Services, LLC summary judgment against International Securities Exchange ("ISE") and its parent company. The summary judgment motion enjoined ISE from listing or providing an exchange trading market for options on the S&P 500 Index or the Dow Jones Industrial Average and OCC from listing and clearing options on such ISE options. ISE has asked for leave to appeal this decision.

Patent Litigation

ISE

On May 7, 2012, the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit") issued a decision on the appeal by ISE of the U.S. District Court in the Northern District of Illinois's (the "District Court") ruling granting summary judgment to CBOE based on non-infringement of ISE's U.S. Patent No. 6,618,707. In its decision, the Federal Circuit affirmed-in-part and vacated-in-part the ruling of the District Court and remanded the case to the District Court for further proceedings based on the Federal Circuit's construction of terms found in the asserted patent claims.

Realtime

On August 6, 2012, the Company and Realtime Data, LLC entered into a settlement agreement, the terms of which are confidential, under which the parties agreed to file a stipulation of dismissal of the matter and in connection with which the Company recorded an immaterial charge. Based on the terms of the settlement agreement, the Company has determined that this litigation is not currently a material legal proceeding. Accordingly, the Company does not intend to make disclosures about this proceeding in its future periodic filings.



NOTE 14 — SUBSEQUENT EVENTS

On July 31, 2012, CBOE Holdings' Board of Directors authorized the Company to repurchase an additional \$100.0 million of its outstanding unrestricted common stock. This program will be in addition to any unused amount remaining under the August 2011 authorization.

Additionally, the Company announced that its board of directors declared a quarterly cash dividend of \$0.15 per share. The dividend is payable September 21, 2012 to stockholders of record at the close of business on August 31, 2012.

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## CBOE HOLDINGS, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the notes thereto, included in Item 1 in this Quarterly Report on Form 10-Q, and the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and as contained in that report, the information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." This discussion contains forward-looking information. Please see "Forward-Looking Statements" and Part II, Item 1A, "Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these statements.

## RESULTS OF OPERATIONS

Three months ended June 30, 2012 compared to the three months ended June 30, 2011

## Overview

The following summarizes changes in financial performance for the three months ended June 30, 2012 compared to the same period in 2011.

|   | 2012                                    | 2011    | Inc./(Dec.) | Percent Change |   |
|---|---|---------|-------------|----------------|---|
|   | (in millions, except per share amounts) |         |             |                |   |
| Total operating revenues                                      | \$132.6                                 | \$120.3 | \$12.3      | 10.2           | % |
| Total operating expenses                                      | 66.5                                    | 63.8    | 2.7         | 4.2            | % |
| Operating income  | 66.1                                    | 56.5    | 9.6         | 17.0           | % |
| Total other income/(expense)                                  | (0.4                                    | ) (0.2  | ) (0.2      | ) 100.0        | % |
| Income before income taxes                                    | 65.7                                    | 56.3    | 9.4         | 16.7           | % |
| Income tax provision  | 27.2                                    | 22.9    | 4.3         | 18.8           | % |
| Net income  | \$38.5                                  | \$33.4  | \$5.1       | 15.3           | % |
| Net income allocated to common stockholders                   | \$37.9                                  | \$32.6  | \$5.3       | 16.3           | % |
| Operating income percentage                                   | 49.8                                    | % 46.9  | %           |                |   |
| Net income percentage   | 29.0                                    | % 27.8  | %           |                |   |
| Diluted net income per share allocated to common stockholders | \$0.44                                  | \$0.36  |             |                |   |

The Company's market share of total exchange traded options contracts was 29.0% for the three months ended June 30, 2012 compared with 26.0% for the same period in 2011.

Total operating revenues increased due to higher transaction fees, exchange services and other fees and market data fees, partially offset by lower access fees and regulatory fees.

Total operating expenses increased primarily due to higher employee costs, outside services, royalty fees and travel and promotional expenses, partially offset by decreases in depreciation and amortization and trading volume incentives.



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## Operating Revenues

Total operating revenues for the three months ended June 30, 2012 were \$132.6 million, an increase of \$12.3 million, or 10.2%, compared with the same period in 2011. The following summarizes changes in total operating revenues for the three months ended June 30, 2012 compared to the same period in 2011.

|                                  | 2012    | 2011          | Inc./ (Dec.) | Percent Change |    |
|----------------------------------|---------|---------------|--------------|----------------|----|
|                                  |         | (in millions) |              |                |    |
| Transaction fees                 | \$94.9  | \$86.3        | \$8.6        | 10.0           | %  |
| Access fees                      | 16.1    | 17.0          | (0.9)        | (5.3)          | )% |
| Exchange services and other fees | 7.9     | 4.3           | 3.6          | 83.7           | %  |
| Market data fees                 | 6.4     | 4.8           | 1.6          | 33.3           | %  |
| Regulatory fees                  | 4.1     | 4.8           | (0.7)        | (14.6)         | )% |
| Other revenue                    | 3.2     | 3.1           | 0.1          | 3.2            | %  |
| Total operating revenues         | \$132.6 | \$120.3       | \$12.3       | 10.2           | %  |

## Transaction Fees

Transaction fees increased 10.0% to \$94.9 million for the three months ended June 30, 2012, compared with \$86.3 million for the same period in 2011. This increase was due to increases of 8.0% and 1.9% in total trading volume and average revenue per contract, respectively. Transaction fees accounted for 71.6% and 71.7% of total operating revenues for the first three months of 2012 and 2011, respectively.

Our share of total exchange traded options contracts increased to 29.0% from 26.0% in the prior year period, while overall trading volume in the industry decreased. We believe the market share increase is primarily attributable to the fee changes implemented at the beginning of 2012.

Overall trading volume is impacted by many factors which may or may not be in our control. These factors include: political and world events, market volatility, regulatory actions or considerations, availability of capital, competition, trading patterns or strategies, number of trading days in the period and seasonality.

Average revenue per contract, discussed in detail below, is impacted by our fee structure which includes volume based incentive programs, mix of products traded and the percentage of trading volume executed by customers as compared to professionals, market-makers, clearing trading permit holders and broker-dealers. The implementation of fee changes, which may increase or decrease our average revenue per contract, is primarily to ensure that we are competitive in the options marketplace and to ultimately improve and continue to drive order flow to our exchanges. We cannot predict the trading patterns of exchange participants but we can continue to price our products at levels that are competitive in our markets.

The following summarizes transaction fees by product for the three months ended June 30, 2012 compared to the same period in 2011.

|                       | 2012   | 2011          | Inc./ (Dec.) | Percent Change |    |
|-----------------------|--------|---------------|--------------|----------------|----|
|                       |        | (in millions) |              |                |    |
| Equities              | \$15.6 | \$20.6        | \$(5.0)      | (24.3)         | )% |
| Indexes               | 53.4   | 44.1          | 9.3          | 21.1           | %  |
| Exchange-traded funds | 16.4   | 17.1          | (0.7)        | (4.1)          | )% |

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|                                |        |        |       |       |   |
|--------------------------------|--------|--------|-------|-------|---|
| Total options transaction fees | 85.4   | 81.8   | 3.6   | 4.4   | % |
| Futures                        | 9.5    | 4.5    | 5.0   | 111.1 | % |
| Total transaction fees         | \$94.9 | \$86.3 | \$8.6 | 10.0  | % |

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## Trading Volume

Our average daily trading volume for the three months ended June 30, 2012 was 4.80 million contracts, up 8.0% compared with 4.45 million for the same period in 2011. The Company experienced volume increases among all product categories. The 12.4% increase in indexes was primarily driven by higher volume in SPX and VIX options. The 3.7% and 7.6% increases in equities and exchange-traded funds were primarily driven by the fee changes implemented in 2012. The Company continued to experience significant growth in futures primarily driven by futures contracts on the VIX Index. Total trading days for the three months ended June 30, 2012 and 2011 were sixty-three.

The following summarizes changes in total trading volume and average daily trading volume ("ADV") by product for the three months ended June 30, 2012 compared to the same period in 2011.

|                         | 2012          |      | 2011   |      | Volume<br>Percent<br>Change | ADV<br>Percent<br>Change |   |
|-------------------------|---------------|------|--------|------|-----------------------------|--------------------------|---|
|                         | Volume        | ADV  | Volume | ADV  |                             |                          |   |
|                         | (in millions) |      |        |      |                             |                          |   |
| Equities                | 126.5         | 2.01 | 122.0  | 1.94 | 3.7                         | % 3.7                    | % |
| Indexes                 | 78.9          | 1.25 | 70.2   | 1.11 | 12.4                        | % 12.4                   | % |
| Exchange-traded funds   | 91.4          | 1.45 | 84.9   | 1.35 | 7.6                         | % 7.6                    | % |
| Total options contracts | 296.8         | 4.71 | 277.1  | 4.40 | 7.1                         | % 7.1                    | % |
| Futures contracts       | 5.9           | 0.09 | 3.1    | 0.05 | 92.7                        | % 92.7                   | % |
| Total contracts         | 302.7         | 4.80 | 280.2  | 4.45 | 8.0                         | % 8.0                    | % |

The following provides the percentage of volume by product category for the three months ended June 30, 2012 and 2011.

|                       | 2012  | 2011    |   |
|-----------------------|-------|---------|---|
| Equities              | 41.8  | % 43.5  | % |
| Indexes               | 26.1  | % 25.1  | % |
| Exchange-traded funds | 30.2  | % 30.3  | % |
| Futures               | 1.9   | % 1.1   | % |
| Total                 | 100.0 | % 100.0 | % |

## Average revenue per contract

The average revenue per contract was \$0.314 for the three months ended June 30, 2012, an increase of 1.9% compared with \$0.308 for the same period in 2011. Average revenue per contract represents transaction fees divided by total contracts cleared.

The following summarizes average revenue per contract by product for the three months ended June 30, 2012 compared to the same period in 2011.

|  | 2012    | 2011    | Percent<br>Change |    |
|--|---------|---------|-------------------|----|
| Equities                                   | \$0.123 | \$0.169 | (27.2)            | )% |
| Indexes                                    | 0.677   | 0.627   | 8.0               | %  |
| Exchange-traded funds                      | 0.180   | 0.202   | (10.9)            | )% |
| Total options average revenue per contract | 0.288   | 0.295   | (2.4)             | )% |
| Futures                                    | 1.607   | 1.477   | 8.8               | %  |

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|                                    |         |         |     |   |
|------------------------------------|---------|---------|-----|---|
| Total average revenue per contract | \$0.314 | \$0.308 | 1.9 | % |
|------------------------------------|---------|---------|-----|---|

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There were a number of factors that contributed to the increase in total average revenue per contract for the three months ended June 30, 2012 compared to the same period in 2011, including our rate structure and product mix. Rate structure - Our rate structure includes sliding scales, volume discounts and limits on fees as part of our effort to increase liquidity and market share in both multiply-listed options products and, to a lesser extent, on our proprietary products. In general, the transaction fee changes implemented in 2012 increased the average revenue per contract on index options and futures and decreased the average revenue per contract on multiply-listed options products (equities and exchange-traded funds). We expect this trend to continue for the remainder of 2012. One of the fee changes implemented in 2012 contributing to the decrease in multiply-listed products average revenue per contract was the Volume Incentive Program ("VIP"). The VIP provides credits to firms for qualifying customer contracts in multiply-listed options in excess of certain thresholds.

Product mix - The increase in the percentage of trades executed in index options and futures in the current year quarter compared to the year ago quarter had a positive impact on average revenue per contract.

At June 30, 2012, there were approximately one hundred five clearing firms, two of which cleared a combined 45% of our billings collected through the OCC for the three months ended June 30, 2012. The next largest clearing firm accounted for approximately 5% of our billings collected through the OCC. No one customer affiliated with either of the top two clearing firms represented more than 18% of the billings collected for the three months ended June 30, 2012 or 2011. Should a clearing firm withdraw, we believe the affiliated customer portion of that firm's trading activity would likely transfer to another clearing firm.

The two largest clearing firms mentioned above clear the majority of the market-maker sides of transactions at CBOE, C2 and at all of the U.S. options exchanges. If either of these firms were to withdraw from the business of market-maker clearing, and market-makers were unable to make new clearing arrangements, this could create significant disruption to the U.S. options markets, including ours.

### Access Fees

Access fees for the three months ended June 30, 2012 and 2011 were \$16.1 million and \$17.0 million, respectively, representing 12.2% and 14.2% of total operating revenues, respectively. The decrease in access fees was primarily due to fee adjustments for market-maker trading permits, which lowered the fee for both monthly trading permits and pricing under the market-maker trading permit sliding scale in the current year period. Market-makers that commit to a minimum number of trading permits for the calendar year qualify for a discounted monthly rate.

The demand for trading permits could be impacted by seasonality and market fluctuations that affect trading volume.

### Exchange Services and Other Fees

Exchange services and other fees for the three months ended June 30, 2012 increased 83.7% to \$7.9 million from \$4.3 million for the same period in 2011. The increase was primarily due to pricing increases for services such as connectivity to CBOE Command through network access ports and client application services.

### Market Data Fees

Market data fees increased 33.3% for the three months ended June 30, 2012 to \$6.4 million from \$4.8 million for the same period in 2011. Market data fees represent income derived from OPRA as well as the Company's market data services. OPRA and Company market data services for the three months ended June 30, 2012 and 2011, were \$4.0 million and \$2.4 million and \$3.1 million and \$1.7 million, respectively. OPRA income is allocated through OPRA based on each exchange's share of total options transactions cleared. The Company's share of OPRA income for the



three months ended June 30, 2012 increased to 24.4% from 21.7% for the same period in 2011. The increase in the Company's share of total options transactions resulted primarily from higher volume driven by the fee changes implemented in 2012.

#### Regulatory Fees

Regulatory fees decreased 14.6% for the three months ended June 30, 2012 to \$4.1 million from \$4.8 million for the same period in 2011. The Company's regulatory fees are primarily based on the number of customer contracts traded throughout the listed United States options industry. The decrease in regulatory fees was primarily due to lower customer volume industry wide as compared to the same period in 2011.

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CBOE increased its, and C2 implemented an, options regulatory fee rate effective August 1, 2012. Accordingly, if volume in customer contracts remains at the current year levels, the Company expects regulatory fees to increase for the balance of 2012. Under the rules of each of our options exchanges, as required by the SEC, any revenue derived from the regulatory fees and fines cannot be used for non-regulatory purposes.

## Operating Expenses

Total operating expenses increased \$2.7 million, or 4.2%, to \$66.5 million for the three months ended June 30, 2012 from \$63.8 million for the same period in 2011. This increase was primarily due to higher employee costs, outside services, royalty fees and travel and promotional expenses, partially offset by lower depreciation and amortization and trading volume incentives. As a percentage of operating revenues for the three months ended June 30, 2012 and 2011, operating expenses were 50.2% and 53.2%, respectively.

The following summarizes changes in operating expenses for the three months ended June 30, 2012 compared to the same period in 2011.

|                                 | 2012   | 2011          | Inc./ (Dec.) | Percent Change |    |
|---------------------------------|--------|---------------|--------------|----------------|----|
|                                 |        | (in millions) |              |                |    |
| Employee costs                  | \$25.3 | \$24.5        | \$0.8        | 3.3            | %  |
| Depreciation and amortization   | 8.3    | 9.0           | (0.7)        | (7.8)          | )% |
| Data processing                 | 4.9    | 4.9           | —            | —              | %  |
| Outside services                | 9.3    | 7.2           | 2.1          | 29.2           | %  |
| Royalty fees                    | 12.0   | 10.4          | 1.6          | 15.4           | %  |
| Trading volume incentives       | 1.2    | 2.5           | (1.3)        | (52.0)         | )% |
| Travel and promotional expenses | 3.3    | 2.3           | 1.0          | 43.5           | %  |
| Facilities costs                | 1.2    | 1.4           | (0.2)        | (14.3)         | )% |
| Other expenses                  | 1.0    | 1.6           | (0.6)        | (37.5)         | )% |
| Total operating expenses        | \$66.5 | \$63.8        | \$2.7        | 4.2            | %  |

## Employee Costs

For the three months ended June 30, 2012, employee costs were \$25.3 million, or 19.1% of total operating revenues, compared with \$24.5 million, or 20.4% of total operating revenues, for the same period in 2011. This represented an increase of \$0.8 million, or 3.3%. The increase was primarily attributed to higher salary expenses of \$0.4 million due to an increase in headcount and an increase in self-insurance medical expenses of \$0.6 million. The Company expects salary expenses to continue trending higher for the remainder of 2012 resulting from the hiring of additional staff, primarily for regulatory functions.

## Depreciation and Amortization

Depreciation and amortization decreased by \$0.7 million to \$8.3 million for the three months ended June 30, 2012 compared with \$9.0 million for the same period in 2011. Depreciation and amortization charges represented 6.3% and 7.5% of total operating revenues for the three months ended June 30, 2012 and 2011, respectively.

## Outside Services

Expenses related to outside services increased to \$9.3 million for the three months ended June 30, 2012 from \$7.2 million in the prior-year period and represented 7.0% and 6.0% of total operating revenues for the three months ended June 30, 2012 and 2011, respectively. The \$2.1 million increase primarily resulted from higher expenses for contract programmers, patent litigation and the Company's review of regulatory compliance.

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### Royalty Fees

Royalty fees for the three months ended June 30, 2012 were \$12.0 million compared with \$10.4 million for the same period in 2011, an increase of \$1.6 million resulting from higher trading volume in licensed index products. Royalty fees represented 9.1% and 8.6% of total operating revenues for the three months ended June 30, 2012 and 2011, respectively.

### Trading Volume Incentives

Trading volume incentives decreased by \$1.3 million to \$1.2 million for the three months ended June 30, 2012 compared to \$2.5 million for the same period in 2011. The decrease was primarily due to a modification in the criteria for contracts qualifying for certain quantity-based fee waivers and an adjustment to the fees paid by the Company for transactions linked to away exchanges.

### Travel and Promotional Expenses

Travel and promotional expenses for the three months ended June 30, 2012 and 2011 were \$3.3 million and \$2.3 million, respectively. The increase was primarily due to higher advertising expenses.

### Operating Income

As a result of the items above, operating income for the three months ended June 30, 2012 was \$66.1 million compared to \$56.5 million for the same period in 2011, an increase of \$9.6 million.

### Income before Income Taxes

Income before income taxes for the three months ended June 30, 2012 was \$65.7 million compared to \$56.3 million for the same period in 2011, an increase of \$9.4 million.

### Income Tax Provision

For the three months ended June 30, 2012, the income tax provision was \$27.2 million compared to \$22.9 million for the same period in 2011. The effective tax rate was 41.4% and 40.7% for the three months ended June 30, 2012 and 2011, respectively. The higher effective rate reflects the impact of an increase of an uncertain tax position partially offset by a reduction in the statutory apportionment rates assigned to the Company by the State of Illinois.

### Net Income

As a result of the items above, net income allocated to common stockholders for the three months ended June 30, 2012 was \$37.9 million compared to \$32.6 million for the same period in 2011, an increase of \$5.3 million. Basic and diluted net income per share allocated to common stockholders were \$0.44 and \$0.36 for the three months ended June 30, 2012 and 2011, respectively.



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Six months ended June 30, 2012 compared to the six months ended June 30, 2011

## Overview

The following summarizes changes in financial performance for the six months ended June 30, 2012 compared to the same period in 2011.

|   | 2012                                    | 2011    | Inc./ (Dec.) | Percent Change |   |
|---|---|---------|--------------|----------------|---|
|   | (in millions, except per share amounts) |         |              |                |   |
| Total operating revenues                                      | \$253.9                                 | \$244.3 | \$9.6        | 3.9            | % |
| Total operating expenses                                      | 130.4                                   | 130.3   | 0.1          | 0.1            | % |
| Operating income  | 123.5                                   | 114.0   | 9.5          | 8.3            | % |
| Total other income/(expense)                                  | (0.9)                                   | (0.8)   | (0.1)        | 12.5           | % |
| Income before income taxes                                    | 122.6                                   | 113.2   | 9.4          | 8.3            | % |
| Income tax provision  | 50.7                                    | 46.9    | 3.8          | 8.1            | % |
| Net income  | \$71.9                                  | \$66.3  | \$5.6        | 8.4            | % |
| Net income allocated to common stockholders                   | \$70.8                                  | \$64.7  | \$6.1        | 9.4            | % |
| Operating income percentage                                   | 48.6                                    | % 46.7  | %            |                |   |
| Net income percentage   | 28.3                                    | % 27.1  | %            |                |   |
| Diluted net income per share allocated to common stockholders | \$0.81                                  | \$0.72  |              |                |   |

The Company's market share of total exchange traded options contracts was 28.6% for the six months ended June 30, 2012 compared with 26.6% for the same period in 2011. We believe the market share increase is primarily attributable to the fees changes implemented at the beginning of 2012.

Total operating revenues increased due to higher transaction fees, exchange services and other fees and market data fees, partially offset by lower access fees and regulatory fees.

Total operating expenses increased primarily due to higher outside services, royalty fees and travel and promotional expenses, substantially offset by decreases in depreciation and amortization and trading volume incentives.

## Significant events in the six months ended June 30, 2012

In 2012, the Company implemented several changes to its fee schedule to promote trading in various products. Adjustments were made to liquidity provider sliding scales, effectively decreasing per contract fees on multiply-listed options products and increasing per contract fees on proprietary products. For Clearing Trading Permit Holders that are proprietary firms, a single, fixed transaction fee for non-paired orders in products other than our proprietary option products was established. And, in an effort to increase our market share, we implemented VIP to reward firms who execute qualifying electronic, public customer, multiply-listed volume at CBOE in excess of certain thresholds, with a graduated schedule for higher tiers.

In addition to transaction fee changes, we also adjusted our access fees and our exchange services and other fees for Trading Permit Holders that utilize our telecommunications networks and communications services, including co-location in our data center.



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## Operating Revenues

Total operating revenues for the six months ended June 30, 2012 were \$253.9 million, an increase of \$9.6 million, or 3.9%, compared with the same period in 2011. The following summarizes changes in total operating revenues for the six months ended June 30, 2012 compared to the same period in 2011.

|                                  | 2012    | 2011          | Inc./ (Dec.) | Percent Change |    |
|----------------------------------|---------|---------------|--------------|----------------|----|
|                                  |         | (in millions) |              |                |    |
| Transaction fees                 | \$179.7 | \$176.2       | \$3.5        | 2.0            | %  |
| Access fees                      | 32.1    | 34.6          | (2.5)        | (7.2)          | )% |
| Exchange services and other fees | 15.3    | 9.0           | 6.3          | 70.0           | %  |
| Market data fees                 | 12.7    | 9.9           | 2.8          | 28.3           | %  |
| Regulatory fees                  | 8.8     | 9.7           | (0.9)        | (9.3)          | )% |
| Other revenue                    | 5.3     | 4.9           | 0.4          | 8.2            | %  |
| Total operating revenues         | \$253.9 | \$244.3       | \$9.6        | 3.9            | %  |

## Transaction Fees

Transaction fees increased 2.0% to \$179.7 million for the six months ended June 30, 2012, compared with \$176.2 million for the same period in 2011. This increase was largely due to a 1.7% increase in total trading volume coupled with a 0.3% increase in average revenue per contract. Transaction fees accounted for 70.8% and 72.1% of total operating revenues for the first six months of 2012 and 2011, respectively.

The following summarizes transaction fees by product for the six months ended June 30, 2012 compared to the same period in 2011.

|                                | 2012    | 2011          | Inc./ (Dec.) | Percent Change |    |
|--------------------------------|---------|---------------|--------------|----------------|----|
|                                |         | (in millions) |              |                |    |
| Equities                       | \$31.5  | \$46.4        | \$(14.9)     | (32.1)         | )% |
| Indexes                        | 101.3   | 88.0          | 13.3         | 15.1           | %  |
| Exchange-traded funds          | 30.4    | 33.3          | (2.9)        | (8.7)          | )% |
| Total options transaction fees | 163.2   | 167.7         | (4.5)        | (2.7)          | )% |
| Futures                        | 16.5    | 8.5           | 8.0          | 94.1           | %  |
| Total transaction fees         | \$179.7 | \$176.2       | \$3.5        | 2.0            | %  |

## Trading Volume

Our average daily trading volume for the six months ended June 30, 2012 was 4.84 million contracts, up 1.7% compared with 4.76 million for the same period in 2011. The Company continued to experience significant growth in index and options futures primarily driven by futures contracts on the VIX Index. Total trading days for the six months ended June 30, 2012 and 2011 were one hundred twenty-five.

The following summarizes changes in total trading volume and ADV by product for the six months ended June 30, 2012 compared to the same period in 2011.





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|                         | 2012          |      | 2011   |      | Volume<br>Percent<br>Change | ADV<br>Percent<br>Change |      |    |
|-------------------------|---------------|------|--------|------|-----------------------------|--------------------------|------|----|
|                         | Volume        | ADV  | Volume | ADV  |                             |                          |      |    |
|                         | (in millions) |      |        |      |                             |                          |      |    |
| Equities                | 270.3         | 2.16 | 283.4  | 2.27 | (4.6                        | )%                       | (4.6 | )% |
| Indexes                 | 151.7         | 1.21 | 142.9  | 1.14 | 6.1                         | %                        | 6.1  | %  |
| Exchange-traded funds   | 173.3         | 1.39 | 163.2  | 1.31 | 6.2                         | %                        | 6.2  | %  |
| Total options contracts | 595.3         | 4.76 | 589.5  | 4.72 | 1.0                         | %                        | 1.0  | %  |
| Futures contracts       | 10.0          | 0.08 | 5.7    | 0.04 | 76.0                        | %                        | 76.0 | %  |
| Total contracts         | 605.3         | 4.84 | 595.2  | 4.76 | 1.7                         | %                        | 1.7  | %  |

The following provides the percentage of volume by product category for the six months ended June 30, 2012 and 2011.

|                       | 2012  | 2011    |   |
|-----------------------|-------|---------|---|
| Equities              | 44.7  | % 47.6  | % |
| Indexes               | 25.1  | % 24.0  | % |
| Exchange-traded funds | 28.6  | % 27.4  | % |
| Futures               | 1.6   | % 1.0   | % |
| Total                 | 100.0 | % 100.0 | % |

## Average revenue per contract

The average revenue per contract was \$0.297 for the six months ended June 30, 2012, an increase of 0.3% compared with \$0.296 for the same period in 2011. The following summarizes average revenue per contract by product for the six months ended June 30, 2012 compared to the same period in 2011.

|  | 2012    | 2011    | Percent<br>Change |    |
|--|---------|---------|-------------------|----|
| Equities                                   | \$0.117 | \$0.164 | (28.8             | )% |
| Indexes                                    | 0.668   | 0.616   | 8.5               | %  |
| Exchange-traded funds                      | 0.176   | 0.204   | (13.9             | )% |
| Total options average revenue per contract | 0.274   | 0.284   | (3.6              | )% |
| Futures                                    | 1.644   | 1.491   | 10.3              | %  |
| Total average revenue per contract         | \$0.297 | \$0.296 | 0.3               | %  |

There were a number of factors that contributed to the increase in total average revenue per contract for the six months ended June 30, 2012 compared to the same period in 2011, including our rate structure and product mix.

Rate structure - In general, the transaction fee changes implemented in 2012, increased the average revenue per contract on index options and futures and decreased average revenue per contract on multiply-listed options products (equities and exchange-traded funds).

Product mix - Index options and futures generate our highest average fee per contract. The increase in the percentage of trades executed in index options and futures in the current year compared to the prior year period had a positive impact on average revenue per contract.

## Access Fees

Access fees for the six months ended June 30, 2012 and 2011 were \$32.1 million and \$34.6 million, respectively, representing 12.7% and 14.2% of total operating revenues, respectively. The decrease in access fees was primarily due to fee

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adjustments for market-maker trading permits implemented in January 2012.

## Exchange Services and Other Fees

Exchange services and other fees for the six months ended June 30, 2012 increased 70.0% to \$15.3 million from \$9.0 million for the same period in 2011. The increase was primarily due to pricing increases in 2012 for services such as connectivity through network access ports and client application services.

## Market Data Fees

Market data fees increased 28.3% for the six months ended June 30, 2012 to \$12.7 million from \$9.9 million for the same period in 2011. OPRA and Company market data services for the six months ended June 30, 2012 and 2011, were \$8.2 million and \$4.5 million and \$6.7 million and \$3.2 million, respectively. The Company's share of OPRA income for the six months ended June 30, 2012 increased to 25.9% from 22.8% for the same period in 2011 resulting from higher market share. The increase in the Company's market share resulted primarily from higher volume driven by the fee changes implemented in 2012.

## Regulatory Fees

Regulatory fees decreased 9.3% for the six months ended June 30, 2012 to \$8.8 million from \$9.7 million for the same period in 2011. The decrease is primarily due to lower volume of customer contracts industry wide as compared to the same period in 2011.

## Operating Expenses

Total operating expenses were \$130.4 million and \$130.3 million for the six months ended June 30, 2012 and 2011, respectively. This increase was primarily due to higher outside services, royalty fees and travel and promotional expenses, substantially offset by decreases in depreciation and amortization and trading volume incentives. As a percentage of operating revenues for the six months ended June 30, 2012 and 2011, operating expenses were 51.5% and 53.4%, respectively.

The following summarizes changes in operating expenses for the six months ended June 30, 2012 compared to the same period in 2011.

|                                 | 2012    | 2011          | Inc./ (Dec.) | Percent Change |    |
|---------------------------------|---------|---------------|--------------|----------------|----|
|                                 |         | (in millions) |              |                |    |
| Employee costs                  | \$50.6  | \$50.2        | \$0.4        | 0.8            | %  |
| Depreciation and amortization   | 16.6    | 17.7          | (1.1)        | (6.2)          | )% |
| Data processing                 | 9.8     | 9.3           | 0.5          | 5.4            | %  |
| Outside services                | 16.4    | 13.8          | 2.6          | 18.8           | %  |
| Royalty fees                    | 23.2    | 21.5          | 1.7          | 7.9            | %  |
| Trading volume incentives       | 3.8     | 8.3           | (4.5)        | (54.2)         | )% |
| Travel and promotional expenses | 5.5     | 4.0           | 1.5          | 37.5           | %  |
| Facilities costs                | 2.5     | 2.9           | (0.4)        | (13.8)         | )% |
| Other expenses                  | 2.0     | 2.6           | (0.6)        | (23.1)         | )% |
| Total operating expenses        | \$130.4 | \$130.3       | \$0.1        | 0.1            | %  |

Employee Costs

For the six months ended June 30, 2012, employee costs were \$50.6 million, or 19.9% of total operating revenues, compared with \$50.2 million, or 20.6% of total operating revenues, for the same period in 2011. This represented an increase of \$0.4 million, or 0.8%. The increase was primarily attributed to higher severance expense of \$1.1 million, partially offset by lower stock-based compensation expense of \$0.7 million.

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### Depreciation and Amortization

Depreciation and amortization decreased by \$1.1 million to \$16.6 million for the six months ended June 30, 2012 compared with \$17.7 million for the same period in 2011. Depreciation and amortization charges represented 6.6% and 7.2% of total operating revenues for the six months ended June 30, 2012 and 2011, respectively.

### Data Processing

Data processing expenses totaled \$9.8 million and \$9.3 million, representing 3.9% and 3.8% of total operating revenues for the six months ended June 30, 2012 and 2011, respectively. The increase in data processing expenses is primarily due to an increase in hardware and software maintenance relating to the migration of the trading platform to New Jersey.

### Outside Services

Expenses related to outside services increased to \$16.4 million for the six months ended June 30, 2012 from \$13.8 million in the prior-year period and represented 6.5% and 5.6% of total operating revenues for the six months ended June 30, 2012 and 2011, respectively. The \$2.6 million increase primarily resulted from higher fees for contract programmers, review of regulatory compliance and legal proceedings.

### Royalty Fees

Royalty fees for the six months ended June 30, 2012 were \$23.2 million compared with \$21.5 million for the same period in 2011, an increase of \$1.7 million. This increase is a direct result of the higher trading volume in licensed index products. Royalty fees represented 9.1% and 8.8% of total operating revenues for the six months ended June 30, 2012 and 2011, respectively.

### Trading Volume Incentives

Trading volume incentives decreased by \$4.5 million to \$3.8 million for the six months ended June 30, 2012 compared to \$8.3 million for the same period in 2011. The decrease was primarily due to a modification in the criteria for contracts qualifying for certain quantity-based fee waivers and an adjustment to the fees paid by the Company for transactions linked to away exchanges.

### Travel and Promotional Expenses

Travel and promotional expenses for the six months ended June 30, 2012 were \$5.5 million compared with \$4.0 million for the same period in 2011, an increase of \$1.5 million. The increase was primarily due to higher advertising expenses.

### Operating Income

As a result of the items above, operating income for the six months ended June 30, 2012 was \$123.5 million compared to \$114.0 million for the same period in 2011, an increase of \$9.5 million.

### Income before Income Taxes

Income before income taxes for the six months ended June 30, 2012 and 2011 was \$122.6 million and \$113.2 million, respectively, resulting in an increase of \$9.4 million.

### Income Tax Provision

For the six months ended June 30, 2012, the income tax provision was \$50.7 million compared to \$46.9 million for the same period in 2011. The effective tax rate was 41.4% for the six months ended June 30, 2012 and 2011.

### Net Income

As a result of the items above, net income allocated to common stockholders for the six months ended June 30, 2012 was \$70.8 million compared to \$64.7 million for the same period in 2011, an increase of \$6.1 million. Basic and diluted net income per share allocated to common stockholders were \$0.81 and \$0.72 for the years ended June 30, 2012 and 2011, respectively.

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LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2012, total assets were \$343.8 million, an increase of \$15.9 million compared with \$327.9 million at December 31, 2011. The following highlights factors that contributed to the change in total assets:

Cash and cash equivalents decreased by \$7.8 million to \$127.1 million at June 30, 2012 from \$134.9 million at December 31, 2011, primarily due to estimated tax payments of \$52.5 million, treasury stock repurchases totaling \$49.7 million and dividend payments totaling \$21.3 million, partially offset by cash generated from operations and the prepayment of liquidity provider transaction fees. Our cash and cash equivalents at June 30, 2012 were primarily composed of investments in institutional prime money market funds.

Accounts receivable increased by \$10.8 million to \$48.4 million at June 30, 2012 from \$37.6 million at December 31, 2011, primarily due to higher trading volume in June 2012 compared to December 2011.

At June 30, 2012, total liabilities were \$103.9 million, an increase of \$12.3 million from the December 31, 2011 balance of \$91.6 million. This increase was primarily due to increases in deferred revenue and other liabilities of \$17.0 million, partially offset by a decrease of \$7.7 million in accounts payable and accrued expenses.

Historically, we have financed our operations, capital expenditures and other cash needs through cash generated from operations. Cash requirements principally consist of funding operating expenses, capital expenditures and includes actual and anticipated quarterly dividend payments and common stock repurchases under the announced program. We expect to use cash on hand at June 30, 2012 and funds generated from operations to continue to meet our 2012 cash requirements.

Cash Flows

Operating Activities

Net cash flows provided by operating activities was \$86.7 million and \$92.6 million for the first six months of 2012 and 2011, respectively. The decrease in net cash flows provided by operating activities was primarily due to a decrease in deferred revenue and other liabilities primarily resulting from the removal of certain index products and reduction in volume thresholds in the liquidity provider sliding scale and a decrease in accounts payable and accrued expenses.

Net cash flows provided by operating activities was \$14.8 million higher than net income for the six months ended June 30, 2012. The net increase was mainly a result of higher deferred revenue and other liabilities of \$17.1 million, primarily due to the prepayment of transaction fees that are amortized over the year, and non-cash expenses of \$16.6 million and \$6.0 million for depreciation and amortization and stock-based compensation, respectively. These amounts were partially offset by a decrease in accounts payable and accrued expenses of \$8.6 million and an increase in accounts receivable of \$10.9 million.

Investing Activities

Net cash flows used in investing activities were \$20.3 million and \$18.3 million for the six months ended June 30, 2012 and 2011, respectively. Expenditures for capital and other assets totaled \$19.5 million and \$18.3 million for the six months ended June 30, 2012 and 2011, respectively, primarily representing purchases of systems hardware and software.



## Financing Activities

Net cash flows used in financing activities totaled \$74.2 million and \$21.5 million for the six months ended June 30, 2012 and 2011, respectively. For the period ended June 30, 2012, net cash flows used in financing activities consisted of \$21.3 million for the payment of quarterly dividends, \$49.7 million in unrestricted common stock purchases under the Company's share repurchase program and \$3.1 million for purchases of shares of unrestricted common stock surrendered in the second quarter of 2012 to satisfy employees' tax obligations upon the vesting of restricted stock.

## Dividends

The Company's expectation is to continue to pay dividends, with any such dividend based on prior year's net income adjusted for certain items. The decision to pay a dividend, however, remains within the discretion of our Board of Directors and may be affected by various factors, including our earnings, financial condition, capital requirements, level of indebtedness and other considerations our Board of Directors deems relevant. Future credit facilities, other future debt obligations and statutory

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provisions may limit, or in some cases prohibit, our ability to pay dividends.

Share Repurchase Program

On August 2, 2011, the Company announced that its Board of Directors had approved a share repurchase program that authorizes the Company to purchase up to \$100.0 million of its unrestricted common stock. The program permits the Company to purchase shares through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. It does not obligate the Company to make any repurchases at any specific time or situation.

From August 2011 through June 30, 2012, the Company has purchased 3,707,424 shares of unrestricted common stock at an average cost per share of \$26.09 totaling \$96.7 million in purchases under the program.

For the six months ended June 30, 2012, the Company has purchased 1,871,424 shares of unrestricted common stock at an average cost per share of \$26.58 totaling \$49.7 million in purchases under the program.

On July 31, 2012, the Company's board of directors authorized the Company to repurchase an additional \$100.0 million of its outstanding unrestricted common stock. This program will be in addition to any unused amount remaining under the August 2011 authorization (See Note 14 - Subsequent Events).

Commercial Commitments and Contractual Obligations

The Company leases office space in downtown Chicago, Illinois for its Regulatory Services Division, in a suburb of Chicago for its disaster recovery center, in New York for certain marketing activities and in New Jersey for our trading platform, with lease terms remaining from 2 months to 62 months as of June 30, 2012. Total rent expense related to the lease obligations for the six months ended June 30, 2012 and 2011 were \$1.7 million and \$1.6 million, respectively. The Company does not expect the upgrade of our trading platform nor the move of our trading platform to Secaucus, New Jersey to result in any material commercial commitments or contractual obligations.

Future minimum payments under these non-cancelable leases were as follows at June 30, 2012 (in thousands):

|                  | Total     | Less than<br>1 year | 1-3 years | 3-5 years |
|------------------|-----------|---------------------|-----------|-----------|
| Operating leases | \$ 11,397 | \$ 2,791            | \$ 4,779  | \$ 3,827  |
| Total            | \$ 11,397 | \$ 2,791            | \$ 4,779  | \$ 3,827  |

In addition to the non-cancelable leases, the Company has licensing agreements with various licensors containing annual minimum fee requirements totaling \$10.7 million for the next five years and \$1.1 million for the five years thereafter.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are subject to certain market risks, including changes in interest rates and inflation. There have been no material changes in our market risk from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 4. Controls and Procedures

Disclosure controls and procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), the Company’s management, with the participation of the Company’s Chairman of the Board and Chief Executive Officer and Executive Vice

President and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures for the three months ended June 30, 2012. Based upon their evaluation of these disclosure controls and procedures, the Chairman of the Board and Chief Executive Officer and the Executive Vice President and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the three months ended June 30, 2012 to ensure that information required to be disclosed by the Company in the reports that it files or submits is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There were no changes in the Company’s internal control over financial reporting that occurred during the three months ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As of June 30, 2012, the end of the period covered by this report, the Company was subject to the various legal proceedings and claims discussed below, as well as certain other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business.

The Company reviews its legal proceedings and claims, regulatory reviews and inspections and other legal proceedings on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. The Company establishes accruals for those contingencies where the incurrence of a loss is probable and can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. The Company does not record liabilities when the likelihood that the liability has been incurred is probable, but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote. The Company's assessment of whether a loss is reasonably possible or probable is based on its assessment of the ultimate outcome of the matter following all appeals.

Estimates of probable losses resulting from patent litigation involving the Company are inherently difficult to make, particularly when the Company's view of the case is significantly different than that expressed by the plaintiff. The Company has not recorded a liability related to damages in connection with these matters.

As of June 30, 2012, the Company does not think that there is a reasonable possibility that any material loss exceeding the amounts already recognized for these reviews, inspections or other legal proceedings, if any, has been incurred. While the consequences of certain unresolved proceedings are not presently determinable, the outcome of any litigation is inherently uncertain and an adverse outcome from certain matters could have a material effect on our earnings in any given reporting period. However, in the opinion of management, the ultimate liability is not expected to have a material effect on our financial position, liquidity or capital resources.

Index Options Litigation

On May 25, 2012, the Illinois Appellate Court (the "Appellate Court") affirmed the ruling of the Circuit Court of Cook County, Illinois granting CBOE, The McGraw-Hill Companies, Inc and CME Group Index Services, LLC summary judgment against ISE and its parent company. The summary judgment motion enjoined ISE from listing or providing an exchange trading market for options on the S&P 500 Index or the Dow Jones Industrial Average and OCC from listing and clearing options on such ISE options. ISE has asked for leave to appeal this decision.

Patent Litigation

ISE

On May 7, 2012, the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit") issued a decision on the appeal by ISE of the U.S. District Court in the Northern District of Illinois's (the "District Court") ruling granting summary judgment to CBOE based on non-infringement of ISE's U.S. Patent No. 6,618,707. In its decision, the Federal Circuit affirmed-in-part and vacated-in-part the ruling of the District Court and remanded the case to the District Court for further proceedings based on the Federal Circuit's construction of terms found in the asserted patent claims.

Realtime

On August 6, 2012, the Company and Realtime Data, LLC entered into a settlement agreement, the terms of which are confidential, under which the parties agreed to file a stipulation of dismissal of the matter and in connection with which the Company recorded an immaterial charge. Based on the terms of the settlement agreement, the Company has

determined that this litigation is not currently a material legal proceeding. Accordingly, the Company does not intend to make disclosures about this proceeding in its future periodic filings.

Item 1A. Risk Factors

There have been no material updates to the Risk Factors as set forth in Item 1A. of our Annual Report on Form 10-K, filed with the SEC on February 28, 2012.

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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The table below shows the purchases of equity securities by the Company in the three months ended June 30, 2012, reflecting the purchase of unrestricted common stock under the Company's share repurchase program:

| Period                         | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|--------------------------------|----------------------------------|------------------------------|--|--|
| April 1, 2012 – April 30, 2012 | 482,000                          | \$26.96                      | 482,000  | \$9,368,418  |
| May 1, 2012 – May 31, 2012     | 226,424                          | 25.43                        | 226,424  | 3,610,456  |
| June 1, 2012 – June 30, 2012   | 14,000                           | 24.93                        | 14,000   | 3,261,436  |
| Totals                         | 722,424                          | \$26.44                      | 722,424  |  |

On August 2, 2011, the Company announced that its board of directors had adopted a share repurchase plan. Under this plan, the Company is authorized to repurchase up to \$100 million in its unrestricted common stock, including on the open market and in privately negotiated transactions. There can be no assurance as to the number (1) of additional shares the Company will repurchase. The timing and extent to which the Company repurchases its shares will depend upon, among other things, market conditions, share price, liquidity targets, regulatory requirements and other factors. Share repurchases may be commenced or suspended at any time or from time to time without prior notice, and the share repurchase plan does not currently have an expiration date.

(d) The table below reflects the purchases of unrestricted stock by the Company from employees upon vesting of such shares to satisfy employees' income tax withholding requirements by the Company in the three months ended June 30, 2012:

| Period                         | Total Number of Shares Purchased (2) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------|--------------------------------------|------------------------------|--|--|
| April 1, 2012 – April 30, 2012 | 41                                   | \$27.97                      | —  | —  |
| May 1, 2012 – May 31, 2012     | —                                    | —                            | —  | —  |
| June 1, 2012 – June 30, 2012   | 114,721                              | 27.24                        | —  | —  |
| Totals                         | 114,762                              | \$—                          | —  |  |

(2) Reflects unrestricted common stock surrendered in the second quarter of 2012 to satisfy employees' tax obligations upon the vesting of restricted stock.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits to this Report are listed in the Exhibit Index included elsewhere herein.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CBOE HOLDINGS, INC.  
Registrant

By: /s/ William J. Brodsky  
William J. Brodsky  
Chairman and Chief Executive Officer (Principal  
Executive Officer)

Date: August 7, 2012

By: /s/ Alan J. Dean  
Alan J. Dean  
Executive Vice President and Chief Financial  
Officer (Principal Financial Officer)

Date: August 7, 2012



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CBOE Holdings, Inc.  
Form 10-Q  
Exhibit Index

| Exhibit No. | Description  |
|-------------|--|
| 31.1        | Certification of Chief Executive Officer pursuant to Rule 13a-14 (Filed herewith).   |
| 31.2        | Certification of Chief Financial Officer pursuant to Rule 13a-14 (Filed herewith).   |
| 32.1        | Certificate of Chief Executive Officer pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (Filed herewith). |
| 32.2        | Certificate of Chief Financial Officer pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (Filed herewith). |
| 101.INS*    | XBRL Instance Document (Filed herewith)  |
| 101.SCH*    | XBRL Taxonomy Extension Schema Document (Filed herewith).  |
| 101.CAL*    | XBRL Taxonomy Extension Calculation Linkbase Document (Filed herewith).  |
| 101.DEF*    | XBRL Taxonomy Extension Definition Linkbase (Filed herewith).  |
| 101.LAB*    | XBRL Taxonomy Extension Label Linkbase Document (Filed herewith).  |
| 101.PRE*    | XBRL Taxonomy Extension Presentation Linkbase Document (Filed herewith).   |

\*Pursuant to Rule 406T of Regulation S-T, the Interactive Data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.