

CBOE Holdings, Inc.  
Form 10-Q  
November 04, 2014  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q

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

For the quarterly period ended September 30, 2014

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 unrestricted common stock, as of the latest practicable date:

Class

October 24, 2014

Unrestricted Common Stock, par value \$0.01

84,399,412 shares



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CERTAIN DEFINED TERMS

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

•"CBOE Holdings," "we," "us," "our" or "the Company" refers to CBOE Holdings, Inc. and its subsidiaries.

•"CBOE" refers to Chicago Board Options Exchange, Incorporated, a wholly-owned subsidiary of CBOE Holdings, Inc.

•"C2" refers to C2 Options Exchange, Incorporated, a wholly-owned subsidiary of CBOE Holdings, Inc.

•"CFE" refers to CBOE Futures Exchange, LLC, a wholly-owned subsidiary of CBOE Holdings, Inc.

•"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.

•"OPRA" refers to the Options Price Reporting Authority, which is a limited liability company of member exchanges and is authorized by the SEC to provide consolidated options information.

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

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

•"SPX" refers to our S&P 500 Index exchange-traded options products.

•"VIX" refers to the CBOE Volatility Index methodology.

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

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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 the "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this report. 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, 2013, 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 the risks that are material to us, 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 and trade certain index options and futures products;
- increasing price competition in our industry;
- compliance with legal and regulatory obligations, including our obligations under the SEC Consent Order dated June 11, 2013;
- decreases in the amount of trading volumes or a shift in the mix of products traded on our exchanges;
- legislative or regulatory changes;
- increasing competition by foreign and domestic entities;
- 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;
- economic, political and market conditions;
- our ability to maintain access fee revenues;
- our ability to meet our compliance obligations, including managing potential conflicts between our regulatory responsibilities and our for-profit status;
- our ability to attract and retain skilled management and other personnel;
- our ability to manage 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.

We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this filing. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



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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 Nine Months Ended September 30, 2014 and 2013

(in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(unaudited)			
Operating Revenues:				
Transaction fees	\$104,311	\$92,954	\$315,033	\$298,193
Access fees	14,695	15,029	44,802	45,709
Exchange services and other fees	9,485	9,213	28,652	27,616
Market data fees	7,764	6,658	22,737	17,924
Regulatory fees	8,923	8,937	28,524	29,076
Other revenue	3,732	3,952	10,989	11,702
Total Operating Revenues	148,910	136,743	450,737	430,220
Operating Expenses:				
Employee costs	28,698	27,951	92,378	90,025
Depreciation and amortization	10,361	8,476	28,860	25,380
Data processing	4,769	4,552	14,273	13,613
Outside services	8,204	7,938	23,437	28,606
Royalty fees	16,235	13,844	46,844	41,531
Trading volume incentives	961	1,207	3,207	3,128
Travel and promotional expenses	1,885	1,894	6,319	6,552
Facilities costs	1,373	1,308	4,275	3,808
Other expenses	1,340	1,146	4,305	4,362
Total Operating Expenses	73,826	68,316	223,898	217,005
Operating Income	75,084	68,427	226,839	213,215
Other Income/(Expense):				
Investment income	47	21	73	42
Net loss from investment in affiliates	(318)	(538)	(1,161)	(1,754)
Total Other Expense	(271)	(517)	(1,088)	(1,712)
Income Before Income Taxes	74,813	67,910	225,751	211,503
Income tax provision	26,447	26,554	85,379	81,614
Net Income	48,366	41,356	140,372	129,889
Net income allocated to participating securities	(220)	(401)	(1,099)	(1,669)
Net Income Allocated to Common Stockholders	\$48,146	\$40,955	\$139,273	\$128,220
Net Income Per Share Allocated to Common Stockholders (Note 4):				
Basic	\$0.57	\$0.47	\$1.62	\$1.47
Diluted	0.57	0.47	1.62	1.47
Weighted average shares used in computing income per share:				
Basic	85,051	87,647	85,773	87,421
Diluted	85,051	87,647	85,773	87,421

See notes to condensed consolidated financial statements

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CBOE Holdings, Inc. and Subsidiaries  
Condensed Consolidated Statements of Comprehensive Income  
Three and Nine Months Ended September 30, 2014 and 2013

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014 (unaudited)	2013	2014	2013
Net Income	\$48,366	\$41,356	\$140,372	\$129,889
Comprehensive Income (Loss) - net of tax:				
Post-retirement benefit obligation	4	18	342	(173 )
Comprehensive Income	48,370	41,374	140,714	129,716
Comprehensive income allocated to participating securities	(220 )	(401 )	(1,099 )	(1,669 )
Comprehensive Income allocated to common stockholders	\$48,150	\$40,973	\$139,615	\$128,047

See notes to condensed consolidated financial statements

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CBOE Holdings, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets  
September 30, 2014 and December 31, 2013

	September 30, 2014 (unaudited)	December 31, 2013
(in thousands, except share amounts)		
Assets		
Current Assets:		
Cash and cash equivalents	\$126,519	\$221,341
Accounts receivable—net allowances of \$273 and \$266	55,121	49,888
Marketing fee receivable	10,550	8,869
Income taxes receivable	22,340	22,039
Other prepaid expenses	7,529	4,007
Other current assets	667	2,717
Total Current Assets	222,726	308,861
Investments in Affiliates	14,919	14,581
Land	4,914	4,914
Property and Equipment:		
Construction in progress	24	23
Building	68,009	65,448
Furniture and equipment	284,706	271,437
Less accumulated depreciation and amortization	(282,360)	(269,614)
Total Property and Equipment—Net	70,379	67,294
Other Assets:		
Software development work in progress	15,937	7,853
Data processing software and other assets (less accumulated amortization—2014, \$159,397; 2013, \$147,322)	38,211	38,086
Total Other Assets—Net	54,148	45,939
Total	\$367,086	\$441,589
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	\$49,982	\$52,958
Dividend payable	—	43,831
Marketing fee payable	11,063	9,442
Deferred revenue and other liabilities	7,211	1,100
Post-retirement benefit obligation - current	27	127
Total Current Liabilities	68,283	107,458
Long-term Liabilities:		
Post-retirement benefit obligation - long-term	1,694	2,110
Income tax liability	35,136	29,903
Other long-term liabilities	4,082	3,856
Deferred income taxes	12,767	13,745
Total Long-term Liabilities	53,679	49,614
Commitments and Contingencies		
Total Liabilities	121,962	157,072
Stockholders' Equity:		
Preferred stock, \$0.01 par value: 20,000,000 shares authorized, no shares issued and outstanding at September 30, 2014 or December 31, 2013	—	—
	926	919

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Unrestricted common stock, \$0.01 par value: 325,000,000 shares authorized;  
92,568,403 issued and 84,603,437 outstanding at September 30, 2014; 91,845,492  
issued and 86,770,737 outstanding at December 31, 2013

Additional paid-in-capital	108,012	90,985
Retained earnings	440,441	349,290
Treasury stock at cost – 7,964,966 shares at September 30, 2014 and 5,074,755 shares at December 31, 2013	(303,547	) (155,627 )
Accumulated other comprehensive loss	(708	) (1,050 )
Total Stockholders' Equity	245,124	284,517
Total	\$367,086	\$441,589
See notes to condensed consolidated financial statements		

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CBOE Holdings, Inc. and Subsidiaries  
Condensed Consolidated Statement of Stockholders' Equity  
(Unaudited)

(in thousands)	Preferred Stock	Unrestricted Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance—January 1, 2014	\$—	\$ 919	\$ 90,985	\$ 349,290	\$(155,627)	\$ (1,050)	\$ 284,517
Cash dividends on common stock				(49,221)			(49,221)
Stock-based compensation			13,480				13,480
Excess tax benefits from stock-based compensation plan			3,554				3,554
Issuance of vested restricted stock granted to employees		7	(7)				—
Purchase of unrestricted common stock from employees to fulfill employee tax obligations					(8,319)		(8,319)
Purchase of unrestricted common stock under announced program					(139,601)		(139,601)
Net income				140,372			140,372
Post-retirement benefit obligation adjustment—net of tax						342	342
Balance—September 30, 2014	\$—	\$ 926	\$ 108,012	\$ 440,441	\$(303,547)	\$ (708)	\$ 245,124

See notes to condensed consolidated financial statements

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CBOE Holdings, Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
Nine Months Ended September 30, 2014 and 2013

(in thousands)	Nine Months Ended	
	September 30, 2014 (unaudited)	September 30, 2013
Cash Flows from Operating Activities:		
Net income	\$140,372	\$129,889
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	28,860	25,380
Other amortization	60	86
Provision for deferred income taxes	(1,192)	(4,407)
Stock-based compensation	13,480	16,867
Loss on disposition of property	599	3
Loss on investment in affiliate	1,161	1,509
Impairment of investment in affiliate	—	245
Change in assets and liabilities:		
Accounts receivable	(5,233)	(4,466)
Marketing fee receivable	(1,681)	(3,496)
Income taxes receivable	(301)	(4,723)
Prepaid expenses	(3,522)	(2,463)
Other current assets	2,050	(92)
Accounts payable and accrued expenses	(3,759)	(294)
Marketing fee payable	1,621	3,443
Deferred revenue and other liabilities	6,337	7,979
Post-retirement benefit obligations	(20)	(27)
Income tax liability	5,234	6,931
Net Cash Flows provided by Operating Activities	184,066	172,364
Cash Flows from Investing Activities:		
Capital and other assets expenditures	(39,974)	(19,767)
Investment in affiliates	(1,499)	(1,518)
Other	3	8
Net Cash Flows used in Investing Activities	(41,470)	(21,277)
Cash Flows from Financing Activities:		
Payment of quarterly dividends	(49,221)	(42,549)
Payment of special dividend	(43,831)	—
Excess tax benefit from stock-based compensation	3,554	2,356
Purchase of unrestricted common stock from employees		