

CBOE Holdings, Inc.  
Form S-4/A  
November 19, 2008

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As filed with the Securities and Exchange Commission on November 19, 2008

Registration No. 333-140574

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Amendment No. 3 to

**FORM S-4**

REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

**CBOE Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**6200**  
(Primary Standard Industrial  
Classification Code Number)

**20-5446972**  
(I.R.S. Employer Identification No.)

**c/o Chicago Board Options Exchange, Incorporated  
400 South LaSalle Street  
Chicago, Illinois 60605, (312) 786-5600**

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

**Joanne Moffic-Silver  
Executive Vice President and General Counsel  
Chicago Board Options Exchange, Incorporated  
400 South LaSalle Street  
Chicago, Illinois 60605  
(312) 786-7462**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

**Copies to:  
Michael L. Meyer, Esq.  
Robert J. Minkus, Esq.  
Schiff Hardin LLP  
6600 Sears Tower  
Chicago, Illinois 60606  
(312) 258-5500**

**Approximate date of commencement of proposed sale of the securities to the public:** As soon as practicable after this Registration Statement becomes effective and all other conditions to the consummation of the proposed restructuring transaction described herein have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

### CALCULATION OF REGISTRATION FEE

<b>Title of each class of securities to be registered</b>	<b>Proposed maximum aggregate offering price(1)(2)</b>	<b>Amount of registration fee(3)</b>
Class A Common Stock, including shares of Series A-1, Series A-2 and Series A-3 Common Stock, each par value \$0.01 per share	\$183,800,000	\$19,667

- (1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(f)(2) under the Securities Act, based on the aggregate book value of Chicago Board Options Exchange, Incorporated, a Delaware non-stock, corporation, or the CBOE, as of December 31, 2007, of \$183,800,000. The securities to be registered are to be offered in connection with the restructuring transactions, a series of transactions in which such securities will be distributed to current members of the CBOE in respect of such current members' existing memberships in the CBOE on the date of the restructuring transaction.
- (2) In accordance with Rule 457(o) under the Securities Act of 1933, the number of shares is not set forth herein. Pursuant to Rule 457(o), the registration fee has been computed on the basis of the maximum aggregate offering price, as established above, of all the common stock to be issued upon completion of the restructuring transaction.
- (3) Previously paid.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**EXPLANATORY NOTE**

This registration statement is being filed in connection with the proposed demutualization of the Chicago Board Options Exchange, Incorporated, a Delaware non-stock corporation (the "CBOE"), in which the outstanding regular memberships in the CBOE that were made available by the CBOE and were acquired by CBOE members ("CBOE Seats") would be converted into stock of the registrant. Paragraph (b) of Article Fifth of the CBOE's Certificate of Incorporation grants to full members of The Board of Trade of the City of Chicago, Inc. (the "CBOT") the right to be members of CBOE without having to acquire a separate CBOE membership (commonly referred to as the "Exercise Right"). On August 23, 2006, the CBOE and its directors were sued in the Court of Chancery of the State of Delaware, by the CBOT, CBOT Holdings Inc., the parent corporation of the CBOT, ("CBOT Holdings") and two members of the CBOT who purported to represent a class of individuals ("Exercise Member Claimants") who claim that they were, or had the right to become, members of the CBOE pursuant to the Exercise Right (the "Delaware Action"). Plaintiffs sought a judicial declaration that Exercise Member Claimants were entitled to receive the same consideration in the CBOE's proposed demutualization as all other CBOE members, and plaintiffs also sought an injunction to bar CBOE and CBOE's directors from issuing any stock to CBOE members as part of the proposed demutualization transaction, unless Exercise Member Claimants received the same stock and other consideration as other CBOE members.

On July 12, 2007, Chicago Mercantile Exchange Holdings, Inc. ("CME Holdings") acquired the CBOT through the merger of CBOT Holdings into CME Holdings (the "CME/CBOT Transaction"). The announcement of the CME/CBOT Transaction required CBOE to determine what would be the effect of the CME/CBOT Transaction on the Exercise Right. CBOE's determination, which was reflected in an interpretation of Article Fifth(b) that was filed with and approved by the Securities and Exchange Commission (the "SEC"), was that following the completion of the CME/CBOT Transaction there would no longer be any members of the CBOT who would qualify to become or remain a member of CBOE pursuant to the Exercise Right.

On August 20, 2008, the CBOE and the other parties to the Delaware Action entered into a Stipulation of Settlement (the "Settlement Agreement") pursuant to which the parties agreed that (i) the Delaware Action would be dismissed, with prejudice, (ii) following the final approval of the Settlement Agreement by the court, there would no longer be any persons eligible to become members of CBOE pursuant to the Exercise Right, and (iii) the CBOE would pay the participating members of the settlement class, upon the proposed demutualization of the CBOE or other event in which the CBOE is converted from a membership company, either cash or cash and securities depending on the form of transaction consummated by CBOE and whether the participating settlement class member is a Participating Class A Settlement Class Member or a Participating Class B Settlement Class Member. For more information on the Settlement Agreement please see "The Restructuring Transaction Exercise Right Settlement Agreement." A copy of the Settlement Agreement, as amended, is filed with this Registration Statement as Exhibit 4.4.

The description of the restructuring transaction in this Registration Statement, including the description of the conversion of CBOE Seats into common stock of the registrant, reflects the fact that the Settlement Agreement has been reached and assumes that the Delaware Action has been dismissed, the Exercise Right no longer provides members of the CBOT with any right to become or remain a member of the CBOE, no consideration will be paid as part of the restructuring transaction to persons in respect of a claim that they qualify as exercise members, and any consideration to be paid to members of the settlement class will be paid pursuant to the terms of the Settlement Agreement only.

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**The information contained in this document is subject to completion or amendment. A registration statement relating to these securities has been filed with the United States Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This document is not an offer to sell these securities and it is not soliciting an offer to buy these securities, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale is not permitted or would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.**

**SUBJECT TO COMPLETION, DATED \_\_\_\_\_, 2008**

Dear Members:

In response to the many changes that have taken place in U.S. options exchanges and other securities markets in recent years, the Board of Directors of the Chicago Board Options Exchange, Incorporated has concluded that it would be in the best interest of the CBOE and its members for the CBOE to change its organizational structure from a non-stock corporation owned by its members to become a wholly-owned subsidiary of a new holding company, CBOE Holdings, Inc., organized as a stock corporation owned by its stockholders. This type of organizational restructuring is sometimes referred to as a "demutualization" transaction.

We are sending you this proxy statement and prospectus in order to provide you with important information concerning the proposed restructuring of the CBOE, which must be approved by a vote of the CBOE membership before it can be implemented. It also must be approved by the Securities and Exchange Commission.

In the proposed restructuring transaction, each regular membership made available by the CBOE in accordance with the Rules and held by a CBOE member on the date of the restructuring transaction will be converted into the right to receive \_\_\_\_\_ shares of Class A common stock of CBOE Holdings, consisting of \_\_\_\_\_ shares of Series A-1 common stock, \_\_\_\_\_ shares of Series A-2 common stock and \_\_\_\_\_ shares of Series A-3 common stock. Our members will receive a total of \_\_\_\_\_ shares of common stock in CBOE Holdings in the restructuring transaction. In addition, certain persons who satisfy the qualification requirements set forth in the Settlement Agreement for participating in the settlement of the exercise right litigation will be issued [ \_\_\_\_\_ ] shares of Class B common stock of CBOE Holdings.

Following the restructuring transaction, the CBOE will become a wholly-owned subsidiary of CBOE Holdings, the newly formed holding company. The CBOE Holdings common stock issued in the restructuring transaction will not provide its holders with physical or electronic access to the CBOE's trading facilities. Instead, physical and electronic access to the CBOE trading facilities, subject to such limitations and requirements as will be specified in the rules of the CBOE, will be available to individuals and organizations that have obtained a trading permit from the CBOE.

The common stock of CBOE Holdings will represent an equity ownership interest in that company and will have traditional features of common stock. In the event CBOE Holdings engages in a public offering of its common stock in the future, the shares of CBOE Holdings common stock automatically would become subject to certain transfer restrictions or "lock-up restrictions" under CBOE Holdings' certificate of incorporation.

We do not currently intend to list the common stock of CBOE Holdings on any stock exchange immediately following the completion of the restructuring transaction. If CBOE Holdings engages in a public offering in the future, we expect that the common stock of CBOE Holdings would be listed at that time. There can be no assurances, however, that a public offering of CBOE Holdings will occur or that the common stock of CBOE Holdings will ultimately be listed on any stock exchange.

We will hold a special meeting at which we will ask all of the Voting Members of the CBOE to approve the restructuring transaction. Approval of the restructuring transaction requires the affirmative vote of a majority of all of the memberships outstanding.

**OUR BOARD OF DIRECTORS HAS APPROVED THE RESTRUCTURING TRANSACTION AND RECOMMENDS THAT THE MEMBERS VOTE "FOR" ITS APPROVAL.**

**Your vote is very important. Whether or not you plan to attend the special meeting of members, please vote as soon as possible to make sure your membership is represented at the special meeting. Your failure to vote will have the same effect as voting against the restructuring transaction.**

**We urge you to read this document carefully, including the "Risk Factors" section that begins on page 15.**

Sincerely,

William J. Brodsky  
Chairman and Chief Executive Officer

**Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved these securities, or determined if this proxy statement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

This document is dated \_\_\_\_\_, \_\_\_\_\_ and was first mailed, with the form of proxy, to members on or about \_\_\_\_\_, \_\_\_\_\_.

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**CHICAGO BOARD OPTIONS EXCHANGE, INCORPORATED**  
**Notice of Special Meeting of Members**  
**To Be Held on \_\_\_\_\_, 2009**

To the Members of the Chicago Board Options Exchange, Incorporated:

A special meeting of members of the Chicago Board Options Exchange, Incorporated will be held in the \_\_\_\_\_ at 400 South LaSalle Street, Chicago, Illinois 60605, on \_\_\_\_\_, 2009 at \_\_\_\_\_ a.m., local time, for the following purposes:

- (1) to vote on the adoption of the Agreement and Plan of Merger that will provide for the restructuring of the CBOE;
- (2) to consider and vote on any proposal that may be made by the Vice Chairman of the Board of the CBOE to adjourn or postpone the CBOE special meeting for the purpose of soliciting proxies with respect to the proposal to adopt the Agreement and Plan of Merger; and
- (3) to transact any other business that may properly come before the CBOE special meeting or any adjournment or postponement of the CBOE special meeting.

Each Voting Member of the CBOE of record and in good standing as of the close of business on \_\_\_\_\_, 2009, the record date for the meeting, will be entitled to vote on the matters presented at the special meeting and at any adjournment thereof. Each Voting Member of the CBOE entitled to vote will be entitled to one vote for each membership with respect to which it has the right to vote. The presence in person or by proxy of CBOE members entitled to cast a majority of the total number of votes entitled to be cast at the meeting constitutes a quorum at the meeting.

The adoption of the Agreement and Plan of Merger requires the affirmative vote of a majority of the outstanding CBOE memberships. *If you do not vote or if you abstain from voting on this proposal, it will have the same effect as a vote against the proposal.*

If no quorum of the CBOE members is present in person or by proxy at the special meeting, the special meeting may be adjourned by the members present and entitled to vote at that meeting.

**THE CBOE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL AND ADOPTION OF THE AGREEMENT AND PLAN OF MERGER TO ACCOMPLISH THE RESTRUCTURING TRANSACTION AND "FOR" ANY PROPOSAL THAT MAY BE MADE BY THE VICE CHAIRMAN OF THE BOARD OF THE CBOE TO ADJOURN OR POSTPONE THE CBOE SPECIAL MEETING FOR THE PURPOSE OF SOLICITING PROXIES.**

You may vote your CBOE membership in person or by proxy. You may submit your ballot and proxy by phone, through the Internet, by mail in the postage paid envelope or by delivering your ballot and proxy to the Office of the Secretary by fax or hand. Members voting by proxy must submit ballots and proxies by no later than \_\_\_\_\_, 2009.

Please vote promptly whether or not you expect to attend the special meeting.

Returning your completed ballot and signed proxy will not prevent you from changing your vote or revoking your proxy and voting in person at the special meeting of members. Please note, however, that if you submit your ballot and proxy through one of the available methods prior to the meeting, you will not need to attend the special meeting of members, or take any further action in connection with the special meeting, because you already will have directed your proxy to deliver your ballot with respect to the proposals. You may change your vote and revoke your proxy any time before the special meeting by providing written notice to the Secretary of the Exchange or by submission of a later-dated ballot and proxy.

By order of the board of directors,

Joanne Moffic-Silver  
Executive Vice President,  
General Counsel and Secretary  
On behalf of the board

, 2009

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**CERTAIN FREQUENTLY USED TERMS**

Unless otherwise specified or if the context so requires:

The "CBOE" or "Chicago Board Options Exchange" 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, the Chicago Board Options Exchange, Incorporated, a Delaware stock corporation.

"CBOE Holdings" refers to CBOE Holdings, Inc., a Delaware stock corporation and, following the consummation of the restructuring transaction, the parent corporation of the CBOE.

"CBOE Seat" refers to a regular membership that was made available by the CBOE in accordance with its Rules and which was acquired by a CBOE member.

"member" or "members" refers to (1) prior to the completion of the restructuring transaction, any person or organization (or any designee of any organization) that holds a membership in the CBOE, and (2) after the completion of the restructuring transaction, any individual, corporation, partnership, limited liability company or other entity authorized by the Rules of the CBOE (i) that holds a trading permit in the CBOE or (ii) that is otherwise deemed a member pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The term "member" or "members" shall not, under any circumstances, include the Participating Group A Settlement Class Members or the Participating Group B Settlement Class Members.

"Voting Member of the CBOE" means (i) an owner of a CBOE Seat who has not delegated its right to vote to a lessee, (ii) a lessee of a CBOE Seat to whom voting rights have been delegated via a lease agreement, or (iii) a CBOE member who obtained membership pursuant to the

Exercise Right prior to the acquisition of the CBOT by CME Group, and whose status as a CBOE member was temporarily extended by the CBOE pursuant to the interim access interpretation filed with the SEC on July 2, 2007 and the continued membership interpretation filed with the SEC on September 10, 2007.

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

## SUMMARY

*This summary highlights selected information in this document and may not contain all of the information that is important to you. You should carefully read this entire document, including its annexes and exhibits, and the documents incorporated by reference into this document for a more complete understanding of the matters to be considered at the special meeting.*

### Our Business

Founded as a member-owned, non-stock Delaware corporation, the CBOE began operating as an exchange on April 26, 1973 as the first organized marketplace for the trading of standardized, listed options on equity securities. Since the CBOE's inception, the CBOE has grown to become one of the world's leading exchanges for the trading of derivatives and is recognized globally for its leadership role in the trading of options on individual equities, exchange-traded funds and equity indexes. As of September 30, 2008, the CBOE had 578 employees.

The CBOE's volume of contracts traded in 2007 was over 944 million contracts, representing an increase of 40% over its volume in 2006, for a daily average of 3,762,836 contracts. In 2006, volume of contracts traded at the CBOE was approximately 675 million contracts with an average of 2,688,189 contracts per day, representing an increase of 44% over 2005. In 2005, volume of contracts traded at the CBOE was over 468 million contracts for an average of 1,858,132 contracts per day. In 2007, 2006 and 2005, trades at the CBOE represented 33.0%, 33.3%, and 31.1%, respectively, of the total contracts traded on all U.S. options markets. For the twelve months ended December 31, 2007 and 2006, the CBOE generated revenue of approximately \$352 million and \$258 million, respectively. The CBOE generates revenue primarily from the following sources:

Transaction fees;

Market data income;

Systems services;

Regulatory fees;

Facilities and equipment fees; and

Membership dues.

The CBOE is a self-regulatory organization, or SRO, under the Securities Exchange Act of 1934, and as such is subject to regulation and oversight by the SEC. As an SRO, the CBOE plays a critical role in the U.S. securities markets: it conducts market surveillance and examines members and member organizations for, and enforces, compliance with federal securities laws and its Rules. Since March 24, 2004, the CBOE has also operated the CBOE Futures Exchange, LLC as a designated contract market under the oversight of the Commodity Futures Trading Commission. On July 27, 2006, the CBOE announced the creation of the CBOE Stock Exchange, LLC (CBSX), a facility of the CBOE in which the CBOE holds a 50% interest. CBSX began trading stocks in the first quarter of 2007. On October 21, 2008, the CBOE announced that it had approved a plan to launch a new and separate options exchange, which we are currently referring to as "C2". CBOE expects C2 to launch in 2009, pending regulatory approval.

Our principal executive office is located at 400 South LaSalle Street, Chicago, Illinois 60605, and our telephone number is (312) 786-5600.

### The Proposed Restructuring Transaction (See page 32)

*General.* In the restructuring transaction, the CBOE will change from a Delaware non-stock corporation owned by its members to a Delaware stock corporation that will be a wholly-owned

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subsidiary of CBOE Holdings, Inc., a newly created holding company organized as a Delaware stock corporation. After the restructuring transaction, the owners of CBOE membership interests will become stockholders of CBOE Holdings through the conversion of their memberships into shares of common stock, par value \$0.01 per share, of CBOE Holdings. CBOE Holdings will hold all of the outstanding common stock of the CBOE. The CBOE will continue to function as an SRO and to operate its options exchange business. Immediately following the restructuring transaction, the CBOE will transfer all of its interest in its subsidiaries (other than CBOE Stock Exchange, LLC) to CBOE Holdings, and as a result, each of the CBOE's subsidiaries (other than CBOE Stock Exchange, LLC), will become a wholly-owned direct subsidiary of CBOE Holdings.

CBOE Stock Exchange, LLC will remain a subsidiary of the CBOE. The CBOE currently holds a 50% interest in CBOE Stock Exchange, LLC.

### Reasons for the Restructuring Transaction (See page 38)

For the reasons described in this proxy statement and prospectus, see "The Restructuring Transaction The CBOE's Reason for the Restructuring Transaction" on page 38, the CBOE board of directors recommends that you vote "FOR" the proposal to approve the agreement and plan of merger to accomplish the restructuring transaction.

### Implementation of the Restructuring Transaction (See page 32)

The restructuring transaction will be completed through the merger of CBOE Merger Sub, Inc. with and into the CBOE, with the CBOE surviving the merger as a Delaware stock, for-profit corporation. We refer to this transaction as the "Merger." Upon the effectiveness of the Merger:

the outstanding stock of CBOE Merger Sub will be converted into common stock of the CBOE,

the CBOE Seats existing on the date of the restructuring transaction will be converted into the right to receive CBOE Holdings Class A common stock, and

the CBOE Holdings common stock held by the CBOE will be cancelled for no consideration and shall cease to exist.

As a result, CBOE Holdings will become the sole stockholder of the CBOE. The form of agreement and plan of merger is attached hereto as Annex G to this proxy statement and prospectus. For purposes of this proxy statement and prospectus, we refer to this agreement as the "Agreement and Plan of Merger." Immediately following the Merger, the CBOE will transfer to CBOE Holdings the shares the CBOE owns in its subsidiaries (other than CBOE Stock Exchange LLC), making them first-tier, wholly-owned subsidiaries of CBOE Holdings.

### What You Will Receive in the Restructuring Transaction (See page 40)

*CBOE Holdings, Inc. Common Stock.* In the restructuring transaction, each CBOE Seat existing on the date of the restructuring transaction will be converted into the right to receive \_\_\_\_\_ shares of Class A common stock of CBOE Holdings, consisting of \_\_\_\_\_ shares of Series A-1 common stock, \_\_\_\_\_ shares of Series A-2 common stock and \_\_\_\_\_ shares of Series A-3 common stock. In addition, Participating Group A Settlement Class Members will be issued, immediately following the Merger and as required by the Settlement Agreement, \_\_\_\_\_ shares of Class B common stock of CBOE Holdings, consisting of \_\_\_\_\_ shares of Series B-1 common stock, \_\_\_\_\_ shares of Series B-2 common stock and \_\_\_\_\_ shares of Series B-3 common stock.

*Transfer of CBOE Holdings Common Stock Following the Restructuring Transaction.* Following the restructuring transaction and unless and until a public offering by CBOE Holdings of its common stock has been completed, pursuant to the certificate of incorporation of CBOE Holdings, transfers of the

common stock of CBOE Holdings may only take place through the CBOE or through an agent of CBOE Holdings that has been designated by CBOE Holdings to manage such transfers. It is intended that this process will function much like the existing process for the sale and transfer of CBOE Seats.

*Transfer Restrictions on CBOE Holdings Common Stock Following a Public Offering.* In the event CBOE Holdings engages in a public offering of its common stock in the future, the Series A-1, A-2 and A-3 common stock and the Series B-1, B-2 and B-3 common stock of CBOE Holdings common stock automatically would become subject to certain transfer restrictions or "lock-up restrictions" under CBOE Holdings' certificate of incorporation, with these lock-up restrictions expiring on the Series A-1, A-2 and A-3 common stock as of the 180<sup>th</sup>, 360<sup>th</sup> and 540<sup>th</sup> day, respectively, following the closing date of any such public offering. Identical lock-up restrictions would apply to the Series B-1, B-2 and B-3 common stock, respectively, because following any public offering, the Series B-1, B-2 and B-3 common stock will be automatically converted to Series A-1, A-2 and A-3 common stock and, as a result, such shares will be subject to the transfer restrictions set forth herein. During any applicable lock-up period, shares of the affected series of CBOE Holdings Class A or Class B common stock may not be directly or indirectly assigned, offered for sale, sold, transferred or otherwise disposed of, except pursuant to limited exceptions set forth in the CBOE Holdings certificate of incorporation, which provides for certain permitted transfers to affiliates, family members, qualified trusts and estates, as well as certain pledges and the potential transfer upon a *bona fide* foreclosure resulting therefrom. Subject to possible extension in the event of an organized sale, as set more fully in this proxy statement and prospectus, upon the expiration of the applicable lock-up period with respect to the common stock, the shares of the common stock then scheduled to expire would automatically convert to unrestricted common stock, which would be freely transferable.

#### **Who Will Receive the Restructuring Consideration (See page 41)**

The CBOE Holdings Class A common stock issued in the restructuring transaction will be issued to the owner of the CBOE Seat. A lessee of a membership in respect of a CBOE Seat will not receive any CBOE Holdings common stock in the restructuring transaction. Members who are lessees of their memberships, however, will have the opportunity to apply for a trading permit following the restructuring transaction. For information regarding the terms and conditions of the CBOE trading permits and the process for obtaining such a permit, please see "The Restructuring Transaction Trading Permits" on page 42.

Participating Group A Settlement Class Members and Participating Group B Settlement Class Members will not receive any consideration in the restructuring transaction or in the Merger effecting the restructuring transaction. Immediately following the restructuring transaction, Participating Group A Settlement Class Members will have the right to receive Class B common stock of CBOE Holdings, and both the Participating Group A and Group B Settlement Class Members will have the right to receive the cash consideration to be paid pursuant to the Settlement Agreement. For more information on the Settlement Agreement, please see "The Restructuring Transaction Exercise Right Settlement Agreement" on page 47.

#### **CBOE Holdings Capital Stock (See page 139)**

*General.* The Class A common stock of CBOE Holdings will represent an equity ownership interest in that company and will have traditional features of common stock, including dividend, voting and liquidation rights. The Class A common stock will provide the holder with the right to receive dividends as determined by the CBOE Holdings board of directors and the right to share in the proceeds of liquidation, in each case, ratably on the basis of the number of shares held and subject to the rights of holders of CBOE Holdings preferred stock, if any. The Class B common stock of CBOE Holdings will have the same rights and privileges as the Class A common stock except with respect to voting privileges. Upon completion of an initial public offering of shares of stock to investors, all shares of Class B common stock

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will convert to Class A common stock, as described in "Description of CBOE Holdings Capital Stock Common Stock" on page 139.

*Authorized.* As of the effective time of the restructuring transaction, CBOE Holdings will be authorized to issue up to (i) \_\_\_\_\_ shares of unrestricted common stock, \$0.01 par value per share, (ii) \_\_\_\_\_ shares of Class A common stock, \$0.01 par value per share, initially divided into three series of restricted Class A common stock, designated Series A-1, A-2 and A-3, (iii) \_\_\_\_\_ shares of Class B non-voting common stock, \$0.01 par value per share, designated Series B-1, B-2 and B-3 and (iv) up to 20,000,000 shares of preferred stock, \$0.01 par value per share. The unrestricted common stock and the Class A common stock will have the same rights and privileges, except the Class A common stock will be subject to the transfer restrictions described in "What You Will Receive in the Restructuring Transaction" above. The unrestricted common stock will be freely transferable. The three series of Class A common stock will be identical, except that the transfer restrictions associated with each series will be of a different duration. The three series of Class B common stock will have the same rights and privileges as the comparable series of Class A common stock, except the Class B common stock shall have no voting privileges or rights except for certain rights as described in "Description of CBOE Holdings Capital Stock Common Stock" on page 139. CBOE Holdings will have the ability to issue preferred stock and unrestricted common stock, including in connection with a public offering of shares of stock to investors who were not members of the CBOE prior to the restructuring transaction and are not holders of trading permits in the CBOE following the restructuring transaction. CBOE Holdings has no current intention to issue any shares of its preferred stock.

*Lock-Ups & Restrictions.* The CBOE Holdings certificate of incorporation imposes certain transfer restrictions, or "lock-ups," on the Series A-1, A-2 and A-3 and the Series B-1, B-2 and B-3 common stock of CBOE Holdings. For a discussion of these restrictions, please see "The Restructuring Transaction What You Will Receive in the Restructuring Transaction Transfer Restrictions on CBOE Holdings Common Stock Following the Restructuring Transaction" on page 41.

*Ownership and Voting Limitations.* The CBOE Holdings certificate of incorporation imposes certain ownership and voting limitations on the Series A-1, A-2 and A-3 common stock and the Series B-1, B-2 and B-3 common stock of CBOE Holdings. For a description of these restrictions, please see "Description of CBOE Holdings Capital Stock Ownership and Voting Limits on CBOE Holdings Common Stock" on page 143.

### **Organized Sales (See page 145)**

After the completion of a public offering, CBOE Holdings will have the right to conduct organized sales of the Class A common stock of CBOE Holdings issued in the restructuring transactions when the transfer restriction period applicable to the Series A-1, A-2 and A-3 common stock of CBOE Holdings is scheduled to expire. This right will also apply to the Class B common stock because, following any public offering, the Class B common stock will have been automatically converted to Class A common stock pursuant to CBOE Holdings' certificate of incorporation. The purpose of this right is to enable CBOE Holdings to facilitate a more orderly distribution of its common stock into the public market.

If CBOE Holdings elects to conduct an organized sale, no shares of the Series A-1, A-2 or A-3 common stock of CBOE Holdings for which transfer restrictions are scheduled to lapse or of any other series that is subject to transfer restrictions may be sold until the 91st day after the later of the expiration of the related transfer restriction period and the completion of the organized sale, except as part of the organized sale or in a permitted transfer.

For a discussion of organized sales and the procedures to be followed in the event CBOE Holdings determines to conduct an organized sale, please see "Description of CBOE Holdings Capital Stock Organized Sales" on page 145.

**Effect of the Restructuring Transaction on Trading Access (See page 42)**

In the restructuring transaction, all memberships in the CBOE and the trading rights they represent will be cancelled when the CBOE Seats are converted into the right to receive shares of Class A common stock in CBOE Holdings. The CBOE Holdings Class A common stock issued in the restructuring transaction will not provide the holder with any right to physical or electronic access to the CBOE's trading facilities. Following the restructuring transaction, physical and electronic access to the trading facilities of the CBOE, subject to such limitations and requirements as will be specified in the rules of the CBOE, will be available to individuals and organizations that have obtained a trading permit from the CBOE.

In addition, effective upon completion of the restructuring transaction, each lease of a CBOE Seat will be voided, and the lessee members will cease to have any rights to trading access under the lease after termination. Current lessees will have the opportunity to apply for a trading permit following the restructuring transaction, which will provide them with physical and/or electronic access to the trading facilities of the CBOE, subject to the limitations and requirements as will be specified in the rules of the CBOE. For more information regarding trading access following the restructuring transaction, please see "The Restructuring Transaction Trading Permits" on page 42.

**Exercise Right Settlement Agreement (See page 47)**

On August 23, 2006, the CBOE and its directors were sued in the Court of Chancery of the State of Delaware, by the CBOT, CBOT Holdings Inc., the parent corporation of the CBOT, and two members of the CBOT who purported to represent a class of individuals who claim that they were, or had the right to become, members of the CBOE by virtue of the exercise right granted to CBOT members pursuant to paragraph (b) of Article Fifth of the CBOE's certificate of incorporation. We refer in this proxy statement and prospectus to those individuals who claim to have the right to become members of the CBOE pursuant to the exercise right as Exercise Member Claimants. The plaintiffs sought a judicial declaration that Exercise Member Claimants were entitled to receive the same consideration in any proposed restructuring transaction involving the CBOE as all other CBOE members, and the plaintiffs also sought an injunction to bar CBOE and CBOE's directors from issuing any stock to CBOE members as part of a proposed restructuring transaction, unless the Exercise Member Claimants received the same stock and other consideration as other CBOE members. For more information regarding this litigation, please see "Business Legal Proceedings Litigation with Respect to the Restructuring Transaction" on page 100.

After two years of litigating issues in Delaware, on August 20, 2008, the CBOE entered into a Stipulation of Settlement with the plaintiffs pursuant to which the plaintiffs agreed to dismiss the pending action in Delaware, with prejudice, in exchange for the agreed upon settlement consideration. We refer in this proxy statement and prospectus to the Settlement Agreement entered into among the parties to the Delaware proceeding as the Settlement Agreement. The Participating Group A Settlement Class Members and the Participating Group B Settlement Class Members will receive the settlement consideration described below pursuant to the terms of the Settlement Agreement only after the Merger effecting the restructuring transaction is complete. The Participating Group A Settlement Class Members and Participating Group B Settlement Class Members will not receive any consideration in the restructuring transaction or in the Merger effecting the restructuring transaction. As such, the disclosures contained in this proxy statement and prospectus, including those related to the restructuring transaction and the federal income tax consequences of the restructuring transaction, are not intended for, and should not be relied upon by, the Participating Group A Settlement Class Members and the Participating Group B Settlement Class Members. For more information on the Settlement Agreement, please see "The Restructuring Transaction Exercise Right Settlement Agreement" on page 47.

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The Settlement Agreement calls for a non-opt out settlement class, which means that anyone in the settlement class is bound by the Settlement Agreement and does not have the right to pursue separate claims against the CBOE. The settlement class consists of two groups:

Group A which consists of all persons who, prior to August 22, 2008, simultaneously owned or possessed at least one CBOT B-1 membership, at least one Exercise Right Privilege (which is the privilege, which, whether or not unbundled with the other required interests, constituted the Exercise Right) and at least 27,338 shares of CBOT stock or (after CME's acquisition of CBOT) 10,251.75 shares of CME Group stock. We sometime refer to members of Group A as Participating Group A Settlement Class Members and we sometimes refer to the package of interests described in this bullet as a Group A Package.

Group B which consists of all persons who owned an Exercise Right Privilege as of 5:00 p.m. (central time) on October 14, 2008 (and who are not members of Group A) and their transferees and assigns. We sometime refer to members of Group B as Participating Group B Settlement Class Members.

Under the Settlement Agreement:

Each Participating Group A Settlement Class Member will receive for each Group A Package it owned as of October 14, 2008 a pro rata share of the equity pool (which will consist of an amount of Class B common stock of CBOE Holdings equal to the product of (i) 0.21951220, times (ii) the aggregate number of shares of Class A common stock issued to owners of CBOE Seats in the restructuring transaction).

The stock to be issued to the Group A class members will be identical to the stock issued to CBOE Seat Owners, except it will be non-voting (except under limited circumstances) until there is an initial public offering of the stock of the restructured company.

No Participating Group A Settlement Class Member will receive with respect to any Group A Package a number of shares greater than 50% of the number of shares of common stock issued to CBOE Seat Owner in any CBOE restructuring Transaction. We sometimes refer to this cap as the equity cap.

Participating Group A and Group B Settlement Class Members will share in a cash pool equal to \$300,000,000.

For each Exercise Right Privilege that a Participating Group B Settlement Class Member owns on October 14, 2008, that class member will receive \$250,000 from the cash pool.

The remainder of the cash pool, after making a minor payment to one of the class representatives, will be distributed to the Participating Group A Settlement Class Members on a pro rata basis for each Group A Package the Group A class member owned based on the total number of Group A Packages that existed on October 14, 2008.

In no event, however, will any Participating Group A Settlement Class Members receive more than \$600,000 for each Group A Package. We sometimes refer to this cap as the cash cap.

Certain Participating Group A Settlement Class Members who were also CBOE Temporary Members will receive a payment, separate from the cash pool, equal to the amount each of those class members paid in access fees as CBOE Temporary Members from July 1, 2007 to May 31, 2008. The total amount of CBOE's liability for these payments is capped at \$2,800,000. Subject to SEC approval, these Group A class members may also receive a payment, separate from the cash pool, equal to the access fees which that Group A class member paid to the CBOE as a CBOE Temporary Member from June 1, 2008 until the date the CBOE completes a restructuring transaction.

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Pursuant to the Settlement Agreement, the plaintiffs agree that upon final approval of the Settlement Agreement:

there no longer are any persons eligible to become members of the CBOE pursuant to the Exercise Right,

the Exercise Right does not provide any person the right to vote, trade or participate in the CBOE's restructuring transaction,  
and

the CBOE will be released from any claims by the plaintiffs and class members, all of whom will be enjoined from asserting claims against the CBOE that they have any rights with respect to the Exercise Right.

**Our Corporate Structure Before and After the Restructuring**

In order to help you understand the restructuring transactions and how it will affect our corporate organizational structure, the following charts show, in simplified form, the structure of the CBOE before and immediately after the completion of the restructuring transaction:

**Before the Restructuring Transaction**



**Amendments to the CBOE Certificate of Incorporation, Constitution, Bylaws and Rules**

Currently the CBOE has a certificate of incorporation, Constitution and Rules. The Constitution and Rules of the CBOE are collectively referred to as the bylaws. Following the restructuring transaction, the CBOE's rules will no longer be part of the bylaws and what has been historically referred to as the Constitution, will now be referred to as the bylaws. As a result, following the restructuring transaction, the certificate of incorporation, bylaws and Rules of the CBOE will be similar to the CBOE's current certificate of incorporation, Constitution and Rules, except each of these documents will be revised to reflect that the CBOE will become wholly owned by CBOE Holdings and will be revised in other ways to, among other things, streamline the CBOE governance and incorporate provisions required by the SEC in the case of for-profit exchanges.

In addition, as part of the restructuring transaction, the certificate of incorporation of the CBOE will be revised to remove Article Fifth(b) as it would no longer be applicable to a demutualized CBOE. In any event, as a result of the CME/CBOT Transaction and as provided in the Settlement Agreement, there no longer are members of the CBOT who qualify to become members of the CBOE under Article Fifth(b). Other revisions to our certificate of incorporation, Constitution, bylaws and Rules will reflect the way in which access to our trading facilities will be provided following the restructuring. These amendments are described below under the headings "The Restructuring Transaction Amendments to the CBOE Certificate of Incorporation, Constitution and Bylaws" on page 45 and "The Restructuring Transaction Amendments to the CBOE Rules" on page 47. For more information regarding the differences between the rights before and after the restructuring transaction, please see "Comparison of Rights Prior to and After the Restructuring Transaction" on page 152.

**The CBOE Special Meeting (See page 28)**

The special meeting of the CBOE members will be held in \_\_\_\_\_ at 400 South LaSalle Street, Chicago, Illinois 60605, on \_\_\_\_\_, 2009 at \_\_\_\_\_ : \_\_\_\_\_ a.m., local time. You may vote at the CBOE special meeting or any adjournments thereof if you are a Voting Member of the CBOE of record and in good standing as of the close of business on \_\_\_\_\_, 2009, the record date for the special meeting.

*Proposal to Approve the Restructuring Transaction.* To approve the restructuring transaction, CBOE members holding a majority of the outstanding memberships must approve the Agreement and Plan of Merger.

*Proposal to Adjourn or Postpone the Meeting.* To approve any proposal to adjourn or postpone the meeting, should such a proposal be made at the meeting, CBOE members holding a majority of the memberships present or represented by proxy at the meeting must approve such proposal.

*Other Proposals.* The approval of any other proposal presented at the special meeting requires the affirmative vote of a majority of the votes cast by the CBOE members at the special meeting.

The CBOE board of directors recommends that the CBOE members vote "FOR" the adoption of the Agreement and Plan of Merger that will effect the restructuring transaction. In addition, the CBOE board of directors recommends that the CBOE members vote "FOR" any proposal that may be made by the Vice Chairman of the Board of Directors of the CBOE to adjourn or postpone the CBOE special meeting for the purpose of soliciting additional proxies with respect to the proposal to adopt the Agreement and Plan of Merger.

**Material U.S. Federal Income Tax Consequences (See page 147)**

It is a condition to the obligation of the CBOE to consummate the Merger that it receive an opinion from its counsel, dated as of the closing date of the Merger, to the effect that the Merger will

qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Subject to the limitations and qualifications described under "Material U.S. Federal Income Tax Consequences," it is the opinion of Schiff Hardin LLP, counsel to the CBOE, that the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. As a result:

No gain or loss will be recognized by the CBOE upon the Merger.

A CBOE member will not recognize any gain or loss upon receipt of CBOE Holdings common stock received in connection with the Merger.

There can be no assurance that the Internal Revenue Service will agree with the conclusions of Schiff Hardin LLP that the Merger constitutes a reorganization for U.S. federal income tax purposes. Because the Participating Group A and Group B Settlement Class Members will not receive any consideration in the restructuring transaction or in the Merger, the tax discussion in this proxy statement and prospectus does not include an analysis of, and no opinion is being provided with respect to, the U.S. federal income tax consequences of the Settlement Agreement or the consideration to be paid to Participating Group A or Group B Settlement Class Members under the Settlement Agreement. The discussion provided in this proxy statement and prospectus, and the opinion of Schiff Hardin, LLP provided herein, is limited to the material U.S. tax consequences of the Merger to U.S. Holders of CBOE Seats. You should read "Material U.S. Federal Income Tax Consequences" for a more complete discussion of the U.S. federal income tax consequences of the Merger. We urge you to consult with your tax advisor for a full understanding of the tax consequences of the Merger to you.

#### **Accounting Treatment**

The restructuring transaction will be treated as a merger of entities under common control. Accordingly, the financial position and results of operations of the CBOE will be included in the consolidated financial statements of CBOE Holdings on the same basis as currently presented.

#### **Regulatory Approvals (See page 51)**

The restructuring transaction is subject to the approval of the SEC to the extent that changes to our certificate of incorporation, Constitution and Rules are necessary to effectuate the restructuring transaction. These changes must be filed with, and in most cases approved by, the SEC before they may become effective. Accordingly, we intend to make appropriate filings with the SEC seeking approval of the proposed restructuring transaction and associated amendments as described in this document. While we believe that we will receive the requisite regulatory approvals from the SEC, there can be no assurances regarding the timing of the approvals or our ability to obtain the approvals on satisfactory terms. Subject to the satisfaction of these conditions, we expect to complete the restructuring transaction in the first or second quarter of 2009.

#### **Appraisal Rights (See page 53)**

Under Delaware law, the CBOE members have the right to an appraisal of the fair value of their CBOE Seats in connection with the restructuring transaction. To exercise appraisal rights, a CBOE Voting Member must not vote for adoption of the Agreement and Plan of Merger and must strictly comply with all of the procedures required by Delaware law. These procedures are described more fully in "The Restructuring Transaction Appraisal Rights of Dissenting Members" on page 53.

A copy of Delaware General Corporation Law Section 262 Appraisal Rights is included as Annex H to this document.

**Directors and Management of CBOE Holdings and the CBOE Following the Restructuring Transaction (See page 115)**

Following the restructuring transaction, the CBOE Holdings board of directors will consist of 13 directors, one of whom will be CBOE Holdings' chief executive officer. At all times no less than two-thirds of the directors of CBOE Holdings will be independent as defined by CBOE Holdings' board of directors, which definition will satisfy the New York Stock Exchange's listing standards for independence. The CBOE Holdings board will be a classified board with staggered terms of office, consisting of two classes of directors, each of which will serve for two-year terms. There is no limit on the number of terms a director may serve on the board.

The CBOE's board of directors also will consist of 13 directors, one of whom will be the CBOE's chief executive officer, at least seven of whom will be non-industry directors, and the remainder of whom will be industry directors. For a description of "non-industry director" and "industry director" as well as for more information on the specific requirements for the CBOE Holdings and the CBOE boards of directors, please see "Directors and Management of the CBOE and CBOE Holdings After the Restructuring Transaction." The CBOE board will be a classified board with staggered terms of office, consisting of two classes of directors, each of which will serve for two-year terms. There is no limit on the number of terms a director may serve on the board.

On or prior to the completion of the restructuring transaction, in addition to its current officers, CBOE Holdings will elect certain additional individuals as officers of CBOE Holdings. See "Directors and Management of the CBOE and CBOE Holdings After the Restructuring Transaction."

**Stock Exchange Listing and Stock Prices (See page 53)**

CBOE Holdings common stock currently is not traded or quoted on a stock exchange or quotation system. We do not currently intend to list the common stock of CBOE Holdings on any stock exchange immediately following the completion of the restructuring transaction. If CBOE Holdings subsequently pursues a public offering, CBOE Holdings likely would apply to list its common stock at that time. There can be no assurances, however, that a public offering of CBOE Holdings will occur or that the common stock of CBOE Holdings will ultimately be listed on any stock exchange.

CBOE Seats are not traded or quoted on a stock exchange or quotation system. All transfers of CBOE Seats, including transfers through private sales, currently must be processed through the CBOE. The CBOE records the sale prices of CBOE Seats.

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Because all transfers of CBOE Seats, including private sales, must be processed through the CBOE membership department, the CBOE is aware of the price of all transfers, including nominal transfers. The following table sets forth, for the periods indicated, the high and low sale prices of CBOE Seats as recorded in the CBOE's records.

Calendar Quarter	High	Low
<b>2006:</b>		
First Quarter	\$ 1,150,000	\$ 850,000
Second Quarter	\$ 1,375,000	\$ 1,200,000
Third Quarter	\$ 1,400,000	\$ 975,000
Fourth Quarter	\$ 1,775,000	\$ 1,375,000
<b>2007:</b>		
First Quarter	\$ 2,270,000	\$ 1,800,000
Second Quarter	\$ 2,550,000	\$ 2,100,000
Third Quarter	\$ 2,700,000	\$ 2,350,000
Fourth Quarter	\$ 3,150,000	\$ 2,650,000
<b>2008:</b>		
First Quarter	\$ 3,125,000	\$ 2,225,000
Second Quarter	\$ 3,300,000	\$ 2,650,000
Third Quarter	\$ 2,950,000	\$ 2,400,000
Fourth Quarter (through November 18, 2008)	\$ 2,475,000	\$ 1,900,000

On January 24, 2007, the day prior to the date of public announcement of the restructuring transaction, the most recent sale price of a CBOE Seat was \$1,900,000, and the most recent sale of a CBOE Seat prior to the date of this prospectus was on November 11, 2008, at a price of \$1,900,000, in each case as recorded by the CBOE's membership department.

### **Certain Differences in the Rights of a CBOE Member Before the Restructuring Transaction and a CBOE Holdings Stockholder after the Restructuring Transaction (See page 152)**

Upon completion of the restructuring transaction, CBOE Holdings' certificate of incorporation and bylaws will govern the rights of the CBOE Holdings stockholders. Please read carefully the form of CBOE Holdings certificate of incorporation and bylaws that will be in effect upon completion of the restructuring transaction, copies of which are attached as Annex C and D, respectively, to this proxy statement and prospectus, as well as a summary of the material differences between the rights of the CBOE Holdings stockholders and the CBOE members under "Comparison of Rights Prior to and After the Restructuring Transaction."

## UNAUDITED SUMMARY CONDENSED CONSOLIDATED FINANCIAL DATA

The following table sets forth a summary of our historical financial and other information. When you read this summary condensed consolidated financial data, it is important that you read along with it the historical financial statements and related notes, as well as, the section titled "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this proxy statement and prospectus. In 2005 the CBOE converted from a fiscal year that ended on June 30 to a fiscal year that ends on December 31. Because of this conversion, it was necessary for the CBOE to have a six-month reporting period ending on December 31, 2004.

	Nine Mos. Ended Sept 30, 2008	Nine Mos. Ended Sept 30, 2007	Year Ended Dec 31, 2007	Year Ended Dec 31, 2006	Year Ended Dec 31, 2005	Six Mos. Ended Dec 31, 2005	Six Mos. Ended Dec 31, (1) 2004	Year Ended	
								June 30, 2004	June 30, 2003
(dollars in thousands, except per share data)									
<b>Operating Data</b>									
Total revenues	\$ 319,762	\$ 259,253	\$ 352,301	\$ 257,986	\$ 203,055	\$ 105,879	\$ 88,926	\$ 173,714	\$ 163,792
Operating expenses	164,554	155,578	212,350	185,959	183,162	94,662	86,493	171,059	150,401
Income (Loss) from operations	155,208	103,675	139,951	72,027	19,893	11,217	2,433	2,655	13,391
Income Taxes (Credit)	62,511	43,091	56,783	29,919	8,998	5,032	1,240	1,004	5,999
Net Income (Loss)	92,697	60,584	83,168	42,108	10,895	6,185	1,193	1,651	7,392
<b>Balance Sheet Data</b>									
Total assets	\$ 475,874	\$ 313,908	\$ 341,695	\$ 255,826	\$ 202,185	\$ 202,185	\$ 198,967	\$ 176,234	\$ 175,784
Total liabilities	116,810	70,061	75,328	72,437	61,277	61,277	64,127	42,587	43,788
Total equity	359,064	243,847	266,367	183,389	140,908	140,908	134,840	133,647	131,996
<b>Pro forma Data</b>									
Net income (loss) per share (2)	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
<b>Other Data</b>									
Current Ratio (3)	3.67	4.12	4.18	2.85	2.59	2.59	2.16	3.02	2.72
Working capital	\$ 255,214	\$ 151,717	\$ 173,963	\$ 94,081	\$ 59,912	\$ 59,912	\$ 42,911	\$ 36,788	\$ 30,143
Capital expenditures (4)	34,261	26,128	32,095	28,700	21,011	10,948	15,462	23,334	25,047
Number of full time employees at the end of the period	578	588	586	626	673	673	686	698	725
Sales price per CBOE Seat									
High	\$ 3,300	\$ 2,700	\$ 3,150	\$ 1,775	\$ 875	\$ 875	\$ 420	\$ 340	\$ 210
Low	\$ 2,225	\$ 1,800	\$ 1,800	\$ 850	\$ 299	\$ 600	\$ 270	\$ 190	\$ 132

- (1) In 2004, the CBOE converted its fiscal year from the year ending June 30 to the year ending December 31. Because of this transition, the CBOE is reporting results for the six months ending December 31, 2004.
- (2) Based on \_\_\_\_\_ shares issued and outstanding immediately following the completion of the restructuring transactions.
- (3) Equals current assets divided by current liabilities.
- (4) Does not include new investments in affiliates or the disposition of interests in affiliates.

## RISK FACTORS

In this section, we describe the material risks known to us pertaining to the proposed restructuring of the CBOE and to our business in general. You should carefully consider each of the following risks, together with all other information set forth in this document, before deciding whether to vote for or against the proposal to approve the restructuring transaction.

### **Risks Relating to the Restructuring Transaction**

We are subject to the following risks in connection with the restructuring transaction, including the changes in our form of corporate organization and in our governance structure:

***The costs of restructuring and of maintaining a holding company structure may outweigh the benefits intended to be realized by making these changes.***

Although we expect that the proposed restructuring into a holding company form of organization will provide us increased flexibility to raise capital, make acquisitions, form strategic alliances and otherwise to operate in a manner that will allow us to pursue our strategic goals, it is possible that we will not be able to achieve some or all of these benefits as a result of unfavorable market conditions, the regulatory environment or other circumstances. As a result, we could incur the added costs of restructuring and of maintaining a holding company structure without realizing the intended benefits.

***We have limited experience in operating as a for-profit exchange.***

From our formation in 1973 until our change to a for-profit business model at the beginning of 2006, we have operated as a member-owned organization essentially on a break-even basis and for the benefit of our members, subject to our obligations as a self-regulatory organization, or SRO, under the Exchange Act. In that capacity, our business decisions were focused not on maximizing our own profitability, but instead on delivering member benefits and enhancing member opportunity at reasonable cost in conformity with our obligations under the Exchange Act. Beginning in 2006 and carrying forward after the restructuring transaction, our business was and will be operated for the long-term benefit of our owners rather than primarily for the purpose of delivering member benefits and enhancing member opportunity. Our management, therefore, has limited experience operating a for-profit business. Consequently, our transition to for-profit operations will be subject to risks, expenses and difficulties that we cannot predict and may not be capable of handling in an efficient manner.

***CBOE Holdings has not determined its dividend policy. The ability of CBOE Holdings to pay dividends will depend upon the earnings of its operating subsidiaries to meet obligations and invest appropriately in the business prior to payment of any dividends. Accordingly, there can be no guarantee that CBOE Holdings will, or will be able to, pay dividends to its stockholders.***

Any future decision to pay dividends on CBOE Holdings common stock will be at the discretion of the CBOE Holdings board of directors. The CBOE Holdings board of directors may or may not determine to declare dividends in the future. The board's determination to issue dividends will depend upon the profitability and financial condition of CBOE Holdings and its subsidiaries, contractual restrictions, restrictions imposed by applicable law and the SEC, and other factors that the CBOE Holdings board of directors deems relevant. As a holding company with no significant business operations of its own, CBOE Holdings will depend entirely on distributions, if any, it may receive from its subsidiaries to meet its obligations and pay dividends to its stockholders. If these subsidiaries are not profitable or, even if they are and they determine to retain their profits for use in their businesses, CBOE Holdings will be unable to pay dividends to its stockholders. We are not now able to state what will be the long-term dividend policy adopted by CBOE Holdings' board of directors.

***We must obtain the approval of the Securities and Exchange Commission and the Commodity Futures Trading Commission before we can complete the proposed restructuring transaction, which may result in additional conditions being imposed and may be a source of delay.***

The SEC must approve the proposed amendments to the CBOE's certificate of incorporation, Constitution and Rules as well as certain terms of the certificate of incorporation and bylaws of CBOE Holdings, in each case, that result from or are a part of the restructuring transaction. SEC approval might not be forthcoming in a timely manner or may be conditioned on changes to these documents that could limit or otherwise adversely affect your rights as holders of CBOE Holdings common stock after the restructuring. Certain changes may require us to obtain the approval of the CBOE members even if we have already received membership approval to complete the restructuring as originally proposed. This could require us to re-solicit proxies, which could cause us to incur significant additional expenses and delay.

In addition, we will need to obtain the approval of CFTC for the transfer of our subsidiary CBOE Futures Exchange, LLC from the CBOE to CBOE Holdings. This approval could delay our ability to consummate the restructuring transaction.

***The Class A common stock of CBOE Holdings you receive in the restructuring transaction will not be listed on a national securities exchange, and will not be a liquid investment unless an active marketplace develops.***

The shares of Class A common stock that you will receive in the restructuring transaction will not be listed on a national securities exchange. In addition, the shares you will receive will only be permitted to be traded through the CBOE membership department or through an agent to be designated by CBOE Holdings to manage such transfers. Accordingly, unless this market develops into an active marketplace for our common stock, you will be required to bear the risk of your investment in these shares for an extended period of time.

***A public offering of our common stock may never be completed.***

There can be no guarantee that there will be a future public offering of common stock of CBOE Holdings. Whether or not our board of directors determines to proceed with public offering will depend on many factors, including market conditions, the trading performance of and investor demand for the equity of comparable companies and our operating performance relative to comparable companies. We may not be able to complete a public offering in the near future or at all. Even if a public offering is completed, the price you would be able to receive for the shares you receive in the restructuring transaction may be less than the current market value of your CBOE Seat.

***Following a public offering shares of CBOE Holdings Class A common stock will be subject to transfer restrictions and will not be a liquid investment until these restrictions lapse.***

Because the Class A common stock of CBOE Holdings issued in the restructuring transaction would become subject to transfer restrictions in the event CBOE Holdings engaged in a public offering, these shares will not be a liquid investment until such transfer restrictions have expired and a trading market in the shares has developed. Identical transfer restrictions will apply to the Class B common stock issued in connection with the Settlement Agreement because the Class B common stock will convert to Class A common stock at the time of any public offering. Even if a market in shares of CBOE Holdings common stock does develop, the market price of the stock may fluctuate due to actual or anticipated variations in the operating results of CBOE Holdings and its subsidiaries, and as a result of conditions or trends in the businesses in which CBOE Holdings and its subsidiaries are engaged, including regulatory, competitive or other developments affecting only CBOE Holdings or its subsidiaries or affecting financial markets in general.

***Your ownership of CBOE Holdings may be diluted if additional capital stock is issued to raise capital, to finance acquisitions or in connection with strategic relationships.***

CBOE Holdings may seek to raise additional funds, finance acquisitions or develop strategic relationships by issuing equity or convertible debt securities, which would reduce the percentage ownership of existing CBOE Holdings stockholders. Following the restructuring transaction, the CBOE Holdings board of directors will have the authority, without action or vote of the stockholders, to issue all or any part of our authorized but unissued shares of common or preferred stock. Our certificate of incorporation authorizes 300,000,000 shares of common stock and 20,000,000 shares of preferred stock. Following the restructuring transaction and the issuance of the Class B common stock under the Settlement Agreement, to the Participating Group A Settlement Class Members, \_\_\_\_\_ shares of common stock and 20,000,000 shares of preferred stock will be authorized and unissued. Issuance of common or preferred stock would reduce your influence over matters on which stockholders vote and would be dilutive to earnings.

In addition, any newly issued preferred stock could have rights, preferences and privileges senior to those of the CBOE Holdings common stock. Those rights, preferences and privileges could include, among other things, the establishment of dividends which must be paid prior to declaring or paying dividends or other distributions to holders of our common stock; greater or preferential liquidation rights which could negatively affect the rights of holders of our common stock; and the right to convert such preferred stock into shares of our common at a rate or price which would have a dilutive effect on the outstanding shares of our common stock.

***The CBOE may not be able to generate significant revenue by making trading access available in exchange for a fee paid directly to the CBOE, rather than having access be an attribute of a CBOE Seat.***

The ability to trade on the CBOE is currently an inherent right of every CBOE member. One of the consequences of the restructuring transaction will be to separate trading access from ownership, and thereby eliminate access as an inherent right of ownership of the CBOE. Upon the effectiveness of the restructuring transaction, the right to trade on the CBOE will be made available to holders of trading permits issued by the CBOE that will be subject to fees paid directly to the CBOE. These fees are expected to account for a significant portion of the revenues of the CBOE, hence of CBOE Holdings. If the demand for access to the CBOE is less than planned, we would not likely be able to generate as much revenue as we anticipate through the granting of permits for trading access, which could adversely affect the profitability of the CBOE and of CBOE Holdings. For a discussion of trading access after the restructuring transaction, please see "The Restructuring Transaction Effect of the Restructuring Transaction on Trading Access" on page 42.

***We are a party to a pending lawsuit in connection with the restructuring transaction which could delay or affect the structure of the restructuring transaction.***

On August 23, 2006, the CBOE and its directors were sued by The Board of Trade of the City of Chicago, Inc. (the "CBOT"), CBOT Holdings, Inc. ("CBOT Holdings," the CBOT's parent company) and two members of the CBOT who purport to represent a class of individuals who became, or had the right to become, members of the CBOE, without paying for such membership, by virtue of the Exercise Right granted to CBOT members pursuant to paragraph (b) of Article Fifth of the CBOE's certificate of incorporation. On August 20, 2008, the CBOE entered into a Stipulation of Settlement with the plaintiffs pursuant to which the plaintiffs agreed to dismiss the pending suit, with prejudice, in exchange for agreed upon settlement consideration. For more information on the Settlement Agreement, please see "The Restructuring Transaction Exercise Right Settlement Agreement" on page 47. In the suit, the plaintiffs sought a judicial declaration that, among other things, persons who became CBOE members pursuant to the Exercise Right ("Exercise Member Claimants"), were entitled to receive the same consideration in the CBOE's restructuring transaction as all other CBOE members, and plaintiffs also sought an injunction to bar the CBOE and the CBOE's directors from issuing any

stock to CBOE members as part of the restructuring transaction unless Exercise Member Claimants received the same stock and other consideration as other CBOE members. Plaintiffs also sought a declaratory judgment and an injunction to prevent the CBOE from implementing an interpretation of Article Fifth(b) of the CBOE's certificate of incorporation that the SEC has approved, under which no person qualifies as an Exercise Member Claimant following the consummation of the CME/CBOT Transaction. Approval of the Settlement Agreement is pending in the Delaware court and is subject to appeal. It is possible that the Settlement Agreement will not be approved, or that any such approval could be appealed. Any non-approval or appeal of this suit could delay or affect the structure of the restructuring transaction as well as lead to additional expenses or require us to issue more equity, which would dilute materially the equity of our stockholders. Prior to this action we have been subject to other legal proceedings and claims relating to the Exercise Right. It is possible that other claims could be brought in the future relating to the restructuring transaction or other matters, which could likewise delay or affect the structure of the restructuring transaction and lead to additional expenses or require us to issue more equity, which would dilute materially the equity of our stockholders. See "Business Legal Proceedings Litigation with respect to the Restructuring Transaction" on page 100 for a description of this litigation.

### **Risks Relating to Our Business**

Our business, and thus the value of CBOE Holdings common stock, is subject to the following risks, which include risks relating to the industry in which we operate.

*The CBOE operates in a highly regulated industry and may be subject to censures, fines and other legal proceedings if it fails to comply with its legal and regulatory obligations.*

The CBOE, which will be CBOE Holdings' principal operating subsidiary, is a registered national securities exchange and an SRO and, as such, is subject to comprehensive regulation by the SEC. The CBOE's ability to comply with applicable laws and rules is largely dependent on its establishment and maintenance of appropriate systems and procedures, as well as its ability to attract and retain qualified personnel. The SEC has broad powers to audit, investigate and enforce compliance and to punish noncompliance by SROs with the Exchange Act, the SEC's rules and regulations under the Exchange Act and the rules and regulations of the SRO. If the SEC were to find the CBOE's program of enforcement and compliance to be deficient, the CBOE could be the subject of SEC investigations and enforcement proceedings that may result in substantial sanctions, including revocation of its registration as a national securities exchange. Any such investigations or proceedings, whether successful or unsuccessful, could result in substantial costs and diversions of resources and potential harm to the CBOE's reputation, any of which could have a material adverse effect on the business, financial condition and operating results of CBOE Holdings.

Although CBOE Holdings itself will not be a registered entity, CBOE Holdings will be subject to regulation by the SEC over its activities that involve the CBOE because CBOE Holdings will control the CBOE, which is an SRO. Specifically, the SEC will exercise oversight over the governance of CBOE Holdings and its relationship with the CBOE. See "Regulation Regulatory Responsibility," below.

*The listed options model depends on a national market structure that facilitates the efficient buying and selling of underlying stock, futures and other products. Any significant change to the underlying market model, such as the recent temporary emergency actions of the SEC related to short selling, if made permanent, could materially impact the ability of the CBOE's users to conduct business.*

The CBOE's members and customers were, to differing extents, impacted by the actions of the SEC in September 2008 to restrict short selling of certain financial stocks. While this SEC emergency order has expired, provisions in other SEC emergency orders related to short selling have been extended on an interim final temporary basis, and will most likely be made permanent and could impact the use of options by both members and customers.

*As a regulated entity, CBOE's ability to implement or amend rules could be limited or delayed, which could negatively affect its ability to implement needed changes.*

The CBOE must submit proposed rule changes to the SEC for its review and, in many cases, its approval. Even where a proposed rule change may be put into effect upon its being filed with the SEC, the SEC retains the right to abrogate such rule changes. The SEC review process can be lengthy and can significantly delay the implementation of proposed rule changes that the CBOE believes are necessary in the operation of its market. If the SEC refuses to approve a proposed rule change or delays its approval, this could negatively affect the ability of the CBOE to make needed changes or implement business decisions.

*Intense competition could materially adversely affect our market share and financial performance.*

The options industry is highly competitive. Competition among options exchanges has continued to expand since the CBOE was created in 1973. We currently face greater competition than ever before in our history not only because virtually all of the equity options listed and traded on the CBOE are also listed and traded on other U.S. options exchanges, but also because options are now traded on all-electronic exchanges. For certain types of orders, all-electronic exchanges often have been able to offer more immediate and more efficient execution than traditional floor-based exchanges. Some order-providing firms have taken ownership positions in options exchanges that compete with us, thereby giving those firms an added incentive to direct orders to the exchanges they own. As a result of these competitive developments, although our trading volume has increased in absolute terms in recent years, our market share of equity options traded in the United States fell from approximately 44% in 1999 to about 33% for the first nine months of 2008.

In response to these developments, we developed our own electronic trading facility that we operate as part of a "hybrid" model combining electronic trading and remote off-floor market-makers with traditional floor-based, open outcry trading. We have also administered a program through which we collect a marketing fee on market maker transactions. The funds collected are made available to the specialist for use in payment for order flow. These changes to our hybrid trading model have proven to be successful in maintaining and expanding our market share. These changes, however, may not be successful in maintaining or expanding our market share in the future. Likewise, our future responses to these or other competitive developments may not be successful in maintaining or expanding our market share.

*CBOE's business may be adversely affected by price competition.*

The business of operating an options exchange is characterized by intense price competition. The pricing model for trade execution for options has changed in response to competitive market conditions. Some of the CBOE's competitors have lowered their transaction fees while at the same time increasing the marketing fees that they collect from market makers and make available to specialists for use in paying for order flow. Other competitors have introduced a market model in which orders that take liquidity from the market are charged a transaction fee and orders that provide liquidity receive a rebate. These changes have resulted in significant pricing and cost pressures on the CBOE and its members. It is likely that this pressure will continue and even intensify as our competitors continue to seek to increase their share of trading by further reducing their transaction fees and by offering higher payments or other financial incentives to order providers to induce them to direct orders to our competitors' markets. In any of these events, the CBOE's operating results and profitability could be adversely affected, which in turn would affect the profitability of CBOE Holdings. For example, the CBOE could lose a substantial percentage of its share of trading if it is unable to price its transactions in a competitive manner. Also, the CBOE's profit margins could decline if competitive pressures force it to reduce its fees.

***We may not be able to protect our intellectual property rights.***

We rely on patent, trade secret, copyright and trademark laws, the law of the doctrine of misappropriation and contractual protections to protect our proprietary technology, proprietary index products and index methodologies and other proprietary rights. In addition, we rely on the intellectual property rights of our licensors in connection with our trading of exclusively-licensed index products. We and our licensors may not be able to prevent third parties from copying, or otherwise obtaining and using, our proprietary technology without authorization or from trading our proprietary or exclusively-licensed index products without licenses, or otherwise infringing on our rights. We and our licensors may have to rely on litigation to enforce our intellectual property rights, determine the validity and scope of the proprietary rights of others or defend against claims of infringement or invalidity. We and our licensors may not be successful in this regard. In any event, any such litigation, whether successful or unsuccessful, could result in substantial costs to us and diversions of our resources, either of which could materially adversely affect our business. For a description of current litigation involving these matters, please see "Business Legal Proceedings" on page 100.

***Loss of our market share in the index options we trade or the loss of our exclusive licenses to trade certain index options could have a material adverse effect on our financial performance.***

A significant contribution to the CBOE's revenue and profitability comes as a result of our market share in broad-based index options. Our market share in these products results in part because we hold exclusive licenses to trade index options granted to us by the owners of the S&P 500 Index and S&P 100 Index and the Dow Jones Industrial Average, or DJIA. However, even these index options face competition from other indexed derivatives, such as index futures traded on futures exchanges, indexed exchange-traded funds, or ETFs, options on ETFs and futures on ETFs and various over-the-counter options, swaps and other derivatives, some of which may be used by investors to achieve the same or similar purposes as the options we trade.

In addition, the value of our exclusive licenses to trade index options depends on the continued ability of index owners to require licenses for the trading of options based on their indexes. Although recent court decisions have allowed the trading of options overlying ETFs based on indexes without licenses from the owners of the indexes, none of these decisions has overturned existing legal precedent that requires an exchange to be licensed by the owner of an index before it may trade options overlaying on the index. However, on November 2, 2006, International Securities Exchange, Inc., or ISE, filed a lawsuit against the owners of the S&P 500 Index and the DJIA two of the most popular indexes on which the CBOE trades options pursuant to exclusive licenses. ISE seeks a judicial declaration that it (and, by extension, other options exchanges) has the right to list and trade options overlaying those indexes without licenses and, therefore, without regard to the CBOE's exclusive licenses to trade options on those indexes. This litigation remains pending, and there is a risk that ISE may be successful in eliminating the right of index owners to require licenses to use their indexes for options trading, including on an exclusive basis. There is also a risk that competing exchanges may convince the SEC to limit the right of index owners to grant exclusive licenses for index options trading or to prevent exchanges from entering into such exclusive licenses. If unlicensed trading of index options were permitted or if exclusive licenses for index options trading were prohibited, the value of the CBOE's exclusive licenses to trade index options would be eliminated, and the CBOE likely would lose some market share in these index options. There is also a risk, with respect to each of our current exclusive licenses, that the owner of the index may determine not to renew the license on an exclusive basis, or not to renew it at all, upon the expiration of the current term. In the first event, we would be subject to competition in the trading of what is now an exclusive index product, resulting in a likely reduction of the profitability to the CBOE of trading the product. In the second event, we could lose the right to trade the index product entirely.

***Our decision to operate both open outcry trading and electronic trading systems may have a material adverse effect on our operating costs, markets and profitability.***

Our current business strategy involves the operation of a hybrid trading system that includes both floor-based, or open outcry, trading and electronic trading for most of our products. In addition, certain index products are traded solely through our floor-based trading system. It is expensive to continue operating both electronic and floor-based markets for the same products. This may result in resource allocation decisions that adversely impact one or both systems and put us at a competitive disadvantage to other exchanges. If we determine to continue to operate both systems without reducing the resources provided to either one, the costs of doing so could reduce our profitability.

***We may be unable to keep up with rapid technological changes.***

To remain competitive, we must continue to enhance and improve the responsiveness, functionality, accessibility and features of our automated trading and communications systems in the face of rapid technological change, changes in use and customer requirements and preferences, frequent product and service introductions embodying new technologies and the emergence of new industry standards and practices. This will require us to continue to attract and retain a highly-skilled technology staff and invest the financial resources necessary to keep our systems up to date. If we fail to do so, our systems could become obsolete, which could result in the loss of customers and volume and have a material adverse effect on the business, financial condition and operating results of the CBOE and CBOE Holdings.

***Computer and communications systems failures and capacity constraints could harm our reputation and our business.***

We are committed to operate, monitor or maintain our computer systems and network services, including those systems and services related to our electronic trading system in a secure and reliable manner. A failure to do so could have a material adverse effect on the functionality and reliability of our market, hence on our reputation, business, financial condition and operating results. System failure or degradation could lead our customers to file formal complaints with industry regulatory organizations, file lawsuits against us or cease doing business with us or could lead other regulators to initiate inquiries or proceedings for failure to comply with applicable laws and regulations.

***The computer systems and communication networks upon which we rely in the operation of our exchange may be vulnerable to security risks and other disruptions.***

The secure and reliable operation of our computer systems and of our own communications networks and those of our service providers, our members and our customers is a critical element of our operations. These systems and communications networks may be vulnerable to unauthorized access, computer viruses and other security problems, as well as to acts of terrorism, natural disasters and other events of *force majeure*. If our security measures are compromised or if there are interruptions or malfunctions in our systems or communications networks, this could have a material adverse effect on our business, financial condition and operating results. We may be required to expend significant resources to protect against the threat of security breaches or to alleviate problems, including harm to reputation and litigation, caused by any breaches in security or system failures. Although we intend to continue to implement industry-standard security measures and otherwise to provide for the integrity and reliability of our systems, these measures may prove to be inadequate in preventing system failures or delays in our systems or communications networks that could lower trading volume and have a material adverse effect on our business, financial condition and operating results.

***Our market data fees may be reduced or eliminated due to a decline in our market share, regulatory action or a reduction in the numbers of market data users.***

We obtain substantial revenues from our share of the revenues collected by the Options Price Reporting Authority, or OPRA, for the dissemination of options market data. If our share of options

trading were to decline, our share of OPRA market data revenue would also decline. Market data revenue could also decline as a result of a reduction in the numbers of market data users, for example because of consolidation among market data subscribers. Finally, the SEC could take regulatory action to revise the formula for allocating options market data revenues among the options exchanges as it did in 2005 when it adopted Regulation NMS in respect of market data revenue in the stock market, or it could take other regulatory action, and any such action could have the effect either of reducing total options market data revenue or our share of that revenue. Any significant decline in the revenue we realize from the dissemination of market data could materially adversely affect the profitability of the CBOE and CBOE Holdings.

***Market fluctuations and other risks beyond CBOE Holdings' control could significantly reduce demand for our services and harm our business.***

The volume of options transactions and the demand for CBOE Holdings' subsidiaries' other products and services are directly affected by economic, political and market conditions in the United States and elsewhere in the world that are beyond our control, including:

- broad trends in business and finance;
- concerns about terrorism and war;
- concerns over inflation and wavering institutional or retail confidence levels;
- changes in government monetary policy and foreign currency exchange rates;
- the availability of short-term and long-term funding and capital;
- the availability of alternative investment opportunities;
- changes in the level of trading activity;
- changes and volatility in the prices of securities;
- changes in tax policy;
- the level and volatility of interest rates;
- legislative and regulatory changes; and
- unforeseen market closures or other disruptions in trading.

General economic conditions affect options trading in a variety of ways, from influencing availability of capital to affecting investor confidence. The economic climate in recent years has been characterized by challenging business, economic and political conditions throughout the world. Adverse changes in the economy can have a negative impact on the CBOE's revenues by causing a decline in trading volume or in the demand for options market data. Because the CBOE's management structure and overhead will be based on assumptions of certain levels of market activity, significant declines in trading volumes or demand for market data may have a material adverse effect on the business, financial condition and operating results of the CBOE and of CBOE Holdings.

A significant portion of CBOE Holdings' revenues will depend, either directly or indirectly, on our transaction-based business, which, in turn, is dependent on our ability to attract and maintain order flow, both in absolute terms and relative to other market centers. If the amount of trading volume on the CBOE decreases, CBOE Holdings' revenue from transaction fees will decrease. There may also be a reduction in revenue

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from market data fees or other sources of revenue. If the CBOE's share of total trading volumes decreases relative to our competitors, it may be less attractive to market participants and may lose trading volume and associated transaction fees and market data fees as a result. In addition, declines in the CBOE's share of trading volume could adversely affect the growth, viability and importance of several of our market information products, which will constitute an important portion of CBOE Holdings' revenues.

The financial services industry and particularly the options and futures business are dynamic and uncertain environments, and we expect a highly competitive environment, as well as exchange

consolidation and member firm consolidation in the future. This environment has encouraged the introduction of alternative trading venues with varying market structures and new business models. Well-capitalized competitors from outside the United States may seek to expand their operations in the U.S. market. In addition, the financial services industry is subject to extensive regulation, which may change dramatically in ways that affect industry market structure. If the CBOE is unable to adjust to structural changes within our markets, technological and financial innovation, and other competitive factors, the business will suffer and competitors will take advantage of opportunities to our detriment.

#### **Risks Relating to Regulation and Litigation**

We are subject to the following risks in connection with the regulation of, and litigation relating to, our business.

##### ***We may not be able to maintain our self-regulatory responsibilities.***

Some financial services regulators have publicly stated their concerns about the ability of a securities exchange, organized as a for-profit corporation, to adequately discharge its self-regulatory responsibilities. Our regulatory programs and capabilities contribute significantly to our brand name and reputation. In the future we may be required to modify or restructure our regulatory functions in order to address these or other concerns. Any such modifications or restructuring of our regulatory functions could entail material costs for which we have not currently planned.

##### ***Damage to the reputation of the CBOE could have a material adverse effect on the businesses of CBOE Holdings.***

One of our competitive strengths is our strong reputation and brand name. This reputation could be harmed in many different ways, including by regulatory failures, governance failures or technology failures. Damage to the reputation of the CBOE could adversely affect our ability to attract liquidity providers and order flow, which in turn could impair the competitiveness of our market. This, in turn, may have a material adverse effect on the business, financial condition and operating results of CBOE Holdings.

##### ***We are subject to significant risks of litigation.***

Many aspects of our business involve substantial risks of liability. For example, dissatisfied customers may make claims regarding quality of trade execution, improperly settled trades, mismanagement or even fraud against their brokers. We may become subject to these claims as the result of failures or malfunctions, or alleged failures or malfunctions, of systems and services provided by us. We could incur significant legal expenses defending claims, even those without merit. An adverse resolution of any lawsuits or claims against us could have a material adverse effect on our reputation, business, financial condition and/or operating results. We are currently subject to various litigation matters. For a discussion of litigation involving the CBOE, please see "Business Legal Proceedings" on page 100.

##### ***Any infringement by us on patent rights of others could result in litigation and could have a material adverse effect on our operations.***

Our competitors as well as other companies and individuals may have obtained, and may be expected to obtain in the future, patents that concern products or services related to the types of products and services we offer or plan to offer. We might not be aware of all patents containing claims that may pose a risk of infringement by our products, services or technologies. Claims of infringement are not uncommon in our industry. For instance, in a lawsuit filed on November 22, 2006, ISE claims that the CBOE's hybrid trading system infringes ISE's patent directed towards an automated exchange for trading derivative securities. If any portion of our hybrid trading system or one or more of our other products, services or technologies were determined to infringe a patent held by another party, we might be required to stop developing or marketing those products, services or technologies, to obtain a

license to develop and market those services from the holders of the patents or to redesign those products, services or technologies in such a way as to avoid infringing the patent. If we were unable to obtain these licenses, we might not be able to redesign our products, services or technologies to avoid infringement, which could materially adversely affect our business, financial condition and operating results. For a discussion of patent litigation involving the CBOE, please see "Business Legal Proceedings Patent Litigation" on page 104.

***Member misconduct could harm us and is difficult to detect.***

Although we perform significant self-regulatory functions, we run the risk that the members of the CBOE, other persons who use our markets or our employees will engage in fraud or other misconduct, which could result in regulatory sanctions and serious harm to our reputation. It is not always possible to deter misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases.

**Risks Relating to Changes in Our Corporate Governance Structure**

The following risks relate to the significant changes to our corporate governance structure that will occur as part of the restructuring transaction.

***CBOE Holdings stockholders will have reduced influence in the day-to-day management and operation of our business from that enjoyed by former members.***

If we complete the restructuring transaction, the CBOE Holdings stockholders will have less ability to influence the day-to-day management and operation of our business than our members currently do. Holders of CBOE Holdings common stock will not be stockholders of the CBOE and will not, therefore, have any vote with respect to matters acted on at the CBOE. CBOE Holdings, as the holder of all of the outstanding stock of the CBOE, will have the sole right to vote on all matters affecting the CBOE, such as any proposal to merge the CBOE with a third party, to sell a significant amount of the CBOE assets to a third party, to cause the CBOE to acquire, invest in or enter into a business in competition with the then existing business of the CBOE or to dissolve or liquidate the CBOE.

In addition to these changes to voting rights and the manner of amending the certificate of incorporation and bylaws of CBOE Holdings, we will be making changes to the size and classification of our board of directors and the manner in which directors are nominated. Also, we will eliminate the ability of our members to take action by written consent.

Collectively, these changes will reduce the influence of our members and may lead to decisions and outcomes that differ from those made under our current certificate of incorporation, Constitution and Rules and regulations. Moreover, additional changes to our corporate governance and capital structure may be required upon the occurrence of a public offering of CBOE Holdings which could reduce even further the influence of holders of CBOE Holdings stock.

***Effects of certain provisions in the CBOE and CBOE Holdings organizational documents could enable the board of directors of CBOE Holdings to prevent or delay a change of control.***

Following the restructuring, CBOE Holdings' organizational documents will contain provisions that may have the effect of discouraging, delaying or preventing a change of control of, or unsolicited acquisition proposals for, CBOE Holdings that a stockholder might consider favorable. These include provisions:

vesting the CBOE Holdings board of directors with sole power to set the number of directors;

limiting the persons who may call special stockholders' meetings; and

staggering the CBOE Holdings board of directors.

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In addition, CBOE Holdings' organizational documents will include provisions that:

restrict any person (either alone or together with its related persons) from voting or causing the voting of shares of stock representing more than 10% of CBOE Holdings' outstanding voting capital stock (including as a result of any agreement by any other persons not to vote shares of stock); and

restrict any person (either alone or together with its related persons) from beneficially owning shares of stock representing more than 10% of the outstanding shares of CBOE Holdings' capital stock. In the case of each of these restrictions, the percentage thresholds would increase to 20% of the outstanding shares of CBOE Holdings' capital stock following a public offering of CBOE Holdings' capital stock, should such an offering occur.

For a more detailed description of these provisions, see "Description of CBOE Holdings Capital Stock" on page 139, as well as the form of CBOE Holdings certificate of incorporation and bylaws attached as Annexes C and D, respectively, to this document.

Furthermore, the CBOE Holdings board of directors has the authority to issue shares of preferred stock in one or more series and to fix the rights and preferences of these shares without stockholder approval. Any series of CBOE Holdings preferred stock is likely to be senior to the CBOE Holdings common stock with respect to dividends, liquidation rights and, possibly, voting rights. The ability of the CBOE Holdings board of directors to issue preferred stock also could have the effect of discouraging unsolicited acquisition proposals, thus adversely affecting the market price of the common stock.

In addition, Delaware law makes it difficult for stockholders that recently have acquired a large interest in a corporation to cause the merger or acquisition of the corporation against the directors' wishes. Under Section 203 of the Delaware General Corporation Law, a Delaware corporation may not engage in any merger or other business combination with an interested stockholder for a period of three years following the date that the stockholder became an interested stockholder except in limited circumstances, including by approval of the corporation's board of directors.

Certain aspects of the certificate of incorporation, bylaws and structure of CBOE Holdings and its subsidiaries will be subject to SEC oversight. See "Regulation" on page 105.

***If CBOE Holdings is unable to favorably assess the effectiveness of its internal controls over financial reporting, or if its Independent Registered Public Accounting Firm is unable to provide an unqualified attestation report on CBOE Holdings' assessment, the stock price of CBOE Holdings could be adversely affected.***

The rules governing Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 that must be met for management to assess CBOE Holdings' internal controls over financial reporting are new and complex, and require significant documentation, testing and possible remediation. The CBOE currently is in the process of reviewing, documenting and testing its internal controls over financial reporting. The continuing effort to comply with regulatory requirements relating to internal controls will likely cause us to incur increased expenses and will cause a diversion of management's time and other internal resources. We also may encounter problems or delays in completing the implementation of any changes necessary to make a favorable assessment of our internal controls over financial reporting. In addition, in connection with the attestation process by CBOE Holdings' Independent Registered Public Accounting Firm, CBOE Holdings may encounter problems or delays in completing the implementation of any requested improvements or receiving a favorable attestation. If CBOE Holdings cannot favorably assess the effectiveness of its internal controls over financial reporting, or if its Independent Registered Public Accounting Firm is unable to provide an unqualified attestation report on its assessment, investor confidence and the stock price of CBOE Holdings common stock could be adversely affected.

## FORWARD-LOOKING STATEMENTS

We make forward-looking statements under the "Summary," "Risk Factors," "Information About the CBOE," "Information About CBOE Holdings," "CBOE Management's Discussion and Analysis of Financial Condition and Results of Operations," and in other sections of this document, as well as in other documents and sources of information that may be made a part of this document by appearing in other documents that we file with the SEC and incorporated by reference into this document. These statements may include statements regarding the period following completion of the restructuring transaction. In some cases, 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. 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 the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks and uncertainties described under "Risk Factors."

While we believe we have identified material risks, these risks and uncertainties are not exhaustive. Other sections of this document describe additional factors that could adversely impact our business and financial performance. 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.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this document to conform our prior statements to actual results or revised expectations, and we do not intend to do so.

Forward-looking statements include, but are not limited to, statements about:

our business' possible or assumed future results of operations and operating cash flows;

our business' strategies and investment policies;

our business' financing plans and the availability of capital;

our business' competitive position;

potential growth opportunities available to our business;

the risks associated with potential acquisitions or alliances by us;

the recruitment and retention of our officers and employees;

our expected levels of compensation;

our business' potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts;

the likelihood of success and impact of litigation;



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our protection or enforcement of our intellectual property rights;

our expectation with respect to securities, options and future markets and general economic conditions;

our ability to keep up with rapid technological change;

the effects of competition on our business; and

the impact of future legislation and regulatory changes on our business.

We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this document in the case of forward-looking statements contained in this document, or the dates of the documents incorporated by reference into this document in the case of forward-looking statements made in those incorporated documents.

WE EXPRESSLY QUALIFY IN THEIR ENTIRETY ALL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE CBOE OR CBOE HOLDINGS OR ANY PERSON ACTING ON OUR BEHALF BY THE CAUTIONARY STATEMENTS CONTAINED OR REFERRED TO IN THIS SECTION.

## SPECIAL MEETING OF CBOE MEMBERS

### Time, Place and Purpose of the CBOE Special Meeting

The special meeting of the CBOE members will be held in the \_\_\_\_\_ at 400 South LaSalle Street, Chicago, Illinois 60605, on \_\_\_\_\_, 2009 at \_\_\_\_\_ : \_\_\_\_\_ a.m., local time, for the following purposes:

- (1) to vote on the adoption of the Agreement and Plan of Merger that will facilitate the restructuring of the CBOE;
- (2) to consider and vote on any proposal that may be made by the Vice Chairman of the CBOE board of directors to adjourn or postpone the CBOE special meeting for the purpose of soliciting proxies with respect to the proposal to adopt the Agreement and Plan of Merger; and
- (3) to transact any other business that may properly come before the CBOE special meeting or any adjournment or postponement of the CBOE special meeting.

The CBOE board of directors recommends that you vote "for" the adoption of the Agreement and Plan of Merger to accomplish the restructuring transaction and for any proposal that may be made by the Vice Chairman of the Board of the CBOE to adjourn or postpone the CBOE special meeting for the purpose of soliciting proxies.

### Who Can Vote at the CBOE Special Meeting

Each Voting Member of the CBOE of record and in good standing as of the close of business on \_\_\_\_\_, 2009, the record date for the meeting, will be entitled to vote on the matters presented at the meeting and at any adjournment thereof. On each proposal set forth at the CBOE special meeting, each Voting Member of the CBOE is entitled to one vote with respect to each membership for which the Voting Member has the right to vote. As of the date of this document, there are 1,106 total memberships entitled to vote. The CBOE currently holds one inactive "treasury" membership. This membership will not be voted and will not be converted into the demutualization consideration. This membership is not included in the 1,106 memberships referenced above.

### Vote Required

The proposal to adopt the Agreement and Plan of Merger requires the affirmative vote of a majority of the outstanding CBOE memberships. As a result, if a CBOE member does not vote or abstains from voting on this proposal, it will have the same effect as a vote against the proposal.

The presence in person or by proxy of CBOE members holding a majority of the total outstanding CBOE memberships shall constitute a quorum at the meeting.

Directors and officers of the CBOE hold memberships entitling them to cast an aggregate of 16 votes on the proposal, representing approximately 1.45% of the total membership votes that may be cast.

### Adjournments

If no quorum of the CBOE members is present at the CBOE special meeting, the CBOE special meeting may be adjourned by the majority of the members present and entitled to vote at that meeting from time to time, without notice other than announcement at the meeting, unless otherwise required by statute. If the Vice Chairman of the CBOE board of directors proposes to adjourn the CBOE special meeting and this proposal is approved by the CBOE members, the CBOE special meeting will be adjourned. At any adjourned meeting of the special meeting at which a quorum is present, any business may be transacted which might have been transacted at the special meeting as originally notified. In order for the special meeting to be adjourned, the proposal to adjourn the meeting must be

approved by the majority of the members present or represented by proxy at the meeting and entitled to vote.

### **Manner of Voting**

If you are a Voting Member of the CBOE, you may cast your ballot for or against the proposals submitted at the CBOE special meeting either in person at the meeting or by proxy prior to the time the meeting is called. To vote in person, you must be present at the special meeting and cast your ballot.

The Election Committee (or their designees) will collect ballots in-person on the trading floor beginning \_\_\_\_\_, \_\_\_\_\_, 2009. Two voting stations will be set up on the trading floor near the escalators on the North and South walls (or at such other location as the Election Committee may designate).

To vote by proxy, and avoid the inconvenience of in-person voting at the Special Meeting, you may submit your ballot along with your proxy to cast your ballot on your behalf at any time prior to the time the special meeting is called to order. The following materials are enclosed with this proxy statement and prospectus: a ballot, proxy card and a postage paid return envelope. You may submit your ballot (along with your proxy to cast your ballot on your behalf) by mail in the postage paid envelope, by fax or hand delivery to the Office of the Secretary on the 7th floor of the Exchange, or you can submit your ballot and proxy through the Internet or by telephone. When voting by proxy, your ballot indicates how you are voting on the proposals at issue, and the proxy authorizes a designated person to place your ballot in the ballot box at the meeting and to vote on your behalf on any other matters that may properly come before the meeting.

The following is a detailed description of how to vote by proxy using the telephone, Internet and mail methods:

**By Telephone** (Available only until 3:30 p.m. Central Standard Time on \_\_\_\_\_, 2009.)

On a touch tone telephone, call **TOLL FREE 1-888-693-8683**, 24 hours a day, 7 days a week.

You will be asked to enter **ONLY** the CONTROL NUMBER shown on the ballot.

Have your ballot ready, and then follow the simple instructions.

Your vote will be confirmed and cast as you directed.

**\*\*If you are voting by telephone, please do not mail your ballot.**

**By Internet** (Available only until 3:30 p.m. Central Standard Time on \_\_\_\_\_, 2009.)

Visit the Internet voting Website at **http://\_\_\_\_\_**.

Enter the CONTROL NUMBER shown on the ballot and follow the instructions on your screen.

You will incur only your usual Internet charges.

**\*\*If you are voting by Internet, please do not mail your ballot.**

**By Mail**

Mark the ballot. LEGIBLY PRINT the voting member name (Individual Member or Member Organization), acronym (if applicable), and the name of the authorized signatory (e.g., executive officer) voting for a firm (if applicable), on the ballot.

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Be sure to indicate the legal name in which your membership is held.

Sign and date your ballot and return it in the postage-paid envelope by \_\_\_\_\_, 2009.

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Only ballots sealed in the appropriate envelope (unless transmitted by fax) *and* accompanied by a legibly executed proxy or ballots cast in person at the meeting will be counted.

**\*\*If you are voting by telephone or the internet, please do not mail your ballot.**

*Members are encouraged to submit the ballot promptly in order to ensure timely receipt and an efficient election. You may verify receipt of your ballot at the voting stations on the trading floor or by contacting \_\_\_\_\_ at \_\_\_\_\_ or Jaime Galvan at (312) 786-7058 (galvanj@cboe.com).*

Upon completion of the vote count, the vote results will be posted on the Member's website at *www.CBOE.com* and on the Election Results Hotline at (312) 786-8150.

Ballots, along with a duly executed proxy authorizing the persons designated herein to cast such ballot at the special meeting, must be received prior to [ \_\_\_\_ p.m.], Central Time, on \_\_\_\_\_, 2009 in order to be counted.

All ballots (including those given by phone or through the Internet) received before the deadline stated above or by any later established deadline for any adjourned meeting, as the case may be, will, unless revoked, be cast as indicated in those ballots. If no vote is indicated on a ballot that has been delivered with a properly executed proxy card, the CBOE membership(s) represented by the ballot and proxy card will be voted in accordance with the recommendation of the CBOE board of directors and, therefore, "FOR" the adoption of the Agreement and Plan of Merger to affect the restructuring transaction and "FOR" any proposal that may be made to adjourn or postpone the special meeting.

If you return a ballot and properly executed proxy card and have indicated that you have abstained from voting on a proposal, your CBOE memberships represented by the ballot and proxy will be considered present at the CBOE special meeting for purposes of determining a quorum. We urge you to mark each applicable box on the ballot or voting instruction card to indicate how to vote your CBOE membership.

You may change your ballot and revoke your proxy at any time before it is cast by:

submitting a written revocation dated after the date of the proxy that is being revoked to Chicago Board Options Exchange, Incorporated, Office of the Secretary, at 400 South LaSalle Street, Chicago, Illinois 60605;

submitting a later-dated ballot and proxy by mail, fax, telephone or internet; or

attending the CBOE special meeting and voting by paper ballot in person.

Attendance at the CBOE special meeting will not, in and of itself, constitute revocation of a previously delivered ballot or granted proxy. If the CBOE special meeting is adjourned or postponed, it will not affect the ability of CBOE members to exercise their voting rights or to change any previously delivered ballot or to revoke any previously granted proxy using the methods described above.

Returning your completed ballot and proxy will not prevent you from changing your vote or revoking your proxy and voting in person at the special meeting of Members. Please note, however, that if you submit your ballot and proxy through one of the available methods, you will not need to attend the special meeting of Members or take any further action in connection with the special meeting because you already will have directed your proxy to deliver your ballot with respect to the proposal to be brought at the special meeting.

### **Confidential Voting**

It is the CBOE's policy that all ballots and voting tabulations that identify the CBOE members be kept confidential. The CBOE intends to engage a third-party firm to serve as inspector of election and

count the ballots. The CBOE Election Committee will oversee the third-party firm selected to count the ballots.

**Solicitation of Ballots and Proxies**

The CBOE board of directors is making the solicitation of ballots and proxies. The CBOE will pay the expenses incurred in connection with the printing and mailing of this document. To assist in the solicitation of ballots and proxies, the CBOE has retained \_\_\_\_\_ for a fee not to exceed \$ \_\_\_\_\_ plus reimbursement of out-of-pocket expenses. Solicitation of ballots and proxies by mail may be supplemented by telephone and other electronic means, advertisements and personal solicitation by the directors, officers or employees of the CBOE. No additional compensation will be paid to our directors, officers or employees for solicitation.

## THE RESTRUCTURING TRANSACTION

*This section of the document describes material aspects of the proposed restructuring transaction. This summary may not contain all of the information that is important to you. You should carefully read this entire document, including the full text of the Agreement and Plan of Merger, which is attached as Annex G, and the other documents we refer you to for a more complete understanding of the restructuring transaction. In addition, we incorporate important business and financial data about us into this document by reference. You may obtain the information incorporated by reference into this document without charge by following the instructions described under "Where You Can Find More Information," which begins on page 162.*

### General

The restructuring transaction will be completed through the following steps:

The creation of CBOE Holdings, Inc. as a new Delaware stock, for-profit subsidiary corporation, and CBOE Merger Sub, Inc. as a second-tier, Delaware stock, for-profit corporation.

Pursuant to the Agreement and Plan of Merger to be entered into in the near future, CBOE Merger Sub, Inc. will merge with and into the CBOE, with the CBOE surviving the merger as a Delaware stock, for-profit corporation, which we refer to as the "Merger."

Upon the effectiveness of the Merger, the outstanding stock of CBOE Merger Sub, Inc. will be converted into common stock of the CBOE, the CBOE Seats existing on the date of the restructuring transaction will be converted into the right to receive CBOE Holdings common stock and the CBOE Holdings common stock held by the CBOE will be cancelled for no consideration and shall cease to exist. As a result, CBOE Holdings will become the sole stockholder of the CBOE and will be entitled to the exclusive right to receive all dividends and distributions, including proceeds upon liquidation, from the CBOE and all associated voting rights.

Immediately following the Merger, the CBOE will transfer to CBOE Holdings all of the shares or interests the CBOE owns in its subsidiaries other than CBOE Stock Exchange, LLC (CBOE Futures Exchange, LLC, Chicago Options Exchange Building Corporation, CBOE, LLC, CBOE II, LLC, DerivaTech Corporation, Market Data Express, LLC and The Options Exchange, Incorporated), making them first-tier, wholly-owned subsidiaries of CBOE Holdings. CBOE Stock Exchange, LLC will remain a facility of the CBOE in which the CBOE holds a 50% interest.

As part of the restructuring transaction, each CBOE Seat existing as of the date of the restructuring transaction will be converted into the right to receive            shares of Class A CBOE Holdings common stock, consisting of            shares of Series A-1 common stock,            shares of Series A-2 common stock and            shares of Series A-3 common stock. In addition, Participating Group A Settlement Class Members will be issued, immediately following the Merger, Class B common stock of CBOE Holdings as required by the Settlement Agreement. As a result, the owners of the CBOE Seats outstanding immediately prior to the restructuring transaction will own 100% of the Class A common stock, which will represent 82% of the total shares of CBOE Holdings common stock outstanding immediately following the restructuring transaction. The remaining 18% of the outstanding common stock of CBOE Holdings will be Class B common stock, which will be held by the Participating Group A Settlement Class Members.

The common stock of CBOE Holdings will represent an equity ownership interest in CBOE Holdings and will have traditional features of common stock, including equal per share dividend, voting and liquidation rights, except that Class B common stock issued in connection with the Settlement Agreement will have no voting rights or privileges except as described in "Description of CBOE Holdings Capital Stock Common Stock" on page 139. The rights of holders of CBOE Holdings common stock will be different from the rights of the CBOE members because the

CBOE Holdings certificate of incorporation and bylaws in effect immediately after the restructuring transaction will be different from the governing documents of the CBOE. See "Comparison of Rights Prior to and After the Restructuring Transaction" on page 152 for a description of material differences.

The CBOE Holdings common stock issued in the restructuring transaction, however, will not provide its holders with physical or electronic access to the CBOE's trading facilities. Following the restructuring transaction, physical and electronic access to the CBOE trading facilities, subject to such limitations and requirements as will be specified in the rules of the CBOE, will be available to individuals and organizations that have obtained a trading permit from the CBOE. For more information regarding trading access following the restructuring transaction, please see " Trading Permits" on page 42.

### **Background of the Restructuring Transaction**

Over the past several years, the CBOE has been faced with competition from both new and existing exchanges. Some of these competitors were established as for-profit exchanges, and others were converted from not-for-profit membership organizations to for-profit stock corporations. Along with changing their focus to that of a for-profit business, these demutualized exchanges typically have corporate and governance structures more like those of other for-profit businesses, which gives them greater flexibility in responding to the demands of the rapidly changing regulatory and business environment in which they conduct their activities. In addition, by being structured as stock, for-profit corporations, these other exchanges have opportunities to engage in business combinations and joint ventures with other organizations and to access capital markets in ways that are not available to non-stock membership corporations.

In January 2005, responding to these changes, the CBOE's board of directors authorized the formation of a Business Model Task Force, charged with the responsibility to develop a strategic plan that would respond to the challenges faced by the CBOE. Specifically, the Task Force was directed to consider the advantages and disadvantages of changing the business model of the CBOE to that of a for-profit business and making related changes to the ownership, corporate structure, and governance of the CBOE, possibly extending to the complete restructuring of the CBOE whereby it would be converted into a stock, for-profit corporation. The Task Force was directed to report its conclusions and recommendations to the full board.

The Business Model Task Force consisted of four independent directors and three member directors and was chaired by James Boris, an independent director. Although the Business Model Task Force often met in executive sessions at which only members of the Task Force were present, in conducting its review and analysis, the Task Force was assisted by the management of the CBOE and by Goldman, Sachs & Co., an investment banking firm hired by the Task Force for this purpose. The Task Force obtained legal support from Schiff Hardin LLP, legal counsel to the CBOE, Richards, Layton & Finger, special Delaware legal counsel to the Exchange, and Sullivan & Cromwell LLP, special counsel to the CBOE in matters pertaining to the restructuring transaction.

The Business Model Task Force held 12 formal meetings, beginning on February 17, 2005, and continuing until September 1, 2005. From the outset, the Task Force realized that any restructuring plan that it might recommend would have to deal with the valuation of the Exercise Right held by full members of the CBOT, pursuant to the CBOE's certificate of incorporation. Nevertheless, the Task Force determined it should first consider what changes to the structure, ownership and governance of the CBOE it would recommend before giving consideration to the Exercise Right.

Accordingly, at its first few meetings the Task Force focused on how the CBOE should change its business model and how it should be organized and governed. Early in its deliberations, the Task Force concluded that formal changes to the corporate structure and ownership would take some time to put into effect, not only on account of the many steps required to accomplish this goal, but also because

the implementation of these changes required that the Exercise Right be addressed. On the other hand, the Task Force also determined that several of the changes necessary to convert the CBOE to a for-profit business model could be put into effect prior to the time the CBOE would be in a position to implement a formal corporate restructuring. This determination was incorporated in the Task Force's preliminary recommendation made to the CBOE's board of directors at a meeting held on September 13 and 14, 2005. That recommendation included both near-term and long-term components, as follows:

For the near term, the Task Force recommended that, effective January 1, 2006, the CBOE should adopt a "for-profit" business model to the extent compatible with its current corporate structure. Under such a business model, the CBOE would modify its governance and otherwise conduct its business activities with a focus on maximizing its profit potential in a manner consistent with the fulfillment of its responsibilities as a self-regulatory organization, even though it would not yet be structured as a for-profit stock corporation. For the longer term, the Task Force recommended that the CBOE should move forward with a program designed to provide for the restructuring of the CBOE by separating ownership of the Exchange from trading access and by changing the Exchange's corporate structure from that of a Delaware non-stock, corporation owned by its members to that of a Delaware stock, for-profit corporation that would be a subsidiary of a new Delaware stock, for-profit holding company owned by its stockholders.

On September 14, 2005, at a regularly scheduled meeting, the CBOE's board of directors adopted these preliminary recommendations of the Task Force and directed the Exchange's management to proceed with the development of a detailed plan to implement both the near-term and long-term components of the recommendations. Specifically, management was directed to start transitioning to a for-profit business model commencing January 1, 2006, by addressing both the budgetary and governance implications of such a change. The board also directed the development of the necessary corporate documents and regulatory filings needed to implement the restructuring recommended by the Task Force. The board also encouraged management to engage in discussions with other organizations regarding transactions that might further the goals articulated by the Business Model Task Force and adopted by the board. The board requested that management present a business plan and budget at its January 26, 2006 meeting that reflected the transition to a for-profit business model, including adjustments to the CBOE's fee structure. Following the September 2005 board meeting, the CBOE engaged the Boston Consulting Group, or the BCG, to assist in a review of the CBOE's strategy. Over the next eleven weeks BCG worked with management on pricing strategy, overall strategy and change management.

On October 27, 2005, at a regularly scheduled meeting of the board of directors of the CBOE, management reported to the board on the progress with respect to its plans to effect the conversion of the CBOE to a for-profit stock corporation and to start the transition to a for-profit operation beginning January 1, 2006.

At the regularly scheduled board meeting of December 8, 2005, the BCG presented to the board the results of their eleven-week review of the CBOE relating to strategy, pricing and managing change. Following discussion, the board of directors reaffirmed the goal of unlocking value for its members through the conversion of the CBOE to a for-profit stock corporation with the transition to a for-profit model to start January 1, 2006. The board also approved several governance changes designed to streamline decision-making and enhance the efficiency of the advisory committees.

On January 26, 2006 at a regularly scheduled meeting of the CBOE's board of directors, the board approved the business plan and budget proposed by management that addressed the strategic priorities established during the December 8, 2005 board meeting and began the transition to a for-profit business model. Management also proposed and the board adopted the creation of a Strategy and Implementation Task Force, or the SITF. The SITF consisted of five independent directors, the Vice

Chairman, one floor director, the lessor director and a member firm director. Its role was to oversee the implementation of the CBOE's strategy with respect to its restructuring, including making recommendations to the board of directors regarding the details of the CBOE's demutualization. Management also established a demutualization team that would be responsible for developing an S-4 Registration Statement for such a restructuring.

The SITF had six formal meetings between March and July 2006, as well as a number of less formal discussions among its members. At these meetings, the task force addressed various aspects of the CBOE's demutualization, including the form the demutualization would take; the steps required to implement the demutualization; the consideration to be received by CBOE members; tax and accounting treatment; restrictions to be placed on the stock received by CBOE members; the centralization of access rights within the CBOE how access would be granted after the demutualization; special petition rights for members prior to an initial public offering, if any; ownership and voting limitations; potential organized sales of CBOE Holdings stock; the form governance would take after demutualization; and the amendments required to the CBOE's Constitution and Rules. The Task Force was assisted in its deliberations by its financial advisors, Goldman Sachs, its legal counsel, Schiff Hardin, and special legal counsel, Sullivan & Cromwell and special Delaware counsel, Richards, Layton & Finger. The results of these deliberations are reflected in the transaction proposed in this document.

Over this same period of time, management also held discussions with several financial exchanges regarding potential transactions with the CBOE. These discussions included the potential for investments by the CBOE, the potential acquisition of other organizations by the CBOE and the potential acquisition of the CBOE by other organizations. Management was assisted in these explorations by the financial and legal advisors mentioned above. In one case, these exploratory discussion lead to an extensive due diligence process. Ultimately, management did not recommend, and the board of directors did not pursue, any of these potential transactions.

On March 23, 2006, at a regularly scheduled meeting of the board of directors of the CBOE, the board was briefed regarding the status of work on the restructuring transaction and was briefed by outside counsel regarding the registration process, the additional obligations that are applicable to registered companies, and various relevant provisions under the securities laws.

On May 11, 2006, at a regularly scheduled meeting of the board of directors of the CBOE, management described and discussed with the Board the primary components of the then-contemplated restructuring transaction and post-demutualization structure, as well as the next steps in the process and key open issues. The chairman of the SITF, discussed with the Board the transition from the current Board composition to the streamlined boards for the CBOE and CBOE Holdings contemplated under the post-demutualization structure.

On July 27, 2006, at a regularly scheduled meeting of the CBOE board of directors, the SITF presented its recommendations regarding the demutualization of the CBOE. The board of directors approved the restructuring as recommended by the SITF, authorized the creation of CBOE Holdings and CBOE Merger Sub and authorized the preparation of an S-4 Registration Statement for purposes of implementing the demutualization of the CBOE. The board approved interim boards for CBOE Holdings and CBOE Merger Sub and authorized management to file an S-4 registration statement. The board also approved the creation of a Special Independent Directors Committee consisting of four independent directors (the "Special Committee"). The board delegated to the Special Committee the sole authority to determine the manner in which the membership interest held by Exercise Member Claimants and CBOE Seat owners would be converted into the right to receive the consideration to be received in any demutualization of the CBOE. The Board resolved not to approve or recommend any demutualization providing for a conversion of membership interests in the CBOE into other interests unless the consideration to be received in such transaction is consistent with the

conversion of membership interests as determined by the Special Committee. The Special Committee was empowered to engage its own legal counsel and its own financial advisor to assist it in discharging these duties.

Following the creation of the Special Committee at the July 27, 2006 board meeting through January 2007, the SITF met five times to consider open issues related to the restructuring transaction that had not been delegated to the Special Committee.

On August 23, 2006, the CBOT, in concert with others, initiated a purported class action lawsuit in Delaware against the CBOE and its directors regarding the demutualization of the CBOE. The CBOT lawsuit alleged that the CBOE board had already decided that the Exercise Member Claimants would not be entitled to the same consideration as other CBOE members in connection with the restructuring of the CBOE and sought to have the Delaware Chancery Court issue a declaratory judgment and an injunction to require that any Exercise Member Claimant would be entitled to the same consideration as a CBOE Seat owner. The CBOE's position was that this suit was premature, as the Special Committee had not arrived at any conclusions regarding the consideration to be received by an Exercise Member Claimant.

On September 28, 2006, at a regularly scheduled meeting of the CBOE board of directors, the board was briefed regarding the work on the restructuring transaction. At the request of the Special Committee, the Special Committee's charter was broadened to give the Special Committee the authority to determine whether any of the administrative or regulatory requirements the CBOE's Rules impose upon persons who apply to become Exercise Member Claimants should be modified or waived in the event of a CBOE demutualization.

On October 17, 2006 the Chicago Mercantile Exchange Holdings, Inc., or CME Holdings, and CBOT Holdings Inc. announced that CME Holdings would acquire the CBOT. Because of the significant changes to the structure and ownership of the CBOT, and to the rights of CBOT members, that would result from the completion of this proposed transaction, its announcement required the CBOE board to consider the possible impact of the proposed acquisition transaction on the eligibility of CBOT members to become and remain members of the CBOE pursuant to the Exercise Right provided for in Article Fifth(b) of the CBOE's certificate of incorporation.

On December 12, 2006, at a regularly scheduled meeting of the board of directors of the CBOE, lawyers from the CBOE's outside legal counsel, Schiff Hardin, presented a legal analysis of the impact of the CME/CBOT Transaction on the CBOE Exercise Right. Following a discussion from which members of the Special Committee were recused, the board determined that CBOT would no longer have "members" as contemplated by Article Fifth(b) upon the completion of the CME/CBOT Transaction and authorized CBOE management to submit a rule filing to the SEC consisting of (1) an interpretation of Article Fifth(b) in a manner consistent with this determination and (2) authorization for the CBOE, upon completion of the CME/CBOT Transaction, to grant temporary access to former Exercise Member Claimants who had exercised and were in good standing as members of the CBOE on December 11, 2006, to the extent and for the period of time necessary to avoid disruption to the CBOE's market as a result of the ineligibility of such persons to maintain the status of Exercise Member Claimants. The CBOE submitted this rule filing on December 12, 2006, and amended it on January 17, 2007. This rule filing is sometimes referred to as the "eligibility rule filing."

Following the approval of this action, the directors on the Special Committee were invited to rejoin the meeting and were informed of the board's decision. The Special Committee informed the board that, based on the board's interpretation of the impact of the CME Holdings' acquisition on the Exercise Right and based on the board's understanding that the acquisition would likely close prior to the demutualization of the CBOE, the Special Committee would defer further deliberations until such time as it becomes appropriate to either reinstate the Special Committee's deliberations, terminate the Special Committee's existence, or take such other action as is warranted.

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On January 4, 2007, the CBOT and the other plaintiffs in the Delaware action against the CBOE filed an amended complaint that challenged the interpretation of Article Fifth(b) that the CBOE had filed with the U.S. Securities and Exchange Commission on December 12, 2006. On January 11, 2007, plaintiffs submitted a motion for summary judgment on their claims. In addition to continuing to assert their claims about the amount of consideration to which Exercise Member Claimants would be entitled as part of the CBOE restructuring transaction, plaintiffs sought a declaratory judgment and an injunction to prevent the CBOE from implementing the interpretation of Article Fifth(b) that the CBOE had filed with the Commission. On January 16, 2007, CBOE and the director defendants moved to dismiss the amended complaint to the extent it challenges CBOE's interpretation, on the ground that the U.S. Securities and Exchange Commission's jurisdiction to consider such interpretations of Article Fifth(b) preempts any state law challenge to that interpretation. In this motion, defendants further moved to stay consideration of plaintiffs' claims regarding the consideration to which Exercise Member Claimants otherwise would be entitled until it was known whether the CME Holdings acquisition of CBOT would close before CBOE's restructuring.

On January 25, 2007, at a regular scheduled meeting of the CBOE board of directors, management made a presentation describing the restructuring transaction and the board approved the proposed terms of the restructuring transaction and authorized the board of CBOE Holdings to file the registration statement of which this prospectus is a part with the SEC.

On March 15, 2007 the Intercontinental Exchange (ICE) made an unsolicited bid to acquire the CBOT in competition with the CME/CBOT Transaction. ICE approached CBOE regarding a potential joint proposal which would be designed to resolve the Exercise Right issue as part of an ICE acquisition of the CBOT. On May 30, 2007 CBOE and ICE announced that they had entered into an exclusive agreement in which each full member of the CBOT holding an exercise right would be entitled to receive \$500,000 in cash and/or debt securities convertible into the stock of a newly created CBOT/ICE Holdings in exchange for relinquishing the exercise right. The agreement was contingent upon the closing of the proposed merger of ICE and CBOT Holdings.

In June 2007 the CBOT Holdings board recommended and the shareholders approved the CME merger proposal. The CME/CBOT Transaction closed on July 12, 2007.

On June 29, 2007, to address issues raised by the CME/CBOT Transaction, the CBOE Board approved an interpretation of CBOE Rule 3.19, which provided that persons who were Exerciser Members in good standing before the consummation of the CME/CBOT Transaction would temporarily retain their CBOE membership status until the SEC ruled on the eligibility rule filing. We refer to this interpretation as the interim access interpretation. The CBOE filed the interim access interpretation with the SEC on July 2, 2007, and it went into effect upon its filing.

On July 20, 2007, CBOT and the other plaintiffs filed a motion requesting that the Court enter a temporary restraining order prohibiting CBOE from implementing or enforcing the interim access interpretation. On August 3, 2007, the Court denied the motion for a temporary restraining order.

On August 28, 2007, the CBOE board of directors approved a second interpretation of CBOE Rule 3.19, which provided that the membership status of those persons who temporarily retained their CBOE membership status pursuant to the interim access interpretation would continue after the SEC approved the eligibility rule filing until other specified events occurred. We refer to this interpretation as the continued membership interpretation. The continued membership interpretation was filed with the SEC on September 10, 2007 and was effective on filing.

On January 15, 2008 the SEC approved the CBOE rule filing that CBOT "no longer had 'members' as contemplated by Article Fifth(b) following the completion of the CME/CBOT Transaction."

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On February 6, 2008, the plaintiffs in the Delaware action filed their third amended complaint. Plaintiffs' essential claims remained the same, although plaintiffs alleged in their new complaint that the adoption of the interim access interpretation damaged so-called CBOT full members in their capacity as owners and lessors of such memberships and that CBOE's Board of Directors was dominated by interested directors when it approved the eligibility rule filing, the interim access interpretation and the continued membership interpretation.

On March 14, 2008, CBOT and two CBOT members appealed to the United States Court of Appeals for the District of Columbia from the SEC order that approved the eligibility rule filing and CBOE was granted leave to intervene in that appeal.

During the fall of 2007 and into Spring 2008, CBOE management and class representative engaged in periodic settlement discussions. On June 2, 2008, two days before the Delaware Court was to hear argument on motions for summary judgment, the parties entered into a written agreement in principle to settle both the Delaware litigation and the appeal of the SEC order pending in the federal Court of Appeals. On July 24, 2008, CBOE's Board of Directors approved the material terms of the Settlement Agreement as then presented to the Board and authorized the Office of the Chairman to finalize the agreement. On August 20, 2008, the parties entered into a definitive Stipulation of Settlement and that agreement was preliminarily approved by the Delaware Court on August 22, 2008. On August 22, 2008, CBOE held an informational membership meeting regarding the Settlement Agreement. On September 17, 2008, CBOE's membership approved the Settlement Agreement.

### **The CBOE's Reasons for the Restructuring Transaction**

In approving the restructuring transaction, the CBOE board of directors considered a number of factors, including the ones discussed in the following paragraphs. In light of the number and wide variety of factors considered in connection with its evaluation of the transaction, the CBOE board of directors did not consider it practicable to, and did not attempt to, quantify or otherwise assign relative weights to the specific factors it considered in reaching its determination. The CBOE board viewed its position as being based on all of the information available and the factors presented to and considered by it. In addition, individual directors may have given different weight to different factors. This explanation of the CBOE's reasons for the proposed restructuring transaction and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under "Forward-Looking Statements" on page 26.

In reaching its decision, the CBOE board of directors consulted with the CBOE management with respect to strategic, operational and regulatory matters, as well as with its outside legal counsel and financial advisors and the board's special counsel.

The CBOE board of directors believes that changing the CBOE's focus to that of a for-profit business along with modifying the CBOE's corporate and governance structures to be more like those of other for-profit businesses will provide the CBOE with greater flexibility to respond to the demands of a rapidly changing business environment. By being structured as a stock, for-profit corporation, the CBOE will be able to pursue strategic opportunities to engage in business combinations and joint ventures with other organizations and to access capital markets in ways that are not available to non-stock, membership corporations. As a stock corporation, ownership will be separated from access. Stock will provide a "currency" separate from access that can be used in acquisitions and mergers. Furthermore, our stock will give us the ability to raise capital through stock issuances. We believe that the restructuring transaction will move us one step closer to achieving our key objectives of providing our owners a more liquid investment and creating a framework for a possible future public offering of CBOE Holdings common stock.

The CBOE board of directors also believes that the restructuring of the CBOE will enable the CBOE to enhance its competitiveness with other options exchanges, including both open outcry and

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electronic markets, while preserving the CBOE's ability to provide trading opportunities and benefits to our members. The proposed changes in our structure will streamline the governance and decision-making process, which will allow us to respond more quickly to changes in the competitive environment. In addition, our for-profit structure will remove ambiguity with respect to objective and priorities and establish shareholder interest as the primary guidepost for decision making. At the same time, our new structure will allow us to provide trading access through trading permits, which will be issued by the exchange. See "The Restructuring Transaction Trading Permits" on page 42 for a discussion of this access. This shift in how access is granted will also alter how we think of the users of our marketplace. Users, as distinct from owners, will become customers of the exchange. It will be clear that the interest of shareholders is served by providing trading opportunities and other benefits to these customers in a way that prompts them to continue to prefer the CBOE to alternative marketplaces. The board believes that the restructuring transactions will allow the CBOE to:

maximize the value of the CBOE's business by adopting a for-profit approach to business with a view towards increasing volume, efficiency and liquidity in the markets it provides;

increase the CBOE's ability to respond more efficiently to changes within the industry, markets and regulations that govern the CBOE through a more streamlined governance and decision making structure, including a reduction in the size of the board and a reduction in the number of member committees;

increase the CBOE's flexibility to diversify and expand its business;

segregate more easily the CBOE's different lines of business into separate subsidiaries through a holding company structure, which could provide greater flexibility in administration and allow these subsidiaries to focus more effectively on particular markets, products or services; and

distribute profits from the operation of its business to its stockholders as determined by its board of directors and as permitted by applicable law.

As such, the restructuring transaction is designed to:

facilitate CBOE Holdings' engaging in other businesses that are either unregulated, or are regulated differently from the CBOE's current business;

provide greater flexibility to finance, acquire or dispose of individual businesses;

create a framework to facilitate public markets for equity securities of CBOE Holdings, capital-raising transactions and other securities issuances, such as the issuance of securities as consideration in an acquisition or merger; and

satisfy the SEC's current policy that at least 20% of the Board of the CBOE should be selected by the members, while providing flexibility in governance at the holding company level.

The board also considered the following potentially negative factors associated with the restructuring transaction:

the possibility that regulatory or governmental authorities might seek to impose conditions on or otherwise prevent or delay the restructuring transaction;

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the risks and costs to the CBOE if the restructuring transaction is not completed, including the potential diversion of management and employee attention, potential employee attrition and the potential effect on business and customer relationships;

the risk that the potential benefits of the restructuring transaction may not be fully or partially realized;

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the risk of diverting management focus and resources from other strategic opportunities and from operational matters, and potential disruption associated with the restructuring transaction;

the risk that CBOE members may fail to approve the restructuring transaction;

the risk that the restructuring transaction may be challenged in litigation brought against the CBOE by members of the CBOE, CBOT, CBOT Holdings, stockholders of CBOT Holdings or other persons;

the fees and expenses associated with completing the transaction; and

various other risks associated with the restructuring transaction described under "Risk Factors."

### Alternatives to the Restructuring Transaction

In considering the restructuring transaction, the CBOE board of directors also considered a number of strategic alternatives available to the CBOE, including:

remaining a not-for-profit, non-stock membership corporation;

converting to a for-profit, non-stock corporation;

pursuing one or more acquisitions of or by other U.S. or non-U.S. exchanges; and

exploring mergers, alliances and joint ventures with other entities.

The CBOE board of directors believed and continues to believe that these potential risks and drawbacks are outweighed by the potential benefits that the CBOE board expects the CBOE and its members to achieve as a result of the proposed restructuring transaction.

### What You Will Receive in the Restructuring Transaction

*CBOE Holdings, Inc. Common Stock.* In the restructuring transaction, each CBOE Seat existing on the date of the restructuring transaction will be converted into the right to receive \_\_\_\_\_ shares of Class A common stock of CBOE Holdings, consisting of \_\_\_\_\_ shares of Series A-1 common stock, \_\_\_\_\_ shares of Series A-2 common stock and \_\_\_\_\_ shares of Series A-3 common stock. In addition, Participating Group A Settlement Class Members will be issued, immediately following the Merger and as required by the Settlement Agreement, \_\_\_\_\_ shares of Class B common stock of CBOE Holdings, consisting of \_\_\_\_\_ shares of Series B-1 common stock, \_\_\_\_\_ shares of Series B-2 common stock and \_\_\_\_\_ shares of Series B-3 common stock.

*Transfer of CBOE Holdings Common Stock Following the Restructuring Transaction.* Following the restructuring transaction and unless and until a public offering by CBOE Holdings of its common stock has been completed, pursuant to the certificate of incorporation of CBOE Holdings, transfers of the Series A-1, A-2 and A-3 common stock of CBOE Holdings may only take place through the CBOE membership department or through an agent of CBOE Holdings that has been designated by CBOE Holdings to manage such transfers. Identical transfer restrictions are imposed on the Class B common stock that will be issued to the Participating Group A Settlement Class Members pursuant to the Settlement Agreement because following any public offering, the Series B-1, B-2 and B-3 common stock will be automatically converted to Series A-1, A-2 and A-3 common stock and, as a result, such shares will be subject to the transfer restrictions set forth herein. The membership department, or its agent, will maintain a record of the prices bid and offered by sellers and buyers and the time such bids and offers are submitted to the membership department. When a bid and offer match, the membership department or its agent will consummate the transaction and inform the parties. It is intended that this process will function much like the existing process for the sale and transfer of CBOE Seats.

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*Transfer Restrictions on CBOE Holdings Common Stock Following a Public Offering.* In the event CBOE Holdings engages in a public offering of its common stock in the future, the Series A-1, A-2 and A-3 common stock and the Series B-1, B-2 and B-3 common stock of CBOE Holdings automatically would become subject to certain transfer restrictions or "lock-up restrictions" under CBOE Holdings' certificate of incorporation, with these lock-up restrictions expiring on the Series A-1, A-2 and A-3 common stock as of the 180<sup>th</sup>, 360<sup>th</sup> and 540<sup>th</sup> day, respectively, following the closing date of any such public offering. Identical lock-up restrictions would apply to the series B-1, B-2 and B-3 common stock, respectively, because following any public offering, the Series B-1, B-2 and B-3 common stock will be automatically converted to Series A-1, A-2 and A-3 common stock and, as a result, such shares will be subject to the transfer restrictions set forth herein. During any applicable lock-up period, shares of the affected series of CBOE Holdings Class A or Class B common stock may not be directly or indirectly assigned, offered for sale, sold, transferred or otherwise disposed of, except pursuant to limited exceptions set forth in the CBOE Holdings certificate of incorporation, which provides for certain permitted transfers to affiliates, family members, qualified trusts and estates, as well as certain pledges and the potential transfer upon a *bona fide* foreclosure resulting therefrom. Subject to possible extension in the event of an organized sale, as set more fully in this proxy statement and prospectus, upon the expiration of the applicable lock-up period with respect to the common stock, the shares of the common stock then scheduled to expire would automatically convert to unrestricted common stock that would be freely transferable.

### **Who Will Receive the Restructuring Consideration**

The CBOE Holdings Class A common stock issued in the restructuring transaction will be issued to the owner of a CBOE Seat. Therefore, if you are currently a member who owns a CBOE Seat, you will receive the CBOE Holdings Class A common stock issued in the restructuring transaction in exchange for your CBOE Seat. On the other hand, because we permit owners of CBOE Seats to lease their seats to other persons, it is possible that more than one person may have an interest in the same seat. For instance, during the term of a lease, the lessee is considered to be a member of the CBOE for trading purposes, although, under Delaware law, the owner of the CBOE Seat (or lessor) retains the equity right represented by the CBOE membership and is the member of the CBOE for purposes of ownership. The CBOE Holdings Class A common stock being issued in the restructuring transaction represents an equity interest in CBOE Holdings that is being issued in exchange for the former CBOE member's equity interest in the CBOE. The CBOE Holdings Class A common stock, therefore, will be issued to the owner of the CBOE Seat and not a lessee of a seat.

As a result of the CME/CBOT Transaction and the approval by the SEC of the eligibility rule filing, and as further confirmed in the Settlement Agreement, there no longer are members of the CBOT who qualify to become or remain a member of the CBOE under Article Fifth(b) of CBOE's certificate of incorporation without having to purchase a separate CBOE membership. Accordingly, there are no exercise memberships outstanding to be converted in the restructuring transaction. The CBOE has agreed, pursuant to the Settlement Agreement, to make available a pool of Class B common stock to be paid to the Participating Group A Settlement Class Members. In addition, the CBOE has agreed to make available a pool of cash to be paid to the Participating Group A and B Settlement Class Members. The Participating Group A Settlement Class Members and the Participating Group B Settlement Class Members will receive the settlement consideration described below pursuant to the terms of the Settlement Agreement and only after the Merger effecting the restructuring transaction is complete. The Participating Group A Settlement Class Members and Participating Group B Settlement Class Members will not receive any consideration in the restructuring transaction or in the Merger effecting the restructuring transaction. For a discussion of the Settlement Agreement, please see " Exercise Right Settlement Agreement" on page 47.

### Effect of the Restructuring Transaction on Trading Access

In the restructuring transaction, all memberships in the CBOE and the trading rights they represent will be cancelled when the CBOE Seats are converted into the right to receive shares of Class A common stock in CBOE Holdings. The CBOE Holdings Class A common stock issued in the restructuring transaction will not provide the holder with any right to have physical or electronic access to the CBOE's trading facilities. Following the restructuring transaction, physical and electronic access to the trading facilities of the CBOE, subject to such limitations and requirements as will be specified in the rules of the CBOE, will be available to individuals and organizations that have obtained a trading permit from the CBOE. For more information regarding trading access following the restructuring transaction, please see "Trading Permits" below. In addition, effective upon completion of the restructuring transaction, each lease of a CBOE Seat will be voided, by operation of law or rule, and the lessee members will cease to have any trading rights under the lease after termination. Members who currently lease their seats, however, will have the opportunity to apply for a trading permit following the restructuring transaction. See "Trading Permits" below. In addition, CBOE Temporary Members and holders of Interim Trading Permits immediately prior to the restructuring transaction will have the opportunity to apply for a trading permit on the same terms and conditions as are offered to owners of CBOE Seats.

In the restructuring transaction, all CBOE Seats existing on the date of the restructuring transaction will be converted into the right to receive CBOE Holdings Class A common stock, and the concept of a "member" of the CBOE under Delaware law (i.e., as a holder of equity) will cease to exist. The concept of "member" and "member organizations" of the CBOE for purposes of the Securities Exchange Act of 1934, however, will continue to exist after the restructuring transaction (generally including individuals and organizations that have direct access to the CBOE as a result of obtaining a trading permit in the CBOE). Such individuals or organizations, however, will not, by virtue of being a "member" for purposes of the Securities Exchange Act of 1934, be an equity owner of CBOE Holdings or any of its subsidiaries. Instead, such individuals and organizations will hold trading permits at the CBOE and, therefore, be subject to the rules and policies of the CBOE. Following the restructuring transaction, we will refer to these individuals and organizations as "Trading Permit Holders."

### Trading Permits

*Trading Permits Following the Restructuring Transaction.* We expect trading permits following the restructuring transaction to have the following attributes:

*Duration.* Monthly trading permits will be issued prior to the restructuring transaction. These permits will become effective upon the closing of the restructuring transaction and will be renewable for successive one month periods. Eventually, the CBOE plans to issue trading permits that will be valid for terms of one, three or twelve calendar months. In the future, the CBOE may modify the duration of trading permits depending on various considerations including member demand.

*Availability.* Prior to the date of the restructuring transaction, a member will be able to submit an application for a trading permit to the CBOE in accordance with the procedures that will be established by the CBOE. Provided the applicant is in good standing as of the date of the restructuring transaction and complies with the application procedures established by the CBOE, the CBOE will issue to the applicant, as applicable, a trading permit in respect of (1) each membership not subject to an effective lease as of the date of the restructuring transaction that is owned by the applicant; (2) each membership that is leased as a lessee by the applicant as of the date of the restructuring transaction; (3) each trading permit issued by the CBOE prior to the Restructuring Transaction that is held by the applicant, provided that in the case of a CBSX trading permit, the CBOE shall issue a Trading Permit in respect of the CBSX trading permit that

only provides the right to effect transactions on the CBSX; and (4) each temporary membership that is held by the applicant. Under this process, a lessor will not be issued a trading permit with respect to any of the lessor's memberships that are subject to effective leases as of the date of the restructuring transaction. The CBOE also will have the ability to increase, decrease or limit the number of trading permits. In the case of a decrease or limit, however, the CBOE will be restricted from eliminating or reducing the ability to trade one or more product(s) of a member currently trading such product(s), and from eliminating or reducing the ability to act in one or more trading function(s) of a member currently acting in such trading function(s), unless the CBOE is permitted to do so pursuant to a rule filing submitted to the SEC.

*Pricing.* The CBOE will determine the prices of trading permits from time to time and announce those prices to the members. Prices of trading permits may vary based on, for example, whether a person is a liquidity provider or whether a person has floor access. Additionally, CBOE may apply a surcharge for permits providing access to certain products. Prices for trading permits, however, will be the same for all permits of the same type, regardless of whether the person holding the permit had been a member of the CBOE prior to the restructuring transaction or whether such person is a new trading permit holder.

*Eligible Holders.* Permits will be issued to organizations and individuals approved by the CBOE to hold a trading permit ("qualified persons"). A member organization holding a trading permit in its name will be responsible for paying all fees and charges for that trading permit. An individual holding a trading permit in his or her name will be responsible for paying all fees and charges for that trading permit.

*Extent of Access.* All trading access to CBSX will be through trading permits issued by the Exchange that grant holders the right to trade on CBSX. In addition, any trading permit issued by the Exchange would allow the holder to obtain trading access to OneChicago.

*Ability to Transfer or Assign.* Trading permits will only be issued by the CBOE and cannot be leased or transferred to any person under any circumstances, except as described below. In this regard, a member organization may change the designation of the nominee in respect of each trading permit it holds on a form and in a manner prescribed by the CBOE. In addition, a Trading Permit Holder may, with the prior written consent of the CBOE, transfer a trading permit to an organization that is or is qualified to become a member organization (i) which is an affiliate or (ii) which continues substantially the same business of such trading permit holder without regard to the form of the transaction used to achieve such continuation, for example, merger, sale of substantially all assets, reincorporation, reorganization or the like.

*Approval.* Any individual or organization wishing to obtain a trading permit would be subject to applicable regulatory requirements under the Rules.

*Renewal.* Prior to the expiration of a trading permit, the Trading Permit Holder may notify the Exchange that the holder is terminating the trading permit or may file an application with the Exchange to change the trading permit. If the Trading Permit Holder does not take either of these actions, the holder's trading permit will be automatically renewed for the same period of time as the expiring permit. In renewing trading permits, the CBOE may issue one or more trading permits that represent the same or more trading rights as the expiring permit.

*Additional Issuances.* From time to time, the CBOE in its discretion may determine to make available one or more types of trading permits. In connection with such an issuance, a qualified person and any affiliated qualified person are eligible to receive no more than the greater of 10 of the trading permits in the issuance or 20% of the issuance number of the trading permits. This limit, however, would not apply in the event the issuance number of the trading permits exceeds the demand for the trading permits. In the event the demand for trading permits exceeds the issuance number, trading permits will be made available through a random lottery process or on a first-come, first-served basis.

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Following the restructuring transaction, the CBOE intends to keep the existing appointment process (e.g., class quoting and appointment costs) specified in the rules. The CBOE also will have the authority to issue various types of trading permits that will allow Trading Permit Holders to: (i) act in one or more of the trading functions permitted under the Exchange's rules (e.g., floor broker, market maker, etc.); and (ii) subject to the appointment process (e.g., class quoting limits and appointment costs) in the rules, to trade one or more of the securities permitted to be traded on the Exchange. Under this provision, for example, the Exchange would have the authority to issue trading permits that will allow applicants to act as specific types of liquidity providers in particular options classes.

The CBOE may also create a new type of appointment called a "tier appointment." A "tier appointment" is an appointment to trade one or more options classes that must be held by a Market- Maker to be eligible to trade the options class or options classes subject to that appointment. The application and issuance processes for tier appointments will be in accordance with, and subject to the same terms and conditions as, the application and issuance processes for trading permits as described above. A tier appointment will be for the same term as the trading permit with which the tier appointment is associated. Termination, change, renewal, and transfer of tier appointments, and the authority of the CBOE to limit, reduce, or increase tier appointments, will also be in accordance with, and subject to the same terms and conditions as, the processes for trading permits as described above. Tier appointments will be in addition to the current appointment cost process under the rules, which will remain unchanged in connection with the restructuring transaction. As with trading permits, the CBOE will from time to time determine and announce to the members the price of each tier appointment, and the prices may vary by tier appointment.

The CBOE's program for providing trading access following the restructuring transaction will be in accordance with the CBOE's rules as in effect at that time. Before the rules go into effect, they must first be published for comment (which has already been done) and then approved by the SEC. Accordingly, the access rules as finally adopted may differ from those described above.

*Procedure to Obtain Trading Permit Following the Restructuring Transaction.* Prior to the completion of the restructuring transaction, the CBOE will notify the current members of the CBOE and other persons who have a right to a trading permit of the timing of the proposed restructuring transaction as well as the terms and conditions then applicable to the trading permits, and will explain the manner and terms upon which an individual or organization may obtain a trading permit. As described above, all members (whether owners or lessees) who are currently using a membership to trade on the CBOE as of the close of the restructuring transaction will be granted permits if they are in good standing and comply with the application procedures. A member as of the close of the restructuring transaction who does not apply to receive a new permit at the time of the restructuring transaction will not receive any priority if he or she should return and seek a permit at a later date. Depending on the level of interest indicated by the members, the CBOE may allow other qualified persons (such as qualified persons who did not previously have memberships) to receive trading permits upon completion of the restructuring transaction. The rules applicable to trading permits will be substantially similar to those in place today with respect to memberships. Subject to applicable legal requirements, the CBOE reserves the right to limit the number of trading permits to be made available at any time and may reduce the number of authorized trading permits, as described above.

### **Organized Sales**

After the completion of a public offering, CBOE Holdings will have the right to conduct organized sales of the Class A common stock of CBOE Holdings issued in the restructuring transactions when the transfer restriction period applicable to the Series A-1, A-2 and A-3 common stock of CBOE Holdings is scheduled to expire. This right will also apply to the Class B common stock because, following any public offering, the Class B common stock will have been automatically converted to Class A common stock pursuant to CBOE Holdings' certificate of incorporation. The purpose of this right is to enable CBOE Holdings to facilitate a more orderly distribution of its common stock into the public market. If

CBOE Holdings elects to conduct an organized sale, no shares of the Series A-1, A-2 or A-3 common stock of CBOE Holdings for which transfer restrictions are scheduled to lapse or of any other series that is subject to transfer restrictions may be sold during the applicable transfer restriction period, except as part of the organized sale or in a permitted transfer. Holders of the Series A-1, A-2 and A-3 common stock may elect to participate in such organized sale but are not required to do so.

For a discussion of organized sales and the procedures to be followed in the event CBOE Holdings determines to conduct an organized sale, please see "Description of CBOE Holdings Capital Stock Organized Sales" on page 145.

#### **Amendments to the CBOE Certificate of Incorporation, Constitution and Bylaws**

As part of the restructuring transaction, the bylaws and certificate of incorporation for the CBOE will be amended and restated to reflect the new holding company structure, certain technical amendments required as a result of converting from a membership organization to a stock corporation and to change the capital structure and governing structure contained in such documents. The amended bylaws of the CBOE will replace the CBOE's current Constitution, and following the restructuring transaction, the CBOE bylaws will no longer include the CBOE Rules. Please review carefully all the terms and conditions of the bylaws and certificate of incorporation of not only the CBOE, but also CBOE Holdings. We have included the form of certificate of incorporation for CBOE Holdings and form of bylaws for CBOE Holdings in this proxy statement and prospectus as Annex C and D, respectively. The form of amended and restated certificate of incorporation of the CBOE and form of bylaws of the CBOE are also included in this proxy statement and prospectus as Annex E and F, respectively.

Some of the more significant provisions of the CBOE and CBOE Holdings certificates of incorporation and bylaws are summarized below. For additional information on capital stock and corporate governance of the CBOE and CBOE Holdings see "Comparison Of Rights Prior to and After the Restructuring Transaction" on page 152.

*Capital Stock.* Pursuant to its certificate of incorporation, CBOE Holdings is authorized to issue (i) \_\_\_\_\_ shares of unrestricted common stock, par value \$0.01 per share, (ii) \_\_\_\_\_ shares of Class A common stock, par value \$0.01 as per share, (iii) \_\_\_\_\_ shares of Class B common stock, par value \$0.01 as per share and (iv) 20,000,000 shares of preferred stock. After the restructuring transaction, the CBOE will be authorized to issue 1,000 shares of common stock, par value \$0.01 per share. All CBOE shares will be held by CBOE Holdings.

*Voting Rights.* After the restructuring transaction, you will hold ownership interests in CBOE Holdings and not the CBOE. These new ownership interests will entitle you to vote on matters pertaining to CBOE Holdings. You will no longer vote on matters at the CBOE. CBOE Holdings, as the sole stockholder of the CBOE, will have the right to vote generally with respect to CBOE matters, including for the election of directors and on other matters as required by the bylaws, certificate of incorporation and the law of the State of Delaware. As a stockholder of CBOE Holdings you will be entitled to vote along with all other holders of CBOE Holdings common stock generally with respect to CBOE Holdings matters, including for the election of directors and on other matters required by the bylaws, certificate of incorporation or the laws of the State of Delaware except with respect to holders of Class B common stock, who have no voting rights or privileges except under limited circumstances more fully discussed in "Description of CBOE Holdings Capital Stock" on page 139.

*Voting Limitations.* No person, together with its related persons, may vote or cause to vote more than 10% of the voting power of CBOE Holdings without the prior approval of the board of directors of CBOE Holdings and, in certain circumstances, the SEC. In the event that CBOE Holdings completes a public offering of its common stock, the voting percentage that any person would be permitted to control, whether through beneficially ownership or other agreement, would increase from

10% to 20% of the total number of votes entitled to be cast on any matter. This limitation is described in more detail below at "Description Of CBOE Holdings Capital Stock."

*Ownership Limitations.* No person, together with its related persons, may directly or indirectly beneficially own more than 10% of the outstanding shares of common stock of CBOE Holdings without the prior approval of the board of directors of CBOE Holdings and, in certain circumstances, the SEC. In the event that CBOE Holdings completes a public offering of its common stock, the ownership percentage that a person would be permitted to beneficially own would increase from 10% to 20% of the total outstanding shares of CBOE Holdings common stock. For additional information about this limitation and additional information about the capital stock of CBOE Holdings see "Description of CBOE Holdings Capital Stock" on page 139.

*Board of Directors.* There will be a separate board of directors for each of the CBOE and CBOE Holdings. It is anticipated that the same individuals will be on each board immediately following the restructuring transaction. After the restructuring transaction, the CBOE board will be reduced from 23 directors to 13 directors. The CBOE Holdings board will also have 13 directors. The CBOE Holdings board will consist of the CBOE Holdings' chief executive officer and 12 other directors, no less than two-thirds of whom will at all times meet the independence requirements of CBOE Holdings and those established by the New York Stock Exchange, or the NYSE, listing standards. The CBOE board will consist of the CBOE's chief executive officer as well as seven non-industry directors and five industry directors, as each term is defined in the applicable bylaws and certificate of incorporation. Failure of a director to maintain the categorical requirements of either a non-industry or an industry director may result in the director's removal from the board. Directors of each of the CBOE and CBOE Holdings will be elected by a plurality of votes. The CBOE board will continue to be a classified board with staggered terms of office, however, the board will consist of two classes of directors, each of which will serve for two years, as opposed to the current board that consists of three classes of directors, each of which serves for a term of three years. There is no limit on the number of terms a director may serve on either board.

*Nomination of Directors.* After the restructuring transaction, the Nominating and Governance Committee of the CBOE will be comprised solely of board members and will nominate all directors for election at the CBOE. It is currently anticipated that the members of the Nominating and Governance Committee of the CBOE will be the same as the members of the Nominating and Governance Committee of CBOE Holdings. At the CBOE, however, the Nominating and Governance Committee will have an Industry Director-Subcommittee, which will consist of all of the industry directors serving on the Nominating and Governance Committee. The Industry Director-Subcommittee shall select industry directors that equal at least 20% of the directors serving on the board of the CBOE. For a discussion of the nomination procedures at each of CBOE Holdings and the CBOE, please see "Directors and Management of the CBOE And CBOE Holdings After the Restructuring Transaction Committees of the CBOE Holdings Board of Directors Nominating and Governance Committee" on page 117.

*Exercise Right.* As part of the restructuring transaction, the certificate of incorporation of the CBOE will be revised to remove Article Fifth(b) as it would no longer be applicable to a demutualized CBOE. In any event, as a result of the CME/CBOT Transaction and the approval by the SEC of the eligibility rule filing and as further confirmed in the Settlement Agreement, there no longer are members of the CBOT who qualify to become a member of the CBOE under Article Fifth(b) without having to purchase a separate CBOE membership. As a result and in connection with the other amendments being made to the CBOE's certificate of incorporation, Article Fifth(b) of the CBOE's certificate of incorporation will be deleted as part of the restructuring transaction. Following the restructuring transaction, there will no longer be any reference in the CBOE certificate of incorporation to the Exercise Right described in the former certificate of incorporation of the CBOE.

## Amendments to the CBOE Rules

In addition to the changes to the CBOE's Constitution, certificate of incorporation and bylaws, as part of the restructuring transaction, the CBOE's Rules will be amended:

to reflect that access to the CBOE's trading facilities will be made available through the issuance of trading permits as described in the section " Trading Permits" above and to clarify CBOE's regulatory authority over trading permits and trading permit holders;

to establish a new type of appointment called a "tier appointment" as described in the section " Trading Permits" above;

to make technical, conforming changes to reflect the restructuring transaction and the issuance of trading permits (for example, to replace the term "member" throughout with the term "trading permit holder" to reflect that ownership will be separated from trading access following the restructuring transaction, and to delete the reference to the term "lessor" and the related language in the Rules because the concept of leasing memberships will not exist after the restructuring of the Exchange);

to modify the procedures for the appointment of members to CBOE committees that are not comprised solely of members of the CBOE's board as well as the process for filing vacancies on such committees;

to clarify the ability of the board of CBOE to review, modify, suspend or overrule any action (or inaction) of CBOE committees, officers, representatives and designees taken (or not taken) pursuant to CBOE rules; and

to confirm that the former process for application to become a member will apply going forward to the process to become a trading permit holder and that existing rules with respect to qualifications will continue with respect to permit holders (although many of the applicable rules will be revised to reflect the issuance of trading permits).

The amendments to the Rules were previously submitted to the members of the CBOE in an Exchange Bulletin issued by the CBOE on August 29, 2008. In addition, to effect the majority of the amendments to the Rules described above and through this proxy statement and prospectus (as well as other immaterial amendments), the CBOE filed these proposed rule changes with the SEC on August 21, 2008 (Rule Filing No. SR-CBOE-2008-88). A copy of the rule filing is available on the CBOE's website at [www.cboe.org/legal/submittedSECfilings.aspx](http://www.cboe.org/legal/submittedSECfilings.aspx). The notice of the proposed rules were published in the Federal Register on August 26, 2008. A copy of the published notice can be obtained at the SEC's website at [www.sec.gov/rules/sro/cboe/2008/34-58425.pdf](http://www.sec.gov/rules/sro/cboe/2008/34-58425.pdf). In addition, with respect to the remainder of the amendments (mostly non-substantive conforming changes), the CBOE intends to file a companion rule filing with the SEC. We will make a complete copy of that rule filing available to you as soon as it is finalized.

These changes to our rules will take effect at the time of the amendment to the certificate of incorporation of the CBOE as a result of the Merger. The form of the amended Rules of the CBOE that we currently expect to be implemented (subject to other changes to the rules occurring after the date of this document), have been filed as an exhibit to the registration statement of which this proxy statement and prospectus is a part.

**We urge you to review carefully the amended Rules and the published notice with respect to such Rules before voting on the proposed restructuring transaction.**

## Exercise Right Settlement Agreement

On August 23, 2006, the CBOE and its directors were sued in the Court of Chancery of the State of Delaware, by the CBOT, CBOT Holdings Inc., the parent corporation of the CBOT, and two members of the CBOT who purported to represent a class of individuals who claim that they were, or

had the right to become, members of the CBOE pursuant to the Exercise Right. The plaintiffs sought a judicial declaration that Exercise Member Claimants were entitled to receive the same consideration in any proposed restructuring transaction involving the CBOE as all other CBOE members, and the plaintiffs also sought an injunction to bar CBOE and CBOE's directors from issuing any stock to CBOE members as part of a proposed restructuring transaction, unless the Exercise Member Claimants received the same stock and other consideration as other CBOE members. For more information regarding this litigation, please see "Business Legal Proceedings Litigation with Respect to the Restructuring Transaction" on page 100.

After two years of litigating issues in Delaware, on August 20, 2008, the CBOE entered into a Stipulation of Settlement with the plaintiffs pursuant to which the plaintiffs agreed to dismiss the pending action in Delaware, with prejudice, in exchange for the settlement consideration. The following summary addresses the material terms of the Settlement Agreement, but does not describe every term of the Settlement Agreement. You are encouraged to read the entire document, a copy of which is filed as Exhibit 4.4 to the registration statement on Form S-4 of which this proxy statement and prospectus is a part.

The Participating Group A Settlement Class Members and the Participating Group B Settlement Class Members will receive the settlement consideration described below pursuant to the terms of the Settlement Agreement and only after the Merger effecting the restructuring transaction is complete. The Participating Group A Settlement Class Members and Participating Group B Settlement Class Members will not receive any consideration in the restructuring transaction or in the Merger effecting the restructuring transaction. As such, the disclosures contained in this proxy statement and prospectus, including those related to the restructuring transaction and the federal income tax consequences of the restructuring transaction, are not intended for, and should not be relied upon by, the Participating Group A Settlement Class Members and the Participating Group B Settlement Class Members.

*Settlement Class Members.* The Settlement Agreement calls for a non-opt out settlement class, which means that anyone in the settlement class is bound by the Settlement Agreement and does not have the right to pursue separate claims against the CBOE. The settlement class consists of two groups:

The first group (Group A) consists of all persons who, prior to August 22, 2008, simultaneously owned or possessed at least one CBOT B-1 membership, at least one Exercise Right Privilege and at least 27,338 shares of CBOT stock or (after CME's acquisition of CBOT) 10,251.75 shares of CME Group stock. An Exercise Right Privilege is the privilege, whether or not that privilege or right had been unbundled from a CBOT B-1 Membership, that when held together with a CBOT B-1 Membership and the requisite shares of CBOT Common Stock (or following the CME Transaction, shares of CME Group Common Stock) constituted the Exercise Right. In order to receive a share of the settlement consideration paid to Group A, the members of Group A also must (1) have owned the package of three interests as of 5:00 p.m. (central time) on October 14, 2008 and continued to own that package until October 31, 2008 and (2) have met certain other eligibility and procedural criteria contained in the Settlement Agreement. We sometime refer to members of Group A as Participating Group A Settlement Class Members and we sometimes refer to the package of interests described in this bullet as a Group A Package.

The second group (Group B) consists of all persons who owned an Exercise Right Privilege as of 5:00 p.m. (central time) on October 14, 2008 (and are not members of Group A) and their transferees and assigns. In order to receive a payment from the Group B settlement consideration, members of Group B must have met certain other eligibility and procedural criteria contained in the Settlement Agreement. We sometime refer to members of Group B as Participating Group B Settlement Class Members.

*Financial Terms of Settlement Agreement.* Settlement class members will share the following settlement consideration:

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Participating Group A Settlement Class Members will share in an equity pool which will consist of an amount of Class B common stock of CBOE Holdings equal to the product of (i) 0.21951220, times (ii) the aggregate number of shares of Class A common stock issued to owners of CBOE Seats in the restructuring transaction.

The rights associated with this common stock must be identical to the stock issued to CBOE Seat Owners, except that the stock to be issued to the Group A class members will be non-voting (except under limited circumstances) until there is an initial public offering of the stock of the restructured company, at which point the stock issued to Group A class members would convert into the same type of stock issued to the CBOE Seat Owners.

Each Participating Group A Settlement Class Member will receive for each Group A Package it owns the lesser of (a) a pro rata share of the total equity pool based on the number of Group A Packages that exist and (b) the number of shares equal to 50% of the number of shares of common stock issued to each CBOE Seat Owner in the CBOE restructuring transaction. We sometimes refer to this cap as the equity cap.

The Participating Group A Settlement Class Members will have a right to receive the Class B common stock of CBOE Holdings immediately following the effectiveness of the Merger. As such, CBOE Holdings intends to arrange for its transfer agent to issue the Class B common stock of CBOE Holdings to the Participating Group A Settlement Class Members pursuant to the Settlement Agreement concurrently with the issuance by the transfer agent of the Class A common stock of CBOE Holdings to the CBOE Seat Owners in the restructuring transaction.

Participating Group A and Group B Settlement Class Members will share in a cash pool equal to \$300,000,000.

For each Exercise Right Privilege that a Participating Group B Settlement Class Member owns on October 14, 2008, that class member will receive \$250,000 from the cash pool.

The remainder of the cash pool, after making a minor payment to one of the class representatives, will be distributed to the Participating Group A Settlement Class Members on a pro rata basis for each Group A Package the Group A class member owned based on the total number of Group A Packages that existed on October 14, 2008. In no event, however, will any Participating Group A Settlement Class Members receive more than \$600,000 for each Group A Package. We sometimes refer to this cap as the cash cap.

CBOE will retain any portion of the cash pool that is not distributed as a result of the cash cap.

CBOE is required to distribute money to the class members upon the earlier of (i) any restructuring transaction or any other transaction in which the CBOE Seats are converted into cash or other securities. If the restructuring transaction described in this proxy statement and prospectus is not consummated within one year of the final approval of the Settlement Agreement by the Delaware court, CBOE will be required to distribute the money in the cash pool, regardless of whether any restructuring of CBOE has occurred or any other transaction has been consummated. As such, if the

Agreement and Plan of Merger proposed in this proxy statement and prospectus is approved by the CBOE members, CBOE will arrange for the distribution of the funds in the cash pool to the Group A and Group B members immediately following the consummation of the Merger.

Participating Group A Settlement Class Members who were also CBOE Temporary Members will receive a payment, separate from the cash pool, equal to the amount each of those class members paid in access fees as CBOE Temporary Members from July 1, 2007 to May 31, 2008. The total amount of CBOE's liability for these payments is capped at \$2,800,000. CBOE Temporary Members are those CBOE members who, prior to the CME/CBOT Transaction had

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used their Exercise Right to become members at CBOE, were in good standing with the CBOE at the time of the CME/CBOT Transaction, and were allowed to temporarily retain their CBOE membership status pursuant to the interpretation of Rule 3.19 of the CBOE's rules (as filed with the SEC in Rule Filing SR-CBOE-2007-77) and in the transition rule filing (as filed with the SEC in Rule Filing SR-CBOE-2007-107).

Subject to SEC approval, any Participating Group A Settlement Class Members who were also CBOE Temporary Members also will receive a payment, separate from the cash pool, equal to the access fees which that Group A class member paid to the CBOE as a CBOE Temporary Member from June 1, 2008 until the date the CBOE completes a restructuring transaction. As such, if the Agreement and Plan of Merger proposed in this proxy statement and prospectus is approved by the CBOE members and the CBOE consummates the Merger, the amount of this payment obligation will cease accruing as to date of the Merger.

Prior to any CBOE restructuring transaction, CBOE will not pay dividends or make other payments to CBOE Seat Owners as a group or repurchase membership interests from CBOE Seat Owners. If CBOE Seat Owners receive additional consideration as a group (other than the stock they would receive if the restructuring transaction described in this proxy statement and prospectus were completed), or if any other rights are granted or retained by CBOE Seat Owners as a group, then the same type of consideration will be put in a pool for Participating Group A Settlement Class Members in an amount that would equal to 18% of the total additional consideration paid or granted to CBOE Seat Owners and the Group A class members. Any additional consideration placed into this pool would be subject to the same equity cap described above such that no Group A Package would be paid an amount that would exceed 50% of what was paid to any CBOE Seat Owner.

CBOE will offer any Participating Group A Settlement Class Member who was also a CBOE Temporary Members immediately prior to any CBOE restructuring demutualization, including the restructuring transaction described in this proxy statement and prospectus, an opportunity to obtain

a trading permit in the CBOE on the same terms and conditions as such trading permits are offered to CBOE Seat Owners.

The CBOE agreed that in setting the initial rates to be charged for trading permits following any CBOE restructuring transaction, the CBOE's Board of Directors will set those rates in good faith and at a level it believes will be in the best interest of the CBOE as a whole and all of its shareholders following any restructuring transaction.

The CBOE agreed that it cannot sell the Exercise Right Privileges that it owns to persons attempting to become Participating Group A or Group B Settlement Class Members, and that CBOE cannot participate as a Group A or Group B class member.

Pursuant to the Settlement Agreement, the plaintiffs agree that upon final approval of the Settlement Agreement:

there no longer are any persons eligible to become members of the CBOE pursuant to the Exercise Right,

the Exercise Right does not provide any person the right to vote, trade or participate in the CBOE's restructuring transaction, and

the CBOE will be released from any claims by the plaintiffs and class members, all of whom will be enjoined from asserting claims against the CBOE that they have any rights with respect to the Exercise Right.

### **Shares of CBOE Holdings reserved for future issuance to CBOE Holdings Management**

The CBOE is currently discussing the possible adoption of equity compensation plans pursuant to which management of CBOE Holdings would be granted equity compensation as determined by the

board of directors of CBOE Holdings from time to time. As of \_\_\_\_\_, however, no such equity compensation plans had been adopted.

### **Certain Relationships and Related-Party Transactions**

Currently, 11 of the 23 CBOE directors are individuals who are members of the CBOE or are officers, directors or employees of or are affiliated with organizations that are members of the CBOE. Following the restructuring transaction, approximately five of the 13 directors of CBOE Holdings will be individuals who either will hold trading permits in the CBOE or will be officers, directors, employees or affiliates of organizations that will hold trading permits in the CBOE. These individuals and organizations that are currently members of the CBOE (and who will become holders of trading permits in the CBOE) derive a substantial portion of their income from their trading or clearing activities on or through the CBOE. The amount of income that a current member and a future holder of a trading permit may derive from its trading or clearing activities at the CBOE is in part dependent on the fees these individuals or organizations are charged to trade, clear and access our markets and the rules and structure of our markets. Current members and future holders of trading permits, many of whom do or will act as brokers and traders, benefit from trading rules, privileges and discounts that enhance their trading opportunities and profits. Current members pay fees (and future holders of CBOE trading permits will pay fees), either directly or indirectly, to the CBOE in connection with the services we provide, which in many cases could be substantial to the member (or future permit holder). The payments made by our directors that are currently members of the CBOE or affiliated with members of the CBOE (and who will become holders of trading permits or affiliated with holders of trading permits following the restructuring transaction) are on terms no more favorable than terms given to unaffiliated persons.

Over the past three years, three different CBOE directors, Edward T. Tilly, John E. Smollen and Bradley G. Griffith, served as the Vice Chairman of the CBOE and received compensation from the CBOE for such service. For a description of the compensation paid to these individuals as Vice Chairman, please see "Directors and Management of the CBOE and CBOE Holdings After the Restructuring Transaction Compensation of Directors and Executive Officers" on page 127.

The CBOE entered into a one-year consulting arrangement, commencing on January 1, 2007, with Mark F. Duffy, one of its directors, under which Mr. Duffy advises the CBOE on various matters related to the restructuring and other business initiatives. Mr. Duffy is paid for services actually provided at an hourly rate, subject to a minimum for the year of \$200,000. This arrangement was renewed for 2008.

### **Regulatory Approvals**

*SEC Approvals.* The CBOE is registered as a national securities exchange pursuant to Section 6 of the Exchange Act. As a registered national securities exchange, the CBOE must comply with certain obligations under the Exchange Act. Under Section 19 of the Exchange Act and the related rules of the SEC, many changes in the rules of an SRO, such as the CBOE, must be submitted to the SEC for approval, including proposed amendments to the certificate of incorporation, bylaws or Constitution of the CBOE. No proposed rule change can take effect unless approved by the SEC or otherwise permitted by Section 19. As such, the proposed amendments to the CBOE's certificate of incorporation, Constitution and Rules that are a necessary part of the restructuring transaction will need to be approved by the SEC prior to the restructuring transaction and these amendments taking effect.

Under Section 19 of the Exchange Act, the text of the proposed rule changes, together with a concise general statement of the statutory basis and the purpose of the change, must be submitted to the SEC, which then gives interested parties the opportunity to comment by publishing the proposal in the Federal Register. Critical comment letters typically are forwarded to the SRO for response. Unless the CBOE agrees to extend the applicable period, within a period of 35 days of the publication of the

proposed rule change (or a longer period of up to 90 days of the publication, if the SEC considers it appropriate), the SEC must either approve the proposal, or institute proceedings to determine whether the proposed rule change should be disapproved. The CBOE consented to an extension of the applicable time period; therefore, the statutory time period will not begin to run until the CBOE files an amendment to the filing to inform the SEC that the CBOE membership has approved the restructuring transaction, at which time the CBOE can withdraw its consent to the extension. The date of publication also may be delayed for reasons outside the control of the CBOE; therefore, the time periods provided above will not begin to run until the proposal is published. The SEC will approve a proposed rule change if it finds that the change is consistent with the requirements of the Exchange Act and the rules and regulations of the Exchange Act. SROs may consent to extensions of any of these periods and, as a practical matter, will generally do so while addressing any concerns raised by the SEC staff.

Pursuant to Rule 19b-4 under the Exchange Act, the SEC's approval of the changes to the certificate of incorporation, Constitution and Rules of the CBOE as well as the forms of certificate of incorporation and bylaws of CBOE Holdings, is a condition to the completion of the restructuring transaction.

*Approvals under State Securities and "Blue Sky" Laws.* Approvals or authorizations may be required under applicable state securities, or "blue sky," laws in connection with the issuance of CBOE Holdings common stock in the restructuring transaction. Any approval of any governmental entity required for the consummation of the restructuring transaction is a condition to the completion of the restructuring transaction, unless the failure to obtain this approval would not reasonably be expected to result in a material adverse effect on the CBOE and its subsidiaries.

*General.* While we believe that we will receive the requisite regulatory approvals for the changes to our certificate of incorporation, Constitution and Rules that will be part of the restructuring transaction, there can be no assurances regarding the timing of the approvals, our ability to obtain the approvals on satisfactory terms or the absence of litigation challenging these approvals. There can likewise be no assurance that U.S. federal, state or foreign regulatory authorities will not attempt to challenge the restructuring transaction, or, if a challenge is made, as to the results of the challenge.

#### **Restrictions on Sales of Shares by Affiliates of the CBOE**

The shares of CBOE Holdings Class A common stock to be issued in connection with the restructuring transaction will be registered under the Securities Act of 1933, as amended, and the shares of CBOE Holdings Class B common stock issued pursuant to the Settlement Agreement will be exempt from registration under that Act by reason of Section 3(a)(i) thereunder. Accordingly, all such shares will be freely transferable under the Securities Act, except for any shares of CBOE Holdings common stock issued to any person who is deemed to be an "affiliate" of the CBOE at the time of the special meeting. While the CBOE Holdings Class A common stock issued in the restructuring transaction and the CBOE Holdings Class B common stock issued pursuant to the Settlement Agreement may be freely transferable under the Securities Act, it will be subject to transfer restrictions under the CBOE Holdings' certificate of incorporation. Following the transfer restriction period established in the certificate of incorporation, stock issued in the restructuring transaction and as part of the settlement will be freely transferable. For a description of these restrictions, see " Amendments to the CBOE Certificate of Incorporation, Constitution and Bylaws" above. Persons who may be deemed to be affiliates include individuals or entities that control, are controlled by, or are under common control with the CBOE, and may include our executive officers and directors, as well as our significant stockholders. In addition to the other restrictions imposed on shares of CBOE Holdings stock, affiliates may not sell their shares of CBOE Holdings common stock acquired in connection with the restructuring transaction or acquired in the settlement except pursuant to:

an effective registration statement under the Securities Act covering the resale of those shares;

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an exemption under paragraph (d) of Rule 145 under the Securities Act; or

any other applicable exemption under the Securities Act.

The CBOE expects that each of its affiliates will agree with CBOE Holdings that the affiliate will not transfer any shares of stock received in the restructuring transaction or acquired in the settlement, except in compliance with the Securities Act. Resales of CBOE Holdings common stock by affiliates of the CBOE and CBOE Holdings are not being registered pursuant to the registration statement of which this document forms a part.

### **Stock Exchange Listing**

We do not currently intend to list the common stock of CBOE Holdings on any stock exchange immediately following the completion of the restructuring transaction. If CBOE Holdings engages in a public offering, the common stock of CBOE Holdings likely would be listed at that time. There can be no assurances, however, that a public offering of CBOE Holdings will occur or that the common stock of CBOE Holdings will ultimately be listed on any stock exchange.

### **Appraisal Rights of Dissenting Members**

Holders of CBOE Seats who do not vote in favor of the restructuring transaction are entitled to appraisal rights under Section 262 of the Delaware General Corporation Law ("Section 262") in connection with the restructuring transaction, provided that they comply with the conditions established by Section 262. Under Section 262, where the restructuring transaction is to be submitted for adoption at a meeting of the members, the corporation, not less than 20 days prior to the meeting, must notify each of its members entitled to appraisal rights that appraisal rights are available and include in the notice a copy of Section 262. This proxy statement shall constitute the notice and the full text of Section 262 is reprinted in its entirety as Annex H hereto. The following discussion does not purport to be a complete statement of the law relating to appraisal rights and is qualified in its entirety by reference to Annex H. The following summary does not constitute any legal or other advice nor does it constitute a recommendation that members exercise their appraisal rights under Section 262.

**THIS DISCUSSION AND ANNEX H SHOULD BE REVIEWED CAREFULLY BY ANY MEMBER WHO WISHES TO EXERCISE STATUTORY APPRAISAL RIGHTS OR WHO WISHES TO PRESERVE THE RIGHT TO DO SO, AS FAILURE TO COMPLY WITH THE PROCEDURES SET FORTH HEREIN OR THEREIN MAY RESULT IN THE LOSS OF APPRAISAL RIGHTS.**

Members of record who desire to exercise their appraisal rights must: (i) own a CBOE Seat on the date of making a demand for appraisal; (ii) continuously own such CBOE Seat through the effective time of the restructuring transaction; (iii) deliver a written demand for appraisal to the CBOE prior to the taking of the vote on the restructuring transaction at the special meeting of members; (iv) file any necessary petition in the Delaware Court of Chancery, as more fully described below, within 120 days after the effective time of the restructuring transaction; (v) not vote in favor of adoption of the restructuring transaction; and (vi) otherwise satisfy all of the conditions described more fully below and in Annex H.

A CBOE member who makes the demand described below with respect to a CBOE Seat, who continuously is a member through the effective time of the restructuring transaction, who otherwise complies with the statutory requirements of Section 262 and who neither votes in favor of the restructuring transaction nor consents thereto in writing will be entitled, if the restructuring transaction is consummated, to have his or her seat appraised by the Delaware Court of Chancery and to receive payment in cash of the "fair value" of the seat, exclusive of any element of value arising from the accomplishment or expectation of the restructuring transaction, together with interest, if any, as determined by the court. Neither voting against the adoption of the restructuring transaction, nor abstaining from voting or failing to vote on the proposal to adopt the restructuring transaction, will in

and of itself constitute a written demand for appraisal satisfying the requirements of Section 262. Pursuant to paragraph (a) of Section 262, all references to "stockholder" and "shares" in Section 262, to the extent applicable, apply to members and the membership interests owned by such members, respectively. All references in this summary of appraisal rights to a "member" or "holders of CBOE memberships" are to the record owner or owners of CBOE memberships.

ANY OWNER OF A CBOE SEAT WHO DESIRES TO EXERCISE HIS, HER OR ITS RIGHT TO DISSENT FROM THE RESTRUCTURING TRANSACTION MUST DELIVER TO THE CBOE A WRITTEN DEMAND FOR APPRAISAL OF HIS OR HER MEMBERSHIP PRIOR TO THE TAKING OF THE VOTE ON THE RESTRUCTURING TRANSACTION AT THE SPECIAL MEETING OF MEMBERS. SUCH WRITTEN DEMAND MUST REASONABLY INFORM THE CBOE OF THE IDENTITY OF THE MEMBER OF RECORD AND OF SUCH MEMBER'S INTENTION TO DEMAND APPRAISAL OF ANY CBOE SEAT OWNED BY SUCH MEMBER.

A demand for appraisal must be executed by or on behalf of the CBOE member of record.

A MEMBER WHO ELECTS TO EXERCISE APPRAISAL RIGHTS SHOULD MAIL OR DELIVER HIS, HER OR ITS WRITTEN DEMAND TO: CHICAGO BOARD OPTIONS EXCHANGE, INCORPORATED, 400 SOUTH LASALLE, CHICAGO, ILLINOIS 60605, ATTENTION: OFFICE OF THE SECRETARY.

Prior to or within ten days after the effective time of the restructuring transaction, the surviving corporation must provide notice of the effective time of the restructuring transaction to all members who have complied with Section 262. Within 120 days after the effective time of the restructuring transaction, either the surviving corporation or any member who has complied with the required conditions of Section 262 may file a petition in the Delaware Court of Chancery, with a copy served on the surviving corporation in the case of a petition filed by a member, demanding a determination of the fair value of the seats of all dissenting members. The surviving corporation does not currently intend to file an appraisal petition, and members seeking to exercise appraisal rights should not assume that the surviving corporation will file such a petition or that the surviving corporation will initiate any negotiations with respect to the fair value of such seat. Accordingly, members who desire to have their seats appraised should initiate any petitions necessary for the perfection of their appraisal rights within the time periods and in the manner prescribed in Section 262. Within 120 days after the effective time of the restructuring transaction, any member who has theretofore complied with the applicable provisions of Section 262 will be entitled, upon written request, to receive from the surviving corporation a statement setting forth the aggregate number of seats not voted in favor of the restructuring transaction and with respect to which demands for appraisal were received by the CBOE and the number of holders of such seats. Such statement must be mailed within ten days after the written request thereof has been received by the surviving corporation or within ten days after expiration of the time for delivery of demands for appraisal under Section 262, whichever is later.

If a petition for an appraisal is timely filed, by a holder of a CBOE Seat and a copy thereof served upon the surviving corporation, the surviving corporation will then be obligated within twenty (20) days to file with the Delaware Register in Chancery a duly verified list containing the names and addresses of all members who have demanded payment for their seat and with whom agreements as to the value of their seat have not been reached. After notice to the members as required by the court, the Delaware Court of Chancery is empowered to conduct a hearing on the petition to determine those members who have complied with Section 262 and who have become entitled to appraisal rights thereunder.

After determining the holders of CBOE Seats entitled to appraisal, the Delaware Court of Chancery will appraise the CBOE Seats owned by such members, determining the fair value of such seats exclusive of any element of value arising from the accomplishment or expectation of the restructuring transaction, together with interest, if any, to be paid upon the amount to be the fair value. Unless the court in its discretion determines otherwise for good cause shown, interest from the

effective date of the restructuring transaction through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective date of the restructuring transaction and the date of payment of the judgment. In determining fair value, the Delaware Court is to take into account all relevant factors. The Delaware Supreme Court has stated that "proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court" should be considered in an appraisal proceeding, and that, "fair price obviously requires consideration of all relevant factors involving the value of a company."

The Delaware Supreme Court stated that, in making this determination of fair value, the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts that could be ascertained as of the date of the transaction that throw any light on future prospects of the surviving corporation. Section 262 provides that fair value is to be "exclusive of any element of value arising from the accomplishment or expectation of the merger." In *Cede & Co. v. Technicolor, Inc.*, the Delaware Supreme Court stated that such exclusion is a "narrow exclusion [that] does not encompass known elements of value," but which rather applies only to the speculative elements of value arising from such accomplishment or expectation. In *Weinberger v. UOP, Inc.*, the Delaware Supreme Court also stated that "elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered."

Members considering seeking appraisal should recognize that the fair value of their seats as determined under Section 262 could be more than, the same as or less than the consideration to be received in the restructuring transaction if they did not seek appraisal of their seats. The cost of the appraisal proceeding (which do not include attorneys fees or fees and expenses of experts) may be determined by the Delaware Court and taxed against the parties as the Delaware Court deems equitable in the circumstances. Upon application of dissenting members of the CBOE, the Delaware Court may order that all or a portion of the expenses incurred by any dissenting members in connection with the appraisal proceeding, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts, be charged pro rata against the value of all seats entitled to appraisal.

If any member who demands appraisal of his or her CBOE Seat fails to perfect, or successfully withdraws or loses such holder's right to appraisal, the holder's seat will be deemed to have been converted at the effective time of the restructuring transaction into the restructuring transaction consideration applicable to other seats. A member will fail to perfect, or effectively lose or withdraw, the member's right to appraisal if no petition for appraisal is filed within 120 days after the effective time of the restructuring transaction or if the member delivers to the surviving corporation a written withdrawal of the member's demand for appraisal and an acceptance of the consideration in accordance with Section 262. Any holder of CBOE Seats who has duly demanded appraisal in compliance with Section 262 will not, after the effective time, be entitled to vote for any purpose any seats subject to such demand or to receive payment of dividends or other distributions on such seats, except for dividends or distributions payable to members of record at a date prior to the effective time.

Any member may withdraw a demand for appraisal and accept the restructuring transaction consideration by delivering to the surviving corporation a written withdrawal of the demand for appraisal, except that (1) any attempt to withdraw made more than 60 days after the effective time of the restructuring transaction will require written approval of the surviving corporation, and (2) no appraisal proceeding in the Delaware Court will be dismissed as to any member without the approval of the Delaware Court, and the approval may be conditioned upon terms the Delaware Court deems just. If the member fails to perfect, successfully withdraws or loses the appraisal right, the member's seat will be converted into solely the right to receive the restructuring transaction consideration.

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FAILURE TO TAKE ANY REQUIRED STEP IN CONNECTION WITH THE EXERCISE OF APPRAISAL RIGHTS MAY RESULT IN TERMINATION OF SUCH RIGHTS. IN VIEW OF THE COMPLEXITY OF THESE PROVISIONS OF THE DELAWARE GENERAL CORPORATION LAW, MEMBERS WHO ARE CONSIDERING EXERCISING THEIR RIGHTS UNDER SECTION 262 SHOULD CONSULT WITH THEIR LEGAL ADVISORS.

### **Recommendation of the Restructuring Transaction by the CBOE Board of Directors**

On January 25, 2007, the CBOE board of directors determined, by vote, that the restructuring transaction is advisable and in the best interests of the CBOE and its members, and on September 24, 2008, the CBOE board of directors approved the associated amendments to the CBOE's Constitution and Rules. **The CBOE board of directors recommends that CBOE members vote "FOR" the adoption of the agreement and plan or merger to effect the restructuring transaction at the CBOE's special meeting of members.**

## UNAUDITED SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial and other information for the CBOE. You should read the following selected consolidated financial and other information together with our consolidated financial statements and the related notes, the unaudited pro forma condensed consolidated financial statements and other financial information included elsewhere in this document and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this proxy statement and prospectus. We have derived the balance sheet data and operating data for the nine months ended September 30, 2008 and 2007 from unaudited condensed consolidated financial statements and related notes included in Annex A of this proxy statement and prospectus. We have derived the balance sheet data as of December 31, 2007 and 2006, and operating data for the fiscal years ended December 31, 2007, 2006 and 2005 from the audited consolidated financial statements and related notes included in Annex A of this proxy statement and prospectus. We have derived the balance sheet data as of December 31, 2005 and 2004, and June 30, 2004 and 2003 and the operating data for fiscal year ended December 31, 2004, the six months ended December 31, 2005 and 2004, and the years ended June 30, 2004 and 2003 from our audited consolidated financial statements which are not included in this proxy statement and prospectus. In 2004 the CBOE converted from a fiscal year that ended on June 30 to a fiscal year that ends on December 31. Because of this conversion, it was necessary for the CBOE to have a six-month reporting period ending on December 31, 2004.

	Nine Mos. Ended Sept 30, 2008	Nine Mos. Ended Sept 30, 2007	Year Ended Dec 31, 2007	Year Ended Dec 31, 2006	Year Ended Dec 31, 2005	Six Mos. Ended Dec 31, 2005	Six Mos. Ended Dec 31, (1) 2004	Year Ended June 30, 2004	Year Ended June 30, 2003
(dollars in thousands, except per share data)									
<b>Operating Data</b>									
Revenue									
Transaction Fees	\$ 257,256	\$ 198,896	\$ 270,935	\$ 186,285	\$ 143,254	\$ 75,457	\$ 60,763	\$ 116,344	\$ 104,827
Other Member Fees	20,425	19,279	26,468	22,270	23,347	11,544	12,035	25,465	26,642
OPRA Income	15,137	14,689	18,892	19,965	16,749	8,417	7,885	14,543	15,614
Regulatory Fees	9,321	10,554	14,346	13,817	11,835	6,085	5,730	11,289	10,800
Investment Income	5,897	5,721	8,031	4,743	2,016	1,208	369	338	368
Other	11,726	10,114	13,629	10,906	5,854	3,168	2,144	5,735	5,541
<b>Total</b>	<b>319,762</b>	<b>259,253</b>	<b>352,301</b>	<b>257,986</b>	<b>203,055</b>	<b>105,879</b>	<b>88,926</b>	<b>173,714</b>	<b>163,792</b>
Expenses									
Employee Costs	57,389	60,284	83,538	79,782	74,678	38,545	33,155	69,304	64,094
Outside Services	18,790	16,960	23,374	20,455	18,404	10,730	8,934	15,242	11,794
Facilities Costs	2,878	3,317	4,306	4,281	3,925	2,272	1,978	4,389	4,240
Data Processing	14,367	14,545	19,612	19,078	19,304	9,736	9,169	18,022	17,771
Travel & Promotion	7,846	6,883	9,640	7,209	6,796	3,458	2,869	6,406	4,853

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Depreciation & Amortization	19,713	19,109	25,338	28,189	28,349	14,372	15,950	29,685	29,252
Royalty Fees	25,881	21,887	28,956	23,552	21,950	10,676	8,997	15,847	11,028
Net loss from investment in affiliates	606	736	939	757	203	(471)	1,391	4,359	4,165
Impairment of investment in affiliate and other assets	0	0	0	121	2,757	1,832	1,169	2,453	0
Other	17,084	11,857	16,647	2,535	6,796	3,512	2,881	5,352	3,204
Total Expense	164,554	155,578	212,350	185,959	183,162	94,662	86,493	171,059	150,401
Income Before Taxes	155,208	103,675	139,951	72,027	19,893	11,217	2,433	2,655	13,391
Provision for Taxes									
Current	61,838	43,214	57,724	34,495	9,925	5,540	(1,454)	1,333	5,201
Deferred	673	(123)	(941)	(4,576)	(927)	(508)	2,694	(329)	798
Total Tax Provision	62,511	43,091	56,783	29,919	8,998	5,032	1,240	1,004	5,999
Net Income	\$ 92,697	\$ 60,584	\$ 83,168	\$ 42,108	\$ 10,895	\$ 6,185	\$ 1,193	\$ 1,651	\$ 7,392

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	Nine Mos. Ended Sept 30, 2008	Nine Mos. Ended Sept 30, 2007	Year Ended Dec 31, 2007	Year Ended Dec 31, 2006	Year Ended Dec 31, 2005	Six Mos. Ended Dec 31, 2005	Six Mos. Ended Dec 31, (1) 2004	Year Ended June 30,	
								2004	2003

(dollars in thousands, except per share data)

**Balance Sheet Data**

Total assets	\$ 475,874	\$ 313,908	\$ 341,695	\$ 255,826	\$ 202,185	\$ 202,185	\$ 198,967	\$ 176,234	\$ 175,784
Total liabilities	116,810	70,061	75,328	72,437	61,277	61,277	64,127	42,587	43,788
Total equity	359,064	243,847	266,367	183,389	140,908	140,908	134,840	133,647	131,996

**Pro forma Data**

Net income (loss) per share (2)			[ ]	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]
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Working capital (3)	\$ 255,214	\$ 151,717	\$ 173,963	\$ 94,081	\$ 59,912	\$ 59,912	\$ 42,911	\$ 36,788	\$ 30,143
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Capital expenditures (4)	34,261	26,128	32,095	28,700	21,011	10,948	15,462	23,334	25,047
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Number of full time employees at the end of the period	578	588	586	626	673	673	686	698	725
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Sales price per CBOE Seat

High	\$ 3,300	\$ 2,700	\$ 3,150	\$ 1,775	\$ 875	\$ 875	\$ 420	\$ 340	\$ 210
Low	\$ 2,225	\$ 1,800	\$ 1,800	\$ 850	\$ 299	\$ 600	\$ 270	\$ 190	\$ 132

- (1) In 2004, the CBOE converted its fiscal year from the year ending June 30 to the year ending December 31. Because of this transition, the CBOE reported results for the six months ended December 31, 2004.
- (2) Based on [ ] shares issued and outstanding immediately following the completion of the restructuring transactions.
- (3) Equals current assets minus current liabilities.
- (4) Does not include new investments in affiliates or the disposition of interests in affiliates.

**CBOE MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion of the CBOE's financial condition and results of operations should be read in conjunction with the consolidated financial statements of the CBOE and the notes thereto included in this document. The following discussion contains forward-looking statements. Actual results could differ materially from the results discussed in the forward-looking statements. See "Risk Factors" and "Forward-Looking Statements" above.*

**Overview**

The primary business of the CBOE is the operation of markets for the trading of listed options contracts for three broad product categories: the stocks of individual corporations (equity options), securitized baskets of equity (exchange-traded funds) and stock market indices (index options). In addition to traditional open outcry markets, we offer electronic trading through our hybrid trading model that operates on a proprietary technology platform known as CBOE*Direct*, which was developed and implemented, beginning in June 2003. Until June 2003, the majority of all of our options trading was conducted in an open outcry environment. We derive a substantial portion of our revenue from exchange fees relating to the trading in our markets; these fees accounted for 77% of our total revenues in 2007. Other revenues are generated by dues payments and user fees from our members, from the sale of market data generated by trading in our markets, and regulatory related fees, which accounted for 8%, 5% and 4%, respectively, of our total revenue in calendar year 2007. In general, our revenues are primarily driven by the number of contracts traded on the exchange. In order to increase the volume of contracts traded on our markets, we strive to develop and promote contracts designed to satisfy the trading, hedging and risk-management needs of our market participants.

It is important to note that up until January 1, 2006, the CBOE operated generally as a non-profit organization. Our fee schedules and expense budgets were designed to achieve a break even operation. When volume and revenue exceeded budgeted levels, transaction fees were generally reduced to avoid generating surpluses beyond the CBOE's needs for working capital. As of January 1, 2006, the Board of Directors of the CBOE instructed management to begin a transition to operating the CBOE on a for-profit basis. Therefore, the historical financial information provided herein will not necessarily be indicative of future performance and should be read in that context.

***Transaction Fees***

The largest source of the CBOE's operating revenues is transaction fee revenue. Transaction fee revenue is a function of three variables: (1) exchange fee rates, determined for the most part by contract type; (2) trading volume; and (3) transaction mix between contract type (member versus non-member). Because our trading fees are assessed on a per contract basis, our exchange fee revenues are highly correlated to the volume of contracts traded on our markets. While exchange fee rates are established by the CBOE, trading volume and transaction mix are primarily influenced by factors outside the CBOE's control. These external factors include: price volatility in the underlying securities and national and international economic and political conditions. This category of revenue accounted for 76.9%, 72.2% and 70.5%, of our total revenue in 2007, 2006 and 2005, respectively.

Recent years have seen a steady increase in the total trading volume on U.S. options exchanges. According to the Options Clearing Corporation, or OCC, total option contract volume in 2004, 2005, 2006 and 2007 was, respectively, 1.2 billion, 1.5 billion, 2.0 billion and 2.9 billion contracts, representing year-over-year growth of 28% in 2005, 35% in 2006 and 41% in 2007. The CBOE has also experienced consistent increases in trading volumes over the last several years. Total volume at the CBOE was 361.1 million, 468.2 million, 674.7 million and 944.5 million contracts traded in 2004, 2005, 2006 and 2007, respectively, representing annual growth of 30% in 2005, 44% in 2006 and 40% in 2007. Contract

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trading volume levels in 2005, 2006 and 2007 were consecutive CBOE record highs. Revenue is recorded as transactions occur on a trade-date basis.

The following chart illustrates trading volume across the different categories of products traded at the CBOE:

	Annual Options Contract Volume			
	2007	2006	2005	2004
Equity	500,964,713	390,657,577	275,646,980	224,316,863
Cash Index	230,517,843	157,575,349	115,657,828	85,420,267
Exchange Traded Funds	212,979,241	126,481,092	76,878,867	51,259,036
Interest Rate	10,127	21,330	65,626	90,608
<b>Total</b>	<b>944,471,924</b>	<b>674,735,348</b>	<b>468,249,301</b>	<b>361,086,774</b>

The equity category reflects trading in options contracts on the stocks of individual companies. Cash index options include options contracts on stock indexes settled in cash. Exchange traded funds (ETFs) are baskets of stocks designed to generally track an index, but which trade like individual stocks. Interest rate options are cash settled options that are based on the interest rates of treasury securities. The growth in trading volume at the CBOE is attributable to growth in trading volume of cash index options, ETFs and equity based securities. Within our cash index products, 69% of the volume and 74% of the increase in volume from 2006 to 2007 is attributable to contracts on our proprietary S&P 500, or SPX, contract, our largest product. Within our ETF products, 36% of the volume and 36% of the increase in volume from 2006 to 2007 is attributable to contracts on the Russell 2000 Index Fund, or IWM, contract, our second highest volume product in 2007. We believe that the recent growth in trading volume is due to industry-wide factors, as well as CBOE-specific factors.

Increasing investor sophistication and focus on risk management and improved accessibility through continued technological improvements have resulted in an increase in the use of options by those institutions and individuals who have traditionally invested in cash-based security markets. In addition, our markets have attracted a number of new investors focused on non-traditional forms of investments, including hedge funds.

For CBOE specifically, our strong product offerings, as well as the implementation of our hybrid trading platform, resulted in greater than industry average growth for the years ended December 2004 through December 2007, with a compounded annual growth rate of 34% for the industry compared with 38% for CBOE, according to data from OCC. For the same time period, CBOE's market share has increased from 30.5% to 33.0% in 2007.

While there is no certainty, we expect that the industry-wide and CBOE-specific factors that contributed to past volume increases will continue to contribute to future volume levels. Therefore, if these same factors continue to exist, we may experience similar increases in contract trading volume. However, additional factors may arise that could offset future increases in contract trading volume or result in a decline in contract trading volume, such as new or existing competition or other events. Accordingly, our recent contract trading volume history may not be an indicator of future contract trading volume results.

### ***Other Member Fees***

Other member fees include membership dues, user fees related to certain services provided to members on our trading floor, and application fees charged to new members and existing members under certain circumstances. This source of revenue has been flat to trending down as a greater number of our market participants access CBOE through electronic means rather than in an open

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outcry environment. This category of revenue accounted for 7.5%, 8.6% and 11.5% of our total revenue in 2007, 2006 and 2005, respectively.

### ***OPRA Income***

OPRA Income represents the sale of our transaction information, often referred to as market data, through the Options Price Reporting Authority or OPRA. OPRA is not consolidated with the CBOE. OPRA gathers market data from various options exchanges and, in turn, disseminates this data to third parties who pay fees to OPRA to access the data. As a participant exchange, we sit on a committee with other participant exchanges that administers the OPRA Plan. Revenue generated by OPRA from the dissemination of market data is shared among OPRA's participants according to the relative number of trades executed by each of the participant exchanges as calculated each quarter. A trade consists of a single transaction, but may consist of several contracts. Each participant exchange's share of market data revenue generated by OPRA is calculated on a per trade basis and is not based on the underlying number of contracts. This category of revenue accounted for 5.3%, 7.7% and 8.2% of our total revenue in 2007, 2006 and 2005, respectively.

### ***Regulatory Fees***

We charge fees to our members and member firms in support of our regulatory responsibilities as a self regulatory organization under the Exchange Act of 1934. Most of this revenue is based on the number of registered representatives of each of our member firms. The CBOE has submitted a rule filing with the SEC under which this revenue in the future will be based on the number of transactions executed by our member firms. This source of revenue could decline in the future if the number of transactions executed by CBOE member firms declines. This category of revenue accounted for 4.1%, 5.4% and 5.8% of our total revenue in 2007, 2006 and 2005, respectively.

### ***Investment Income***

Investment income represents our return from the investment of our excess cash. CBOE directs its excess cash to highly liquid, short-term investments, such as money market accounts and investment grade commercial paper. Historically, we have also invested our cash in highly-liquid corporate bonds and U.S. Treasuries. Our highest priority in making investment decisions is to assure the preservation of principal and secondary to retain liquidity to meet projected cash requirements and maximize yield within the specified quality and maturity restrictions. Investment income accounted for 2.3%, 1.9% and 1.0% of our total revenue in 2007, 2006 and 2005, respectively.

### ***Other Revenues***

Other revenues accounted for 3.9%, 4.2% and 3.0% of our total revenue in 2007, 2006 and 2005, respectively. The following sub-categories represent the largest source of revenue within Other Revenues:

Revenue associated with advertisements through our corporate web site, *www.CBOE.com*;

Fees charged to members who trade our proprietary products who are also subject to a monthly transaction fee cap;

Revenue derived from a market data service that delivers historical, customized options market data;

Revenue generated through our order routing cancel fee; and

Rental of commercial space in the lobby of our building.

**Components of Expenses**

Our expenses generally support our open outcry markets and hybrid trading systems and are mainly fixed in nature, meaning that the overall expense structure is generally independent of trading volume. Salaries and benefits represent our largest expense category and tend to be driven by both our staffing requirements and the general dynamics of the employment market. Other significant operating expenses in recent years have been expenses associated with enhancements to our trading systems, royalty fees to licensors of proprietary products and litigation expenses.

**Results of Operations**

The following table sets forth our unaudited condensed consolidated statements of income data for periods presented as a percentage of total revenue.

	Nine Mos. Ended Sept 30, 2008	Nine Mos. Ended Sept 30, 2007	Year Ended Dec 31, 2007	Year Ended Dec 31, 2006	Year Ended Dec 31, 2005	Six Mos. Ended Dec 31, 2005	Six Mos. Ended Dec 31, 2004	Year Ended June 30, 2004	Year Ended June 30, 2003
<b>Operating Data</b>									
Revenue									
Transaction Fees	80.5%	76.7%	76.9%	72.2%	70.5%	71.3%	68.3%	67.0%	64.0%
Other Member Fees	6.4%	7.4%	7.5%	8.6%	11.5%	10.9%	13.5%	14.7%	16.3%
OPRA Income	4.7%	5.7%	5.3%	7.7%	8.2%	7.9%	8.9%	8.4%	9.5%
Regulatory Fees	2.9%	4.1%	4.1%	5.4%	5.8%	5.7%	6.4%	6.5%	6.6%
Investment Income	1.8%	2.2%	2.3%	1.9%	1.0%	1.1%	0.4%	0.1%	0.2%
Other	3.7%	3.9%	3.9%	4.2%	3.0%	3.1%	2.5%	3.3%	3.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Expenses									
Employee Costs	17.9%	23.2%	23.7%	30.9%	36.8%	36.4%	37.3%	39.9%	39.1%
Outside Services	5.9%	6.5%	6.6%	7.9%	9.1%	10.1%	10.0%	8.8%	7.2%
Facilities Costs	0.9%	1.3%	1.2%	1.7%	1.9%	2.1%	2.2%	2.5%	2.6%
Data Processing	4.5%	5.6%	5.6%	7.4%	9.5%	9.2%	10.3%	10.4%	10.8%
Travel & Promotion	2.5%	2.7%	2.8%	2.8%	3.3%	3.3%	3.2%	3.7%	3.0%
Depreciation & Amortization	6.2%	7.4%	7.2%	11.0%	14.0%	13.6%	17.9%	17.1%	17.9%
Royalty Fees	8.1%	8.4%	8.2%	9.1%	10.8%	10.1%	10.1%	9.1%	6.7%
Net loss from investment in affiliates	0.2%	0.3%	0.3%	0.3%	0.1%	(0.4%)	1.6%	2.5%	2.5%
Impairment of investment in affiliate and other assets	0%	0%	0%	0%	1.4%	1.7%	1.3%	1.4%	0%
Other	5.3%	4.6%	4.7%	1.0%	3.3%	3.3%	3.3%	3.1%	2.0%
<b>Total Expense</b>	<b>51.5%</b>	<b>60.0%</b>	<b>60.3%</b>	<b>72.1%</b>	<b>90.2%</b>	<b>89.4%</b>	<b>97.2%</b>	<b>98.5%</b>	<b>91.8%</b>
Income Before Taxes	48.5%	40.0%	39.7%	27.9%	9.8%	10.6%	2.8%	1.5%	8.2%
Provision for Taxes	19.5%	16.6%	16.1%	11.6%	4.4%	4.8%	1.4%	0.5%	3.7%
<b>Net Income</b>	<b>29.0%</b>	<b>23.4%</b>	<b>23.6%</b>	<b>16.3%</b>	<b>5.4%</b>	<b>5.8%</b>	<b>1.4%</b>	<b>1.0%</b>	<b>4.5%</b>

*Nine months ended September 30, 2008 compared to the nine months ended September 30, 2007*

**Overview**

For the nine months ended September 30, 2008 net income increased 53% to \$92.7 million from \$60.6 million in the same period last year. Expressed as a percent of total revenues, net income rose to 29.0% for the nine-month period ended September 30, 2008 compared with 23.4% for the same nine-month period in 2007. The increase in net income for 2008 compared with 2007 was fueled by growth in trading volume accompanied by stringent expense management, resulting in improved operating income, offset somewhat by a higher effective income tax rate.

**Revenues**

Consolidated total revenues for the nine months ended September 30, 2008 were \$319.8 million, an increase of \$60.5 million, or 23%, compared with the same period a year ago. A significant portion of the increase was attributable to higher volume-related transaction fees, which rose by \$58.4 million, accounting for 96% of the revenue gain. Total options contract volume was up 31%, with 899.6 million contracts traded for the first nine months of 2008 compared with 686.0 million contracts for the same period in 2007.

*Transaction Fees*

Transaction fees grew 29% to \$257.3 million for the nine months ended September 30, 2008, representing 80.5% of total revenues, compared with \$198.9 million for the prior-year period, or 76.7% of total revenues. This increase was a result of strong trading volume. CBOE's average daily volume was 4.76 million contracts for the first nine months of 2008, a 30 percent increase compared with last year's average daily volume of 3.67 million contracts. In addition, the transaction fee per contract declined slightly to \$0.286 for the nine-month period ended September 30, 2008 compared with \$0.290 for the same period in 2007. The lower transaction fee per contract reflects the impact of CBOE's sliding scale fee structure at higher volume levels and a decline in the percentage of trading volume coming from CBOE's higher-margin product categories.

*Other Member Fees*

Other member fees for the nine months ended September 30, 2008 increased 6% to \$20.4 million from \$19.3 million in the comparable period last year, representing 6.4% and 7.4% of total revenues for 2008 and 2007, respectively. Other member fees primarily represent member dues, member user fees and systems services which are mostly fixed and are not directly influenced by trading volume. For the first nine months of 2008, higher fees generated from systems services more than offset lower fees associated with membership dues and trading floor charges.

The increase in systems services revenue was primarily driven by a new co-location fee implemented in 2008, which is assessed to firms for locating their trading systems in close proximity to CBOE's systems and trading floor. In addition, revenue from trade match reports increased due to higher demand for that service, which is correlated to trading volume. The decline in membership dues and trading floor charges is primarily due to: (1) a drop in the number of members, with fewer CBOE Temporary Members (former members who previously had obtained membership through use of the Exercise Right) trading at CBOE, (2) changes in CBOE's member fee structure and (3) the shift in members accessing our trading environment remotely rather than through open outcry on our trading floor. With the number of members on the floor going down, revenue from user-based fees such as trading floor booths and telecommunications services provided by CBOE have declined as well.

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### *Options Price Reporting Authority (OPRA) Income*

OPRA income increased 3% to \$15.1 million for the nine months ended September 30, 2008 from \$14.7 million in the comparable period last year. As a percent of total revenues this category accounted for 4.7% of total revenues for the first nine months of 2008 compared with 5.7% in the same period last year. OPRA income, or market data fees, is allocated through OPRA based on each exchange's share of total options transactions cleared. CBOE's share of total options transactions cleared decreased about 2 percentage points through the nine months ended September 30, 2008 compared with the prior-year period. However, this decline was more than offset by an 11% rise in OPRA's net distributable revenue for the first nine months of 2008 compared with the same period in 2007.

### *Regulatory Fees*

Regulatory fees decreased 12% to \$9.3 million for the nine months ended September 30, 2008 compared with \$10.6 million for the same period in 2007. As a percent of total revenues this category accounted for 2.9% and 4.1% of total revenues for the first nine months of 2008 and 2007, respectively. The decline was due to lower registered representative renewal fees recognized for the nine months ended September 30, 2008 compared with the same period last year, primarily due to a change in CBOE's regulatory fee structure.

### *Investment Income*

Investment income was \$5.9 million (1.8% of total revenues) for the first nine months of 2008, representing a 3% increase compared with \$5.7 million (2.2% of total revenues) for the same period last year. The growth in investment income was due to higher invested cash resulting from the increase in excess cash available, offset somewhat by a decline in the yield realized this year compared to 2007.

### *Other Revenue Sources*

Revenue from other sources totaled \$11.7 million (3.7% of total revenues) for the nine months ended September 30, 2008 compared with \$10.1 million (3.9% of total revenues) for the comparable period in 2007. The main factors contributing to the growth in other revenue were: higher order routing cancel fees for the first nine months of 2008 versus 2007, which are correlated to volume growth; access fees charged to interim trading permit users, a new source of revenue in 2008; and revenue generated from fines assessed for rule violations. Offsetting these favorable variances somewhat was a \$1.9 million decrease in license fee assessments related to a member firm fee cap program that was modified in 2007. In 2007, CBOE implemented new transaction fee surcharges on certain licensed products, and at the same time, reduced the license fee assessment to mitigate charges to those firms that exceeded the trading cap.

### **Expenses**

Total operating expenses increased 6% to \$164.6 million for the nine months ended September 30, 2008 compared with \$155.6 million in the year ago period. Operating expenses as a percent of total revenues decreased to 51.5% in the first nine months of 2008 from 60.0% in the comparable 2007 period. Growth in revenues exceeded the increase in expenses, resulting in an increase in CBOE's operating margin to 48.5% for the nine months ended September 30, 2008 from 40.0% in the same period in 2007. The higher operating margin was primarily due to meaningful growth in contracts traded, enabling CBOE to gain greater operating leverage, reflecting the scalability inherent in its business model combined with its focus on tight expense control.

For the nine months ended September 30, 2008, employee costs were \$57.4 million or 17.9% of total revenues, representing our largest expense category. For the same period last year, employee costs were \$60.3 million or 23.2% of total revenues. CBOE had 578 employees at September 30, 2008

compared with 588 at the end of September 2007, reflecting CBOE's effort to gain efficiencies. Year-to-date 2008, employee cost are down \$2.9 million, or 5%, compared with the same period last year primarily due to a \$3.0 million decrease in severance expense partially offset by a \$0.6 million increase in the accrual for year-end employee incentive awards, which are aligned with CBOE's improved financial performance.

Expenses related to outside services increased to \$18.8 million for the first nine months of 2008 compared with \$17.0 million in the prior-year period, representing 5.9% of total revenues and 6.5% of total revenues in the first nine months of 2008 and 2007, respectively. The \$1.8 million increase in expenses for outside services year-to-date 2008 compared with 2007 primarily reflects an increase in consulting fees for systems and software development and higher fees for contract services associated with the maintenance of CBOE's facilities. These increases were offset somewhat by a decline in legal expenses for the nine months ended September 30, 2008 compared with 2007.

Royalty fee expense for the first nine months of 2008 increased to \$25.9 million from \$21.9 million compared with the same period last year. This increase is directly related to the growth in the trading volume of CBOE's licensed options products. Royalty fees decreased to 8.1% of total revenues for the same period from 8.4% in 2007's comparable nine-month period as the trading volume in licensed products increased at a lower rate relative to non-licensed products in the first nine months of 2008 compared with 2007.

Depreciation and amortization charges increased by \$0.6 million to \$19.7 million for the nine months ended September 30, 2008 compared with the same period in 2007, reflecting additions to fixed assets which mainly represent improvements to our systems functionality and capacity. CBOE's capital spending through the first nine months of 2008 was \$34.3 million versus \$26.1 for the same period in 2007.

Travel and promotion expense increased to \$7.8 million in the first nine months of 2008 from \$6.9 million last year. The increase was primarily due to higher expenditures for special events and advertising, primarily to support CBOE's branding initiatives, new product introductions and promotions. In 2007, CBOE launched a new branding initiative to build awareness and illustrate its leadership position in the options marketplace. As a percent of total revenues, travel and promotion expenses declined to 2.5% for the first nine months of 2008 from 2.7% for the same period in 2007.

Net loss from investment in affiliates was \$0.6 million for the nine months ended September 30, 2008 compared with \$0.7 million for the same period in the prior year, which primarily relates to CBOE's share of operating losses for OneChicago.

Other expenses totaled \$17.1 million for the first nine months of 2008, up \$5.2 million from the year ago period. The higher expense mainly resulted from a linkage program for designated primary market makers (DPMs). The program reimburses DPMs for the cost of linking customer orders to markets at other exchanges. Another factor was the cost related to a new liquidity provider rebate program, which provides incentives to market participants for executing orders at CBOE as opposed to routing to other markets.

For the nine months ended September 30, 2008, the provision for income taxes was \$62.5 million compared with \$43.1 million for the same period in 2007. This increase is directly related to the increase in income before taxes. The effective tax rate was 40% and 42% for the nine months ended September 30, 2008 and 2007, respectively. The effective tax rate for 2008 was lower than 2007 as net income before taxes increased while the permanent differences and other adjustments remained at similar levels, which reduces the impact of permanent tax differences on a percentage basis. The effective tax rate for the first nine months of 2007 was slightly higher than the corporate federal and state combined rate of 40% due to expenses that are non-deductible for tax purposes, such as demutualization costs, lobbying costs, certain travel and meeting expenses, and political contributions.

*Year ended December 31, 2007 compared to the year ended December 31, 2006*

## Overview

For the year ended December 31, 2007, net income increased \$41.1 million, or 98%, to \$83.2 million (23.6% of total revenues) from \$42.1 million (16.3% of total revenues) for the year ended December 31, 2006, primarily driven by higher trading volume while also benefiting from strong expense controls. Options contract volume totaled 944.5 million contracts traded in 2007 compared with 674.7 million contracts in 2006, a 40% increase.

## Revenues

Consolidated total revenues for the year ended December 31, 2007 were \$352.3 million, an increase of \$94.3 million, or 37%, compared with last year's total revenues of \$258.0 million. The majority of the rise is attributable to volume related transaction fees, which increased \$84.6 million, accounting for 90% of the revenue gain.

### *Transaction Fees*

Transaction fees rose 45% to \$270.9 million for the 2007 fiscal year, representing 76.9% of total revenues, compared with \$186.3 million for the prior year period, or 72.2% of total revenues. This increase was fueled by robust trading volume. CBOE's average daily volume of options contracts traded was 3.76 million contracts for the year ended December 31, 2007, a 40 percent increase compared with last year's comparable average of 2.68 million contracts. Additionally, the transaction fee per contract increased 4 percent to \$0.287 for the year from \$0.276 for the 2006 fiscal year, contributing to the growth in transaction fees. This increase reflects targeted fee changes implemented in 2007 combined with a shift in the volume mix favoring higher-margin product categories.

### *Other Member Fees*

Other member fees increased 19% to \$26.5 million for the year ended December 31, 2007 from \$22.3 million in the comparable period last year, representing 7.5% and 8.6% of total revenues for 2007 and 2006, respectively. Other member fees primarily represent member dues, member user fees and systems services which are mostly fixed and are not directly influenced by trading volume. For the 2007 fiscal year, higher fees generated from systems services more than offset lower fees associated with membership dues and trading floor charges. The increase in systems services revenue was primarily driven by a new fee that was implemented in 2007, which is assessed based on quote volume. In addition, revenue from trade match reports increased due to higher demand for that service, which is correlated to trading volume. The decline in membership dues and trading floor charges is primarily due to: (1) a drop in the number of members, with fewer exercise right holders trading at CBOE, (2) changes in CBOE's member fee structure and (3) the shift in members accessing our trading environment remotely rather than through open outcry on our trading floor. With the number of members on the floor going down, revenue from user-based fees such as trading floor booths and telecommunications services provided by CBOE have declined as well.

### *Options Price Reporting Authority (OPRA) Income*

OPRA income declined 5% to \$18.9 million for the year ended December 31, 2007 from \$20.0 million in the comparable period last year. As a percent of total revenue this category accounted for 5.3% of total revenues for the 2007 fiscal year compared with 7.7% in the same period last year. OPRA income, or market data fees, is allocated through OPRA based on each exchange's share of total options transactions cleared. CBOE's share of total options transactions cleared declined in the second half of 2007, dropping about 2 percentage points for the full year compared with 2006, accounting for the decline in OPRA income. The decline in CBOE's income allocation percentage was

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offset to some degree by a 2% rise in the net distributable revenue for OPRA in the year ended December 31, 2007 compared with the year ended December 31, 2006.

### *Regulatory Fees*

Regulatory fees rose 4% to \$14.3 million for the year ended December 31, 2007 compared with \$13.8 million for the same period in 2006. As a percent of total revenue this category accounted for 4.1% of total revenues for the year ended December 31, 2007 compared with 5.4% in the prior year period. Higher registered representative fees associated with the hiring of account executives by member firms accounted for the growth in regulatory fees in 2007.

### *Investment Income*

Investment income was \$8.0 million (2.3% of total revenues) for the 2007 fiscal year, a 69% increase compared with \$4.7 million (1.9% of total revenues) for the 2006 fiscal year. The increase in investment income is attributable to higher invested cash due to the increase in excess cash available as a result of CBOE's improved financial performance. In addition, investment income benefited from a modest improvement in yields.

### *Other Revenue Sources*

Revenue from other sources totaled \$13.6 million (3.9% of total revenues for the period) for the year ended December 31, 2007 compared with \$10.9 million (4.2% of total revenues for the period) for the comparable period in 2006. The most significant factors contributing to the growth in other revenue were: order routing cancel fees, which increased \$1.9 million in 2007 and are correlated to overall volume growth; fees from CBOE's Market Data Express, which provides historical market data, contributed incremental income of \$0.5 million; business conduct fines, which grew by \$1.5 million and revenue generated from ads on CBOE's website, which was up by \$0.4 million in 2007 compared with 2006. Offsetting these favorable variances somewhat was a \$2.2 million revenue decrease in license fee assessments related to a member firm fee cap program that was modified in 2007. In 2007, CBOE implemented new transaction fee surcharges on certain licensed products, and at the same time, reduced the license fee assessment to mitigate charges to those firms that exceeded the trading cap.

### **Expenses**

Total operating expenses were \$212.4 million for the year ended December 31, 2007 compared with \$186.0 million in the year ended December 31, 2006. Operating expenses as a percent of total revenues decreased to 60.3% in 2007 from 72.1% in 2006 thereby increasing the operating margin to 39.7% for the year ended December 31, 2007 from 27.9% in the year ended December 31, 2006. The higher operating margin was primarily due to significant increases in average daily contract volume and the scalability and operating leverage inherent in CBOE's business model combined with our cost control initiatives.

For the year ended December 31, 2007, employee costs were \$83.5 million or 23.7% of total revenues, representing our largest expense category. For the same period last year, employee costs were \$79.8 million or 30.9% of total revenues. CBOE had 586 employees at December 31, 2007 compared with 626 at year end 2006, reflecting CBOE's efforts to maintain strong expense controls. The increase in employee costs in 2007 compared with 2006 is primarily attributable to higher employee incentive awards, which are aligned with CBOE's improved financial performance.

Outside services costs increased to \$23.4 million for the 2007 fiscal year compared with \$20.5 million in the prior year, representing 6.6% of total revenues and 7.9% of total revenues in 2007 and 2006, respectively. The \$2.9 million increase in expenses related to outside services in 2007 compared with 2006 primarily reflects higher legal expenses relating to the exercise right issue and

other legal matters, more spending on contract services relating to software development costs and additional costs associated with electrical services.

Royalty fee expense for the 2007 fiscal year increased to \$29.0 million from \$23.6 million compared with 2006. This increase is directly related to the growth in the options contract volume of licensed products. Royalty fees decreased to 8.2% of 2007's total revenues from 9.1% in 2006 as the trading volume in licensed products increased at a lower rate relative to non-licensed products in 2007 compared with 2006.

Depreciation and amortization charges declined by \$2.9 million to \$25.3 million for the year ended December 31, 2007 compared with 2006. This decrease was attributable to certain assets becoming fully depreciated in 2006 or early 2007 and rolling off the depreciation expense schedule. Most notably, the initial investment in our Hybrid Trading System was fully depreciated in late 2006.

Travel and promotion expense increased to \$9.6 million in 2007 from \$7.2 million in 2006. The increase was primarily due to higher advertising costs related to new product introductions and promotions. In 2007, CBOE launched a new branding initiative to build awareness and illustrate its leadership position in the options marketplace. As a percent of total revenues, travel and promotion expenses remained even at 2.8% in 2007 and 2006.

Net loss from investment in affiliates was \$0.9 million in the year ended December 31, 2007 compared with \$0.8 million in the year ended December 31, 2006, which primarily relates to CBOE's share of operating losses for OneChicago.

Other expenses totaled \$16.6 million in 2007, up from \$2.5 million in 2006. The higher expense level is mainly due to the impact of CBOE benefiting from a \$7.1 million refund in 2006 associated with the settlement of a class action suit that related to the 2000 fiscal year. Given that all the appeals related to the suit were exhausted in 2006, the refund was taken as a reduction in expense in the 2006 fiscal year. There was no comparable credit or refund recorded in 2007, resulting in a negative variance between the two periods. The expense incurred in 2000 relating to this settlement was \$16.0 million and was shown as a separate line item as settlement expense in CBOE's statement of income for the year ended June 30, 2000. For a further discussion, please see "Business Legal Proceedings" on page 100. In addition, other expenses include a \$3.6 million loss incurred from the sale of our investment in HedgeStreet. For a further discussion, please see "Business Other Business Relationships" on page 97.

For the year ended December 31, 2007, the provision for income taxes was \$56.8 million compared with \$29.9 million for the year ended December 31, 2006. This increase is directly related to the increase in income before taxes. The effective tax rate was 41% and 42% for the year ended December 31, 2007 and December 31, 2006, respectively. The effective tax rate for 2007 was lower than 2006 as net income before taxes increased while the permanent differences and other adjustments remained at similar levels, which reduces the impact of permanent tax differences on a percentage basis. The effective tax rates for 2007 and 2006 are slightly higher than the corporate federal and state combined rate of 40% due to expenses that are non-deductible for tax purposes, such as lobbying costs, certain travel and meeting expenses, and political contributions.

#### *Year ended December 31, 2006 compared to the year ended December 31, 2005*

#### **Overview**

Net income increased from \$10.9 million in the year ended December 31, 2005 (5.4% of gross revenue) to \$42.1 million in the year ended December 31, 2006 (16.3% of gross revenue) mainly because of increased trading volume. Options contract volume totaled 674.7 million contracts traded in 2006 compared to 468.2 million contracts during 2005.

## Revenues

Consolidated operating revenues for the year ended December 31, 2006 were \$258.0 million, an increase of 27.1% from the \$203.1 million in the year ended December 31, 2005. Of the total \$54.9 million increase, \$43.0 million is from the volume related transaction fees category.

### *Transaction Fees*

Transaction fees totaled \$186.3 million in the year ended December 31, 2006 (72.2% of gross revenue for the period) compared to \$143.3 million (70.5% of gross revenue for the period) in the year ended December 31, 2005, representing an increase of 30%. This increase resulted from a 45% increase in trading volume, offset somewhat by a 10% decline in the average rate per contract. Trading volume during the year ended December 31, 2006 averaged 2.68 million contracts per day, a 44.9% increase from the 1.85 million contracts per day that we averaged during the year ended December 31, 2005. This increase in trading volume caused transaction fees, which are mostly variable with contract volume, to be a larger percentage of gross revenue in the year ended December 31, 2006 compared to the year ended December 31, 2005. The average rate per contract traded decreased to \$0.276 for 2006 compared with \$0.306 for the same period in 2005. This decrease reflects the impact of certain fee incentive programs implemented in 2006 in an effort to attract and retain customers. In 2006, CBOE experienced a higher level of fee reductions which are tied to volume, including fixed fee and firm fee cap programs which limit fees at certain trading thresholds.

### *Other Member Fees*

Other member fees totaled \$22.3 million in the year ended December 31, 2006 (8.6% of gross revenue for the period) compared to \$23.3 million (11.5% of gross revenue for the period) in the year ended December 31, 2005. Other member fees declined as a percentage of gross revenue in the year ended December 31, 2006 because this revenue category is represented by member dues and member user fees which are mainly fixed and do not vary directly with trading volume. In addition, the total amount of revenue declined because more of our members accessing our trading environment remotely rather than through open-outcry on our trading floor. This decline in the number of members on our trading floor is the main reason why revenue from user-based fees such as trading floor booths, and the CBOE provided telecommunications services has declined.

### *Options Price Reporting Authority (OPRA) Income*

OPRA income totaled \$20.0 million in the year ended December 31, 2006 compared to \$16.7 million in the year ended December 31, 2005. OPRA income increased because the CBOE's overall share of OPRA revenue increased with our share of total options transactions cleared and because total net distributable revenue for OPRA increased from the year ended December 31, 2005 to the year ended December 31, 2006.

### *Regulatory Fees*

Regulatory fees totaled \$13.8 million for the year ended December 31, 2006 compared to \$11.8 million for the same period in 2005. As a percent of total revenue this category accounted for 5.4% of gross revenue for the year ended December 31, 2006 compared to 5.8% in the year ended December 31, 2005. Regulatory fees increased in 2006 compared to 2005 because a certain portion of this revenue source is directly tied to the gross revenue of those firms that CBOE regulates. In the year ended December 31, 2006, in conjunction with overall volume, the gross revenue of those member firms also increased.

*Investment Income*

Investment income increased to \$4.7 million in the year ended December 31, 2006 compared to \$2.0 million in the year ended December 31, 2005, representing 1.9% and 1.0% of gross revenue for 2006 and 2005, respectively. The increase in investment income is attributable to increased excess cash available to invest due to CBOE's focus on profitability and higher interest rates.

*Other Revenue Sources*

All other revenue sources totaled \$10.9 million (4.2% of gross revenue for the period) for the year ended December 31, 2006 compared to \$5.9 million (3.0% of gross revenue for the period) for the same period in 2005. The most significant other revenue sources were license fee surcharges which increased to \$3.9 million in the year ended December 31, 2006 compared to \$1.6 million in the year ended December 31, 2005 and order routing cancel fees which were \$1.6 million, contributing a \$0.7 million increase compared with 2005. These increases were driven by the growth in overall volume as well as electronic trading. In addition, revenue from CBOE website ads rose to \$1.9 million, up \$0.4 million compared with 2005.

**Expenses**

Operating expenses totaled \$186.0 million for the year ended December 31, 2006 compared to \$183.2 million in the year ended December 31, 2005. Operating expenses, as a percent of total revenues decreased from 90.2% in 2005 to 72.1% for 2006 thereby increasing the operating margin to 27.9% in the year ended December 31, 2006 from 9.8% in the year ended December 31, 2005. This increase in operating margin was due primarily to significant increases in average daily contract volume and the positive operating leverage inherent in our business model.

Employee costs were \$79.8 million in the year ended December 31, 2006, representing 30.9% of gross revenue for the period. For the year ended December 31, 2005, employee costs totaled \$74.7 million or 36.8% of gross revenue for the period. The CBOE employed 673 employees at December 31, 2005 compared to 626 at December 31, 2006. In February 2006, the CBOE implemented a reduction-in-force and eliminated 76 positions. The severance expense related to this program totaled \$3.7 million. No comparable program was implemented during the year ended December 31, 2005.

Outside services costs were \$20.5 million in the year ended December 31, 2006, representing 7.9% of gross revenue for the period. In the year ended December 31, 2005, outside services totaled \$18.4 million or 9.1% of gross revenue for the period. Work related to new litigation resulted in a \$1.6 million increase in legal fees when comparing the year ended December 31, 2006 to the same period in 2005. In addition, contract services related to website improvements and customer service efforts increased by \$0.8 million in the year ended December 31, 2006 compared to the year ended December 31, 2005.

Travel and promotion expense increased from \$6.8 million in 2005 to \$7.2 million in 2006. The increase was due to increased advertising costs related to new product introduction and promotion. As a percentage of gross revenue travel and promotion represented 2.8% in 2006 compared to 3.3% in 2005.

Royalty fee expense for the year ended December 31, 2006 was \$23.6 million (9.1% of gross revenue) compared to \$22.0 million (10.8% of gross revenue) in the same period in 2005. Royalty fees increased because options contract volume in licensed products was higher. Royalty fees decreased as a percent of gross revenue because volume in licensed products increased at a lower rate relative to non-licensed products when comparing the two periods.

Net loss from investment in affiliates was \$0.8 million in the year ended December 31, 2006, an increase of \$0.6 million from \$0.2 million in the year ended December 31, 2005. The net loss represents

the net affect of our equity loss in OneChicago and equity in income of NSX. In 2006, our equity loss in OneChicago declined by \$1.7 million due to its improved operating results as well as the fact that OneChicago took on another significant investor in early 2006 which had the effect of decreasing the CBOE's share of OneChicago's profit or loss from 40% to 24%. Conversely, our equity income in NSX was \$2.3 million lower in 2006 compared with 2005 due to CBOE's lower equity position in NSX. CBOE's ownership of NSX Class A voting stock declined in 2006 as a result of NSX's demutualization.

Impairment of investment in affiliate and other assets dropped to \$0.1 million in 2006 compared with \$2.8 million in 2005. This decline was primarily the result of a reduction in the impairment charge related to our investment balance in NSX. The impairment charge was taken to offset our equity in NSX net income to eliminate an increase in our NSX investment balance in accordance with our agreement to sell our stock back to NSX over the next few years. For a further discussion, please see "Business Other Business Relationships" on page 97.

Other expense totaled \$2.5 million or 1.0% of gross revenue in the year ended December 31, 2006 and \$6.8 million or 3.3% of gross revenue in the year ended December 31, 2005. In December, the CBOE recognized a partial refund of \$7.1 million of a settlement of a class action suit in 2000. Since all appeals had been exhausted, the CBOE realized the refund as a reduction in expense. The expense incurred in 2000 relating to this settlement was \$16.0 million and was shown as a separate line item as settlement expense in CBOE's statement of income for the year ended June 30, 2000. Offsetting this reduction is an increase in payments made to lead market makers for providing quotes in some of our index products. In the year ended December 31, 2006, \$2.9 million was expensed compared to \$1.9 million in the year ended December 31, 2005 within this category. Additionally, expense related to the reimbursement of DPM's for linkage costs increased by \$2.2 million when comparing the year ended December 31, 2006 to the year ended December 31, 2005. The program was begun in 2006.

The provision for income taxes was \$29.9 million for the year ended December 31, 2006 compared to \$9.0 million for the year ended December 31, 2005. The effective tax rate was 42% and 45% for the year ended December 31, 2006 and the year ended December 31, 2005, respectively. The 2006 rate is higher than the corporate federal and state combined rate of 40% due to expenses that are non-deductible for tax purposes, such as lobbying costs, certain travel and meeting expenses, and political contributions.

#### ***Financial Position at September 30, 2008 and December 31, 2007***

Total assets were \$475.9 million as of September 30, 2008, an increase of \$134.2 million compared with assets at December 31, 2007 of \$341.7 million. This increase was primarily driven by the higher number of contracts traded at CBOE and its corresponding growth in earnings. The following highlights the key factors that affected our change in total assets:

Cash and cash equivalents increased by \$84.4 million to \$265.9 million, reflecting the increase in cash available to invest due to the positive cash being generated from our operations. Our cash and cash equivalents are primarily comprised of investments in money market accounts and highly liquid investments with maturities of three months or less from the date of purchase.

Cash equivalents restricted funds increased \$16.7 million and represent cash being held in an interest-bearing escrow account. In 2007, CBOE extended the membership status of certain qualifying members pending the resolution of the exercise right issue. CBOE charges these members a monthly access fee based on the prevailing CBOE lease rates. These fees are being recognized as deferred revenue and held in a restricted, interest bearing cash account. As part of the Settlement Agreement, certain Participating Group A Settlement Class Members who were also CBOE Temporary Members will receive a refund of these access fees upon CBOE's demutualization. These class members will receive a payment equal to the amount they paid in access fees as CBOE Temporary Members from July 1, 2007 to May 31, 2008. CBOE's total

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liability for these payments is capped at \$2.8 million. Subject to the SEC's approval of a future rule change, these same people would receive an additional payment equal to any access fees paid by any such person between June 1, 2008 and CBOE's demutualization. CBOE will recognize any unrefunded fees as income when the Settlement Agreement becomes final.

Accounts receivable rose \$17.4 million reflecting higher transaction fees due to CBOE from The Options Clearing Corporation at September 30, 2008 compared with December 31, 2007, fueled by higher trading volume.

The increase in property and equipment and other assets reflects CBOE's investments made in software applications and hardware to enhance our systems capacity and functionality. With the growth in trading volume as well as the increasing sophistication and complexity of trading strategies, CBOE's capital expenditures predominately support its technology and trading platform. The higher level of spending in 2008 also was attributable to the development of initial systems requirements for C2, CBOE's alternative exchange initiative. This new, all-electronic options marketplace, is expected to launch in 2009 and will provide a new trading solution for market participants.

At December 31, 2007, total assets were \$341.7 million, an increase of \$85.9 million versus year-end 2006. This increase was primarily due to the higher transaction volumes experienced by CBOE and its corresponding growth in earnings. The following highlights the key factors that impacted the change in total assets:

Cash and cash equivalents rose by \$98.9 million to \$181.4 million, reflecting the increase in cash available to invest due to the positive cash being generated from our operations. Our cash and cash equivalents are primarily comprised of investments in money market accounts and highly liquid investments with maturities of three months or less from the date of purchase.

Cash equivalents restricted funds increased \$4.2 million and represent cash being held in an interest-bearing escrow account. In 2007, CBOE extended the membership status of certain qualifying members pending the resolution of the exercise right issue. CBOE charges these members a monthly access fee based on recent CBOE lease rates. These fees are being recognized as deferred revenue and held in a restricted, interest bearing cash account.

Investments available for sale declined by \$20.0 million for the year ended December 31, 2007 compared to year-end 2006 as the investments matured and converted to cash and cash equivalents during 2007. The company held Treasury Bills at year-end 2006 which matured in 2007.

Investments in affiliates fell to \$8.1 million at year-end 2007 from \$12.8 at December 31, 2006, primarily due to CBOE's disposition of its investment in HedgeStreet.

The increase in property and equipment and other assets reflects CBOE's investments made in software applications and hardware to enhance our systems capacity and functionality. With the growth in trading volume as well as the increasing sophistication and complexity of trading strategies, CBOE's capital expenditures predominately support its technology and trading platform.

At December 31, 2006, total assets were \$255.8 million, a \$53.6 million increase from the December 31, 2005 balance of \$202.2 million. Cash and cash equivalents increased by \$17.4 million, which reflects cash generated from operations of \$69.4 million and \$28.7 million for capital expenditures, mostly related to new systems application development and hardware for capacity-related needs. In addition, the CBOE received \$3.0 million from the sale of a portion of its investment in the NSX, contributed \$3.8 million as an investment in HedgeStreet, Inc., paid \$1.2 million as an additional capital contribution to OneChicago and used \$1.4 million to purchase a CBOE Seat. Investments in

affiliates increased by \$5.7 million to \$12.8 million reflecting a bonus relating to a significant investment by a new partner in OneChicago and CBOE's \$3.8 million investment in HedgeStreet, Inc.

At September 30, 2008, total liabilities were \$116.8 million, an increase of \$41.5 million from December 31, 2007. This increase resulted from higher accounts payable and accrued expenses and an increase in the current amounts owed for marketing fees, membership transfer deposits, deferred revenue and income taxes. In addition, non-current deferred income taxes increased by \$0.7 million during the nine months ended September 30, 2008.

At December 31, 2007, total liabilities were \$75.3 million, an increase of \$2.9 million from December 31, 2006. This increase reflects higher current amounts owed related to our marketing fee and deferred revenue, offset somewhat by lower amounts due related to membership transfer deposits. In addition, non-current deferred income taxes decreased by \$1.0 million during the twelve months ended December 31, 2007.

At December 31, 2006, total liabilities were \$72.4 million, an increase of \$11.2 million compared to December 31, 2005. This increase is the result of higher accounts payable and accrued expenses and an increase in the current amounts owed related to our marketing fee and membership transfer deposits. Non-current deferred income taxes decreased by \$2.1 million during the twelve months ended December 31, 2006.

### **Liquidity and Capital Resources**

Historically, we have financed our operations and cash needs through income generated from operations. Cash requirements principally consist of funding capital expenditures and working capital. At September 30, 2008, we had \$265.9 million in cash and cash equivalents and \$20.9 million in cash equivalents in restricted funds. At December 31, 2007, we had \$181.4 million in cash and cash equivalents and \$4.2 million in cash equivalents in restricted funds. December 31, 2006, we had \$82.5 million in cash and cash equivalents and \$19.6 million in investments-available for sale. At December 31, 2005 we had \$65.1 million in cash. We anticipate that current cash balances and future funds generated through operations will be sufficient to meet cash requirements for operations currently and in the long term. If the cash flows from operations are significantly affected due to increased competition, we currently have a variety of capital options for satisfying short-term cash needs, such as reducing cash and cash equivalents to provide needed funds or securing a line of credit. As part of the Settlement Agreement, CBOE will be required to pay qualifying class members \$300 million in cash upon the completion of the restructuring transaction. To ensure that the company has adequate funds available, it is working to secure a \$150 million revolving line of credit. CBOE does not anticipate that it will need to draw down the full amount of the facility to meet its obligation under the Settlement Agreement, but wants to ensure that it has flexibility in accessing available sources of funds. The revolving line of credit is expected to be in place in early 2009. As of September 30, 2008 and December 31, 2007, the CBOE had no debt.

#### *Net Cash Flows from Operating Activities*

Net cash provided by operating activities increased by \$53.7 million to \$133.8 million in the nine months ended September 30, 2008 from \$80.1 million in the first nine months of 2007. Net cash provided by operating activities primarily consists of net income adjusted for certain non-cash items including depreciation and amortization and the effects of changes in working capital. Changes in net cash provided by operating activities are primarily attributable to increases in our net income between periods, and to a lesser degree, due to fluctuations in working capital. The increase in net cash provided by operations for the first nine months of 2008 was primarily as a result of CBOE's improved operating results and non-cash expenses such as depreciation and amortization. In the first nine months of 2008, net cash flows were also positively impacted by a \$22.2 million increase in deferred revenue,

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which resulted primarily from higher deferred revenue from the prepayment of transaction fees and from the establishment of a monthly access fee for certain CBOE members whose membership had been temporarily extended pending the resolution of the exercise right issue. These monthly fees are being deferred and placed in an interest-bearing escrow account pending the final approval of the exercise right litigation.

Net cash provided by operating activities was \$115.2 million, \$69.4 million and \$37.3 million for 2007, 2006 and 2005, respectively. Net cash provided by operating activities primarily consists of net income adjusted for certain non-cash items including depreciation and amortization and the effects of changes in working capital. Changes in net cash provided by operating activities are primarily attributable to increases in our net income between periods, and to a lesser degree, due to fluctuations in working capital. The net cash provided by operations increased considerably in 2007 primarily as a result of CBOE's improved operating results and non-cash expenses such as depreciation and amortization and a \$3.6 million loss recognized on the sale of our investment in HedgeStreet. In 2007, net cash flows were also positively impacted by a \$4.8 million increase in deferred revenue, which primarily resulted from the establishment of a monthly access fee for certain CBOE members whose membership had been temporarily extended pending the resolution of the exercise right issue. These monthly fees are being deferred and placed in an interest-bearing escrow account pending the legal resolution of this matter. In 2006, net cash also increased significantly compared to the prior periods in conjunction with net income for the period. In 2005 net cash generated does not vary significantly, although some changes occurred. In October 2004 the CBOE allowed certain members to fix their transaction fees for the year by prepaying them a year in advance. In October 2004, a total of \$10.5 million was paid to the CBOE for transaction fees incurred in 2005. This prepayment was amortized during 2005. In 2005 net income increased by \$9.7 million to \$10.9 million reflecting increased trading activity during 2005. Offsetting this increase was a decrease in deferred revenue of \$11.4 million.

### *Net Cash Flows from Investing Activities*

Net cash used in investing activities was \$49.3 million and 7.2 million for the nine months ended September 30, 2008 and 2007, respectively, and \$16.2 million, \$51.8 million and \$11.0 million for the years ended December 31, 2007, 2006 and 2005, respectively. These amounts primarily related to capital expenditures in each year. In the first nine months of 2008 and 2007, we had capital expenditures of \$34.3 million and \$26.1 million, respectively, which are predominately for systems hardware and software. In the first nine months of 2008, the restricted funds increased to \$20.9 million from \$4.2 million at the end of 2007. In 2007, CBOE sold \$20.0 million in investments available for sale for cash which represents the maturity of Treasury Bills. In 2006, the CBOE invested \$19.5 million in Treasury Bills which was reflected as investments available for sale. In 2005, the CBOE sold \$6.0 million of investments available for sale for cash, and we sold 69 NSX certificates of proprietary memberships to the NSX, netting \$4.8 million.

### *Capital Expenditures*

Capital expenditures totaled \$34.3 million, \$32.1 million, \$28.7 million and \$21.0 million for the nine months ended September 30, 2008 and the 2007, 2006 and 2005 fiscal years, respectively. The majority of all of these capital expenditures were for the enhancement or the expansion of the CBOE trading technology and applications. CBOE continually invests in technology to support its trading platform to ensure that its systems are robust and have the capacity to handle the volume growth being witnessed in the options industry. In addition to capacity needs, our systems are constantly being modified to handle more complex trading strategies and sophisticated algorithms at the fastest possible response time. The higher level of spending in 2008 also was attributable to the development of initial systems requirements for C2, CBOE's alternative exchange initiative. This new, all-electronic options

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marketplace, will provide a new trading solution for market participants and is expected to launch in 2009. The capital investment for C2 is expected to be approximately \$25.0 million, with the majority of the systems development and corresponding capital outlay occurring in 2008.

At September 30, 2008, construction in progress totaled \$12.6 million, up \$12.2 million compared with December 31, 2007. This increase resulted from the work in progress to develop C2, CBOE's new alternative trading system. At year-end 2007, construction in progress totaled \$0.4 million, down from a balance of \$5.5 million at year-end 2006. The largest project in process in 2006 was for the installation of an uninterrupted power supply, which accounted for about 75% of the construction in progress. Other projects outstanding related to new hardware and a new cooling tower for controlling the temperature of our systems hardware. These projects were completed in 2007 and removed from construction in progress, resulting in the lower balance at year-end 2007.

### *Net Cash Flows from Financing Activities*

There were no net cash uses or sources from financing activities for the nine months ended September 30, 2008. Net cash used in financing activities totaled \$0.1 million for 2007, \$0.1 million for 2006 and \$6.9 million for 2005. The \$0.1 million used for 2007 and 2006 and the \$6.9 million used for 2005 occurred as a result of the purchase of 71 exercise right privileges from full members of the CBOT.

### **Lease and Contractual Obligations**

The CBOE leases office space in Chicago for its Regulatory Division, in New York for certain marketing activities and in the New York City metropolitan area for C2 with lease terms remaining from 9 months to 59 months as of September 30, 2008. In addition, CBOE has contractual obligations related to certain advertising programs. Total expenses related to these lease and contractual obligations for the nine months ended September 30, 2008 and 2007 were \$2.5 million and \$1.4 million, respectively. Future minimum payments under these non-cancelable agreements are as follows at September 30, 2008 (in thousands):

The following table shows the future minimum lease payments (in thousands) under these non-cancellable operating leases as of September 30, 2008:

	Total	Less than 1 year	1-2 years	2-3 years
Operating leases	\$ 8,792	\$ 780	\$ 4,595	\$ 3,417
Contractual Obligations	6,153	400	2,931	2,822
<b>Total</b>	<b>\$ 14,945</b>	<b>\$ 1,180</b>	<b>\$ 7,526</b>	<b>\$ 6,239</b>

### *OneChicago Venture*

In August 2001, we became a minority interest holder in the venture OneChicago with the CBOT and the Chicago Mercantile Exchange, or CME. In subsequent years, new investors have been added which include Interactive Brokers Group LLC and Urbana Corporation. OneChicago is a for-profit company whose business is to facilitate the electronic trading of securities futures, including futures on single stocks. Pursuant to the joint venture agreement, we were obligated to make capital contributions totaling approximately \$4.3 million, which was satisfied in February 2002. While not obligated to make further capital contributions to OneChicago, we made subsequent capital contributions of approximately \$11.4 million for a total investment of \$15.7 million as of June 30, 2006. CBOE made no contributions to OneChicago in 2007 or year-to-date 2008. However, we may elect to participate in additional capital requests in the future to maintain our relative ownership in OneChicago.

## Legal Issues

In September 2000, the CBOE reached an agreement in principle to settle a consolidated civil class action lawsuit filed against the CBOE and other U.S. options exchanges and certain market maker firms. The CBOE agreed to pay \$16.0 million, which was paid in full and held in escrow pending approval of the settlement agreement by the U.S. District Court for the Southern District of New York. In October 2005, the CBOE and other settling parties reached a revised settlement that resolved certain disputes concerning the interpretation of certain provisions of the original settlement agreement. As a result of the revised settlement, the CBOE's settlement amount was reduced to \$9.3 million. In February 2006, the U.S. District Court preliminarily approved the revised settlement, and the CBOE received a refund on its original settlement amount of \$7.1 million, including accrued interest. The district court granted final approval to the settlement, and entered final judgment in the case, in December 2006. The deadline to appeal the settlement has passed. No appeals were filed; therefore, this settlement is now final and binding. For a further discussion, please see "Business Legal Proceedings" on page 100.

The CBOE is currently a party to various legal proceedings. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. For a description of current CBOE litigation please see "Business Legal Proceedings" on page 100.

## Critical Accounting Policies

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual amounts could differ from those estimates. The following represents those critical accounting policies where materially different amounts would be reported under different conditions or using different assumptions.

### *Revenue Recognition*

Transaction fees revenue is considered earned upon the execution of the trade and is recognized on a trade date basis. In the event members pay for services in a lump-sum payment, revenue is recognized as services are provided. Other member fees revenue is recognized during the period the service is provided. The OPRA income is allocated based upon the share of total options transactions cleared for each of the OPRA members and is received quarterly. Estimates of OPRA's quarterly revenue are made and accrued each month. Regulatory Fees are predominately received in the month of December and are amortized monthly to coincide with the services rendered during the twelve-month period of July through June.

### *Long-lived Assets*

Long-lived assets to be held and used by us are reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. We base our evaluation on such impairment indicators as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If such impairment indicators are present that would indicate that the carrying amount of the asset may not be recoverable, we determine whether an impairment has occurred through the use of an undiscounted cash flow analysis of assets at the lowest level for which identifiable cash flows exist. In the event of impairment, we recognize a loss for the difference between the carrying amount and the estimated value of the asset as measured using quoted market prices or, in the absence of quoted market prices, a discounted cash flow analysis.

*Investments in Affiliates*

Investments in affiliates represent investments in OCC, OneChicago, LLC (OneChicago), The National Stock Exchange (NSX) and CBOE Stock Exchange, LLC (CBSX). The investment in OCC (20% of its outstanding stock) is carried at cost because of the CBOE's inability to exercise significant influence.

From the inception of the CBOE's investment in NSX until July 1, 2006, we accounted for our investment under the equity method of accounting. Even though the CBOE owned as much as 68% of the total outstanding certificates of proprietary membership of NSX (formerly the Cincinnati Stock Exchange), our ownership only provided the CBOE with one vote on any issues put before the membership. In addition, the number of CBOE appointed members on the NSX board of directors always represented a minority (six of thirteen) of the NSX board. For these reasons, it was determined that because the CBOE lacked effective control over the operating and financing activities of NSX, our investment should be accounted for under the equity method of accounting. In 2004 (see note 2 in the financial statements located in Annex A), the CBOE began selling its certificates of proprietary membership back to NSX. When the agreement to sell the certificates back to NSX was executed, the CBOE adjusted its value of its investment in NSX to reflect the present value of the expected proceeds. The sale will be concluded over time, subject to certain NSX working capital requirements. Beginning July 1, 2006, the CBOE accounts for the investment in NSX (\$3.7 million representing 8,424 shares or 4.98% of the total Class A voting stock and 39,312 or 100% of the Class B non-voting stock as of December 31, 2007 and 2006) under the cost method of accounting due to the reduced percentage in our ownership of NSX and continued lack of control over the activities of NSX. On January 28, 2008, CBOE exercised a put pursuant to the TORA and sold 19,656 shares of Class B stock, resulting in a payment to CBOE of \$1.5 million. CBOE's investment in NSX was reduced to \$2.2 million which consisted of 8,424 Class A voting shares and 19,656 Class B non-voting shares. At September 30, 2008, CBOE's investment in NSX is \$2.2 million.

The CBOE's investment in OneChicago (approximately 24% of its outstanding stock as of September 30, 2008) is accounted for under the equity method due to the lack of effective control over the operating and financing activities of OneChicago. On March 15, 2006, Interactive Brokers Group, LLC ("IBG") made an investment for a 40% interest in OneChicago, resulting in a \$4.3 million increase in CBOE's investment in OneChicago. This amount is reflected net of deferred taxes as additional paid-in capital of \$2.6 million (\$4.3 million net of \$1.7 million in deferred taxes) on the 2006 consolidated statements of members' equity.

In addition, in 2006, the CBOE invested \$3.8 million in HedgeStreet, Inc. This capital contribution represented 17.6% of the total stock outstanding and was also accounted for under the equity method. In 2007, HedgeStreet completed a merger transaction resulting in the transfer of all company assets and operations to IG Group. As a result, CBOE recognized a loss of \$3.6 million on the sale in 2007 and received a cash payment of \$193 thousand.

In 2007, CBOE received a 50 percent share in CBSX in return for non-cash property contributions, which included a license to use the CBOE*direct* trading engine during the term of the company in addition to other license rights. CBOE accounts for the investment in CBSX under the equity method due to the lack of effective control over operating and financing activities.

Investments in affiliates are reviewed to determine whether any events or changes in circumstances indicate that the investments may be other than temporarily impaired. In the event of impairment, the CBOE would recognize a loss for the difference between the carrying amount and the estimated fair value of the equity method investment.

*Software Development*

We account for software development costs under AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and other related guidance. We expense software development costs as incurred during the preliminary project stage, while we capitalize costs incurred during the application development stage, which includes design, coding, installation and testing activities.

**Market Risk**

We provide markets for trading securities options. However, we do not trade options for our own account. We invest available cash in highly liquid, short-term investments, such as money market accounts or investment grade paper. Our investment policy is to preserve capital and liquidity. We do not believe there is significant risk associated with these short-term investments. The CBOE has no long-term or short-term debt.

**Recent Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN 48 seeks to reduce the diversity in accounting practices used in regards to uncertain tax positions by prescribing a recognition threshold and measurement criteria for benefits related to income taxes. The impact of FIN 48 on CBOE's financial position and results of operations was not material.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS No. 157 did not have a significant impact on CBOE's financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 amends SFAS No. 87, *Employer's Accounting for Pensions*, SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and Termination Benefits*, SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and SFAS No. 132(R), *Employers' Disclosure about Pensions and Other Postretirement Benefits*. SFAS No. 158 requires the recognition of the funded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability in the statement of financial position and the recognition of changes in the funded status through comprehensive income in the year in which such changes occur. The CBOE is required to recognize the funded status of a defined benefit postretirement medical plan and to make required disclosures as of our fiscal year ending December 31, 2007; however, we elected to adopt the provisions of SFAS No. 158 in 2006.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*, which permits, at specified election dates, measurement of eligible items at fair value. SFAS No. 159 does not require any new fair value measurements. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Early adoption is permitted provided that SFAS No. 157 is concurrently adopted. CBOE did not elect to apply the fair value option to any existing financial assets or liabilities as of January 1, 2008. The adoption of SFAS No. 159 did not have a significant impact on the CBOE's financial position and results of operations.

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In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations*. Statement No. 141R changed the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, in-process research and development costs and restructuring cost. In addition, under Statement No. 141R, changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. Statement No. 141R is effective for fiscal years beginning after December 15, 2008. Beginning January 1, 2009, CBOE will apply the provisions of Statement No. 141R to its accounting for applicable business combinations once adopted, but the effect is dependent upon acquisitions, if any, consummated on or after the effective date of the statement.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements*, which amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish new standards that will govern the accounting for and reporting of noncontrolling interests in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Also, SFAS No. 160 requires that: (1) non-controlling interest, previously referred to as minority interest, be reported as part of equity in the consolidated financial statements; (2) losses be allocated to the non-controlling interest even when such allocation might result in a deficit balance, reducing the losses attributed to the controlling interest; (3) changes in ownership interests be treated as equity transactions if control is maintained; and, (4) upon a loss of control, any gain or loss on the interest sold be recognized in earnings. SFAS No. 160 is effective on a prospective basis for all fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which will be applied retrospectively. The impact of the adoption of SFAS No. 160 on CBOE's financial position and results of operations is being evaluated.

In February 2008, the FASB issued Staff Position SFAS 157-2, *Effective Date of FASB Statement No. 157* (FSP SFAS 157-2), which delays the effective date of SFAS 157 for all non-recurring fair value measurements of nonfinancial assets and nonfinancial liabilities until the fiscal year beginning after November 15, 2008. The impact of the adoption of FSP SFAS 157-2 on CBOE's financial position and results of operations is being evaluated.

On October 10, 2008, the FASB issued FSP SFAS 157-3, which clarifies the application of Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurement* (SFAS 157) in an inactive market. The FSP addresses application issues such as how management's internal assumptions should be considered when measuring fair value when relevant observable data do not exist; how observable market information in a market that is not active should be considered when measuring fair value and how the use of market quotes should be considered when assessing the relevance of observable and unobservable data available to measure fair value. FSP SFAS 157-3 was effective upon issuance. CBOE's adoption of FSP SFAS 157-3 had no impact on the financial condition or results of operations.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This Statement identifies the sources for generally accepted accounting principles (GAAP) in the U.S. and lists the categories in descending order. An entity should follow the highest category of GAAP applicable for each of its accounting transactions. The adoption will not have a material effect on CBOE's financial condition or results of operations.

### Quarterly Comparisons

In the securities industry, quarterly revenue fluctuations are common and are due primarily to seasonal variations in trading volumes, competition and technological and regulatory changes. Typically, revenues are lowest in the third quarter, primarily in August, due to reduced trading activity during the summer months.

**BUSINESS**

**Overview**

Founded in 1973, the CBOE was the first organized marketplace for the trading of standardized, listed options on equity securities. Since its inception, the CBOE has grown to become one of the world's leading exchanges for the trading of derivatives and is recognized globally for its leadership role in the trading of options on individual equities, exchange-traded funds and equity indexes. Currently, the CBOE operates as a member-owned, non-stock Delaware corporation. As of September 30, 2008, we employed 578 individuals.

The following chart shows our trading volume by quarter for the period January 2001 through September 2008.

Our volume of contracts traded in 2007 was over 944 million contracts, representing an increase of 40% over our volume in 2006, for a daily average of 3,762,836 contracts. In 2006, our volume of contracts traded was approximately 675 million contracts, with an average of 2,688,189 contracts per day, representing an increase of 44% over 2005. In 2005, our volume of contracts traded was over 468 million contracts for an average of 1,858,132 contracts per day. In 2007, 2006 and 2005, trades at the CBOE represented 33.0%, 33.3% and 31.1%, respectively, of the total contracts traded on all U.S. options markets. For the twelve months ended December 31, 2007 and 2006, we generated revenue of approximately \$352 million and \$258 million, respectively. We generate revenue primarily from the following sources:

Transaction fees;

Market Data Income;

Systems services;

Regulatory fees;

Facilities and equipment fees; and

Membership fees.

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The CBOE is an SRO, which is regulated by the SEC. As an SRO, the CBOE plays a critical role in the U.S. securities markets: the CBOE conducts market surveillance and examines members and member organizations for, and enforces, compliance with, federal securities laws and the CBOE Rules. Since March 26, 2004, the CBOE has also operated the CBOE Futures Exchange, LLC, or CFE, a

wholly-owned subsidiary of the CBOE, which is a designated contract market under the oversight of the CFTC. On July 27, 2006, the CBOE announced the creation of the CBOE Stock Exchange, LLC, a facility of the CBOE in which the CBOE holds a 50% interest, which began trading stocks in March 2007.

### History

The CBOE was created by the CBOT in 1973 as a result of the CBOT's efforts to develop new products. Prior to that time, there was no organized, regulated marketplace for the trading of options on equities. Rather, there was a community of "put and call dealers" that conducted the trading of non-standardized options on an "over-the-counter" basis. When it became clear that options on equities would fall under the regulatory jurisdiction of the SEC, the CBOT decided to create a separate SRO for their trading. The CBOT ultimately spun this entity off as a separate, independent organization, while providing an Exercise Right pursuant to which full members of the CBOT would have the right to become members with trading rights on the CBOE.

The original products, call options on the common stock of 16 major U.S. corporations listed on the NYSE, began trading on April 26, 1973 through an open outcry, floor-based trading system. Trading in these call options grew quickly. Additional options markets were soon created by existing stock exchanges, including the American Stock Exchange, or AMEX (now known as NYSE Alternext US), the Midwest Stock Exchange (now known as the Chicago Stock Exchange), or CHX, the Pacific Exchange, or PCX (now part of NYSE/Arca), and the Philadelphia Stock Exchange, or PHLX (now known as Nasdaq OMX PHLX).

Put options were introduced in 1977, and by the end of the year, annual volume reached 25 million contracts. That same year, the SEC imposed a moratorium on further expansion of the options markets, pending an in-depth review of the regulatory structure and procedures.

The moratorium ended on March 26, 1980, and the CBOE responded by increasing the number of stocks on which it traded options from 59 to 120. That same year, the options business of the CHX was consolidated into the CBOE.

On March 11, 1983, ten years after it created the first options marketplace, the CBOE introduced the first options based on a stock index the CBOE 100 (also known by its symbol, OEX). Subsequently, the CBOE entered into an agreement with Standard & Poor's in which the CBOE 100 became the S&P 100 and CBOE acquired the rights to trade options based on the S&P 500 Index. On July 1, 1983, options were introduced on the S&P 500 Index, which has grown to be the CBOE's largest single product and the most actively traded index option in the U.S. Since 1983, index option trading has expanded to cover many other broad-based indexes and myriad other indexes covering market segments, industry sectors and trading styles.

Option volume continued to grow and in 1984 the CBOE volume exceeded 100 million contracts. With the continuing growth in options trading, the CBOE outgrew its leased space in the CBOT building and decided to build its own facilities. In 1984, the CBOE moved into a 350,000 square foot trading facility, which we continue to occupy. That same year, the rapid growth in index options trading prompted the CBOE to introduce the first automated execution system for options. Shortly thereafter, in April 1985, the exchange established The Options Institute as an industry resource for the education of options users, including account executives, institutional money managers, pension fund sponsors and individual investors.

The CBOE continues to play a leading role in options product innovation. In 1990, we introduced Long-term Equity Anticipation Securities, or LEAPS. LEAPS are long-term option contracts that allow investors to establish positions that can be maintained for a period of up to three years for equity options and five years for index options. The development and introduction of LEAPS by the CBOE in 1990 added a new range of options possibilities. In 1993, the CBOE introduced FLEX options, which allow investors to customize certain terms on options contracts. In that same year, the CBOE unveiled

"VIX," a proprietary market volatility index that gauges investor sentiment. VIX has since become widely known as the market "fear gauge."

In 1997, the CBOE acquired the options business of the New York Stock Exchange (NYSE) and relocated it to the CBOE. That same year the CBOE was selected by Dow Jones & Co. to introduce the first options on the DJIA.

In 1999, the CBOE modified the structure of its market making system to expand use of Designated Primary Market Makers, or DPMs, to all equity options. This modification assured that a specialist would be available to oversee trading and provide customer service to member firms in every equity option class. Shortly thereafter, the CBOE multiply listed additional options classes that had previously been traded only on a single exchange.

In 2000, a number of changes took place, including the opening for business of a newly created screen-based options exchange, the International Securities Exchange (ISE), and the SEC's adoption of a plan to link the options exchanges so as to reduce the potential that a trade would occur at a price inferior to a better bid or offer in another marketplace. After a relatively slow start, the new screen-based ISE eventually was able to generate volume and capture market share from the existing exchanges. Following a decline in volume and market share from the 2000-2002 period, we introduced several innovations to our own market model, and our trading volume began to grow at a rapid pace.

In 2004, competition increased further as a second all-electronic competitor, the Boston Options Exchange, or the BOX, was launched. In 2006, the NYSE reentered the options market by merging with Archipelago Holdings, Inc. (Arca), which had previously acquired the PCX.

In early 2008, Nasdaq acquired the PHLX and commenced operation of a seventh options exchange, the Nasdaq Options Market (NOM). In addition, the NYSE, now known as NYSE Euronext, acquired the AMEX, giving it two options exchanges on which to conduct business.

The increased competition among exchanges combined with business model and product innovations have all contributed to the continued growth in industry and company trading volumes. The chart below shows the CBOE total annual volume for the period 1995 through 2007. Through the first three quarters of 2008, CBOE has traded a total of approximately 900 million contracts.

An essential part of the CBOE's history has been its role as an innovator in trading systems since the beginning of the CBOE. During the 1980's, the CBOE introduced a variety of technological innovations, including an Electronic Customer Order Book and a Retail Automated Execution System, both of which increased the efficiency of options trading. In 2001, the CBOE completed the development of *CBOEdirect*, a fully integrated screen-based trading system. In 2003, *CBOEdirect* formed the basis for the CBOE's new market model, the Hybrid Trading System, which married the screen-based trading capabilities of *CBOEdirect* with the floor-trading environment. Hybrid serves as the trading platform for most of the CBOE's products today, and has been expanded to allow for remote market making, automated complex order processing and enhanced institutional order handling capability.

### **The Global Derivatives Industry**

Our primary business, providing a marketplace for the execution of transactions in exchange-traded options, is part of the large and growing global derivatives industry. Derivatives are financial contracts that derive their value from some other underlying asset or reference value. These underlying assets and reference values include individual stocks, stock indexes, debt instruments, interest rates, currencies and commodities. In recent years derivatives have also been developed on economic indicators and "artificial" assets such as pollution rights. The global derivatives industry includes both exchange traded products and a large over-the-counter market. The most common types of derivatives are options, futures and swap contracts. These products allow for various types of risk to be isolated and transferred. They can be used for hedging, income generation, speculation and leveraged position taking.

Over the past 10-15 years, the use of financial derivatives has expanded dramatically and evolved into a key tool with which money managers and investors attempt to transfer risk and achieve higher risk-adjusted returns. As a result, exchange-traded derivatives have experienced strong growth, and in 2007, the notional turnover exceeded \$2,200 trillion. According to data from the Bank for International Settlement, or BIS, the notional value outstanding of off-exchange options on equities and equity indexes at the end of 2007 was approximately \$8.5 trillion, compared to open interest on exchanges of \$10.1 trillion.

### **Exchange-Traded Options**

Exchange-traded options are derivative securities products that provide the means for hedging, speculation and income generation. The vast majority of derivatives traded on U.S. securities exchanges are options on individual stocks, exchange-traded funds and stock indexes. An option is a contract with standardized terms giving the buyer the right, but not the obligation, to buy or sell a specified quantity of an underlying security or index at a specific price for a specific period of time.

Stock option contracts are generally for 100 shares of underlying stock. In the case of an equity call option, the buyer purchases the right to buy 100 shares of the underlying stock at the strike price on or before the expiration date. The seller of the call option is obligated to sell 100 shares of the underlying stock at the strike price if the buyer exercises the option. An investor generally buys a call option with the expectation that the stock's price will increase, and the stock purchased at the lower strike price will have a higher market value. A call might also be used as a hedge against a short stock position. The writer of a call option may expect the price to stay below the strike price or may use calls as a way of selling the asset if a certain price point is reached.

In the case of an equity put option, the buyer purchases the right to sell 100 shares of the underlying stock at the strike price on or before the expiration date. The seller of a put option is obligated to buy 100 shares of the underlying stock at the strike price if the buyer exercises the option. An investor buys a put option with the expectation that the stock's price will decrease, and the stock will be sold at a value higher than might be obtained in the equity markets. The writer of a put option

expects the price to stay above the strike price. Put options can be thought of as a form of insurance on the value of the investment.

The price of an option is referred to as the "premium." The buyer of a call or a put pays the premium to the seller for the contract. Regardless of the performance of the underlying asset, the buyer's maximum exposure is the premium paid. The seller of a call, on the other hand, has open-ended exposure with respect to the increase in the value of the underlying asset; the seller of a put has the risk that the asset can become worthless. In return for the premium received, the seller of the option has assumed the risk associated with the change in the value of the underlying asset beyond the strike price. If the buyer exercises a call option on a stock, the seller may be assigned and, if so, is obligated to deliver the stock at the strike price, regardless of the cost of acquiring it. If a buyer exercises a put option on a stock, the seller, if assigned, is required to purchase the stock for the strike price, regardless of its current market value.

The market for exchange-traded options has increased dramatically since their introduction by the CBOE in 1973. In 1974, the first full year of trading, the average daily volume on the CBOE was 22,462 contracts. By 1981, annual volume on all options exchanges exceeded 100 million contracts, representing average daily volume of over 430,000 contracts. In 1983, ten years after its start, the CBOE alone traded over 82 million contracts for an average daily volume of 325,963. By 1993, the CBOE volume had grown to over 140 million contracts with index options alone trading in excess of 80 million contracts. The chart below shows total contract trading volume for the U.S. options industry from its inception in 1973 through 2007.

During the period 1997 to 2007, exchange-traded options volume expanded at a compound annual rate of over 23%, and by 2004, it exceeded one billion contracts. Industry volume for the first three quarters of 2008 has been over 2.7 billion contracts. Over the period from 2003 through 2007, options industry volume has grown at a compound annual rate of over 33% and has outpaced that of the stock and futures markets.

The continued growth in options trading can be attributed to a variety of factors including increased familiarity with options among retail investors; increased use of options by institutions and industry professionals; increased use of technology, including the increased use of computer-driven trading strategies; the use of options by hedge funds; the continued introduction of new products; and

intense competition among options exchanges leading to a narrowing of bid/ask spreads and the lowering of transaction fees.

We believe that the number of investors that use options represents a growing proportion of the total investing public and that the growth in the use of options represents a long-term trend that will continue in the future. In particular, we believe significant opportunities exist to expand the use of options by both institutional and professional investors and for the migration of activity from the over-the-counter market to exchanges.

### **Trading**

Trading in options products on U.S. options exchanges traditionally has occurred primarily on physical trading floors in areas called "pits" and through an auction process known as "open outcry," which is conducted face-to-face. Only members have access to the trading floor. Individuals and firms have historically become members by owning or leasing a seat. The member traders have direct access to the trading floor and may stand in the pit and make bids and offers to one another. Orders are sent to these members on the trading floor, usually through a broker. This trading is conducted subject to rules that are designed to promote fair and orderly markets. Traders have certain obligations with respect to providing bids and offers and they receive certain privileges in exchange.

The presence of dedicated liquidity providers, including both specialists and market makers, is a key distinguishing feature of the options markets. Presently, there are available in the listed options market options contracts covering approximately 3,000 underlying stocks, ETFs, or indexes. Specialists and market makers are employed to provide continuous bids and offers for most listed option series. In return for these commitments, specialists and market makers receive margin exemptions as well as other incentives such as participation rights, fee incentives, or preferred access to certain exchange systems.

More recently, electronic access has allowed members to provide electronic bids and offers without being physically present on the trading floor. Over the last several years, all of the U.S. options exchanges, either exclusively or in combination with open outcry trading, have begun to provide electronic trading platforms that allow members to submit bids, offers and orders directly into the exchange's trading system. As a result, many liquidity providers now operate remotely, away from the physical trading floors, and the majority of options trading volume is executed electronically. In addition, many exchanges also have rules that allow, under certain circumstances, for large transactions to be negotiated away from the trading floor and brought to the floor for execution or effected on electronic platforms.

In 2007, there were two notable changes to options market structure. One was the expansion of "portfolio margining" to customer groups. Previously available only to market professionals, portfolio margining will significantly reduce margin requirements by examining the combined risk of a portfolio of financial instruments instead of margining each instrument separately. Portfolio margining has made trading more efficient by freeing up margin capital for other purposes.

The second notable change is the introduction of penny pricing in the options markets. The listed options markets previously quoted options in either nickel or dime increments, unlike stocks, which trade in penny increments. Effective February 2007, options on 13 different stocks and ETFs started trading in penny increments as part of an industry wide pilot program. Twenty-two additional option classes were added to the penny pilot on September 28, 2007 and another 28 classes were added on March 28, 2008. CBOE believes that the penny pilot, while narrowing spreads, is causing other unintended consequences for the options industry, in particular, a loss of liquidity in some classes. The SEC is studying the results of the penny pilot and no additional option classes are to be added to the penny pilot prior to March 2009.

## **Clearing and Settlement**

After options transactions are executed on an exchange in the U.S., they are cleared and settled by a clearinghouse. Following the incorporation of the CBOE in 1973, the CBOE Clearing Corporation was founded to clear all options contracts. The role of a clearinghouse is to act as a guarantor for options contracts to ensure that the obligations of the contracts are fulfilled. Shortly after its founding, the CBOE Clearing Corporation became OCC and was approved by the SEC to be the central clearinghouse for all exchange-listed securities options in the U.S. OCC is the world's largest equity derivatives clearing organization and currently clears a multitude of diverse and sophisticated products, including options, futures, and options on futures. Due to the multitude of products cleared by OCC, it falls under the jurisdiction of both the SEC and the CFTC. The OCC is owned equally by five participant exchanges: the CBOE, the NYSE/AMEX, the ISE, the NYSE/Arca, and the Nasdaq/PHLX. BOX is a non-owner participant exchange of OCC, as is NOM. However, Nasdaq has an equity interest in OCC as a result of its acquisition of PHLX. Standard & Poor's has given OCC a credit rating of "AAA."

## **Recent Trends and Developments in the Options Industry**

### *Broadening of Customer Base*

Institutional interest in the options markets has increased as a result of the options markets' increased liquidity and transparency. Additionally, the shift towards active investment strategies has amplified the need for more sophisticated risk management techniques and for additional sources of income generation. Financial institutions, hedge funds and proprietary trading firms continue to commit increasing amounts of capital to trading options contracts.

### *Technological Advances*

Technological advances have enabled U.S. options exchanges, either exclusively or in combination with open-auction trading facilities, to provide electronic trading platforms. The emergence of electronic trading has been enabled by the ongoing development of sophisticated electronic order routing and matching systems, as well as advances in communication networks and protocols. This has created conditions that have improved liquidity and pricing opportunities and has been conducive to superior trade executions. In addition, the growing use of technology has decreased costs, enabling exchanges to lower fees.

### *Consolidation*

Competitive pressures and the advantages of large scale operations have provided the strategic rationale for consolidation among exchanges. The migration to shareholder structures and for-profit business models has facilitated a number of such mergers and acquisitions. For example, NYSE Euronext now owns the former Pacific Exchange and the American Stock Exchange. Deutsche Borse has acquired the International Securities Exchange, and Nasdaq has acquired the Philadelphia Stock Exchange. This trend has been occurring on a global scale and can be expected to continue.

### *Competition*

As competition has become increasingly intense, exchanges have adopted a number of strategies to effectively compete with their exchange counterparts, including technological and product innovation, more stringent cost controls, diversification of revenue streams and changes in corporate structure to provide enhanced strategic flexibility, streamlined corporate governance and greater access to sources of capital. Economies of scale have also become a crucial competitive factor. A number of exchanges have seen demutualization and going public as the path to competing successfully in this more challenging environment.

*Payment for Order Flow*

"Payment for order flow" has become an important consideration in options order routing decisions by brokerage firms. Payment for order flow began when some market makers within the industry started to pay order entry firms for their customer orders, independently from any exchange on which they traded. Certain firms, in particular online and discount brokers, solicit or accept payment for their order flow. These payments have become an integral part of their business models and firms that accept payment argue that it allows them to charge their customers lower commissions.

Under a typical payment for order flow arrangement, a firm that has order flow receives cash or other economic incentives to route its customers' orders to an exchange that has been designated by the provider of payment. Individuals or firms are willing to pay for the routing of order flow because they know, if certain other conditions are met, that they will be able to trade with a portion of all incoming orders, including those from firms with which it has payment for order flow arrangements.

*Internalization*

Internalization occurs when a broker-dealer acts as principal and takes the other side of its customer's transaction and takes two forms. One form occurs when a full-service brokerage firm trades options as principal either to facilitate customer transactions when there was insufficient liquidity in the market, or simply to participate in the trade. These firms generally do not accept payment for order flow. As the options markets have grown, a number of these brokerage firms have entered the market making business, generally by acquiring specialist firms. This has led to a second form of internalization in which these firms direct their order flow to their own specialist units whenever possible. This type of internalization allows the firm to both earn a commission and capture the bid/ask spread, thereby increasing the profitability of the order flow they gather through their distribution system.

In response to increased demand for the ability to internalize, exchanges have developed various market models and trading procedures to facilitate the ability of firms to direct their order flow to themselves or otherwise increase the opportunities the firm may have to interact with its own customers.

*Maker/Taker Market Model*

For the past several years customers have not paid transaction fees in most competitively traded options classes. Transaction fees are paid primarily by market makers and firms. Three options exchanges, NYSE Arca, the Nasdaq Options Market and BOX have recently introduced a new market model in which orders which take liquidity from the marketplace are charged a transaction fee and orders that provide liquidity to the marketplace received a rebate for doing so. This type of market model is attractive to participants who regularly provide liquidity but not to firms representing customer orders, as those orders are normally takers of liquidity. The longer term impact of this market model on the market shares of the options exchanges remains to be seen.

**Products And Markets**

The CBOE provides a marketplace for the trading of options contracts on various underlying securities that meet criteria established in our Rules and approved by the SEC. The options contracts we list for trading include options on individual equities, options on exchange-traded funds and options on equity indexes.

**Equity options.** We trade options on the stocks of over 2,300 corporations. The stocks underlying our individual equity options are listed on the NYSE, the AMEX and the Nasdaq. In addition to the standardized options contracts of up to nine months we also trade long-term options known as LEAPS (Long-term Equity Appreciation Securities) on over 1,100 different stocks. LEAPS can have a term of up to five years.

**Index Options.** We trade options on 22 different broad- and narrow-based market indexes. All of our index options are cash settled. The index options we trade include the most widely accepted measures of the U.S. equity markets including the S&P 500, the DJIA, the Nasdaq 100 and the Russell 2000. Cash-settled index options based on these indexes, and on the CBOE S&P 500 Volatility Index, are among our most actively traded products and are traded exclusively on the CBOE.

**Options on ETFs.** We trade options on over 150 exchange-traded funds, or ETFs, based on various market indexes, including both domestic and foreign markets. All of our options on ETFs are physically settled.

**Credit Options.** We trade "Credit Event Binary Options," or "CEBOs." These are options that pay cash amounts in the case of credit events. We list Single-Name CEBOs and Basket CEBOs. Single-Name CEBOs are security options that pay a fixed amount (\$100,000 per contract) in the case where a credit event on an individual issuer or guarantor of debt securities is declared prior to the option's expiration. If there is no credit event declared before expiration, the option pays nothing. Basket CEBOs are call options based on a basket of reference entities (the basket components). The options automatically pay out a cash amount each time a credit event is confirmed in any of the basket components during the life of the contract.

**Futures.** The CBOE provides a marketplace for trading futures through its wholly-owned subsidiary, the CFE. To date CFE has focused on the trading of futures related to CBOE-created benchmarks such as the CBOE volatility indexes, variance benchmarks and the CBOE BuyWrite Index. BuyWrite Indexes are passive total return benchmark indexes that reflect an investment strategy of buying a portfolio of stocks that make up an index and then selling covered call index options to generate income.

**Equities.** In early 2007, the CBOE began providing a marketplace for individual equity securities. This stock exchange, known as CBSX, provides a marketplace for trading stocks on approximately 5,500 companies listed on the NYSE, Nasdaq and AMEX.

The CBOE has developed several of its own proprietary indexes and index methodologies. These include volatility and/or variance indexes based on various broad-based market indexes, such as the S&P 500, the DJIA, the Nasdaq 100, the Russell 2000, realized variance indicators, a number of sector indexes and a series of option strategy benchmarks, including the BuyWrite, the PutWrite and the Collar indexes based on the S&P 500 and other broad-based market indexes. We also have licensed others to use some of these indexes to create products and have entered into agreements whereby we have granted to others the rights to sub-license some of these indexes. The CBOE generates revenue from the calculation and dissemination of 33 real-time index values for third party licensors, from the licensing of the CBOE indexes and from support services provided to OneChicago.

## Competition

Based on OCC statistics, CBOE is the largest options exchange in the U.S. based on both contract volume and dollar value of options traded for the year ended December 31, 2007. We compete with a number of registered national securities exchanges and may compete with other exchanges or other trading venues in the future. The six other U.S. options exchanges are our primary direct competitors: the AMEX, the BOX, the ISE, the NYSE/Arca, the PHLX and NOM. The total market share based on contract volume for each exchange for 2007 is shown below. Please note that NOM did not start trading options until February 2008, so they do not show up in the market share chart. NOM's market share to date in 2008 has been less than 2%.

Our challenge is to convince broker-dealers to route options orders to the CBOE rather than to our competitors and to convince liquidity providers to concentrate their market making activity on the CBOE. This is particularly true with respect to options on individual equity securities, which tend to be traded on multiple exchanges. We compete through a variety of methods, including:

Offering market participants an efficient, transparent and liquid marketplace for trading options both through traditional open outcry methods and through our electronic platform, *CBOEDirect*;

Providing advanced technology that offers broad functionality, high bandwidth, fast execution, ease of use, scalability, reliability and security;

Offering participants access to a broad array of products and services, including proprietary products;

Offering customers execution and the national best bid and offer with the additional potential for price improvement;

Offering a cost-effective trading venue to order flow providers;

Facilitating payment for order flow through the administration of marketing fees;

Offering market makers and specialists cost-effective access to customer order flow, including potential participation rights that guarantee them a portion of certain trades provided they have met certain obligations; and

Providing brokers and their customers with a complete source of information on options and extensive options education.

#### **Competitive Strengths**

We believe that the CBOE has established itself as a global leader in the options industry. We believe we are well positioned to maintain and expand our status through several key competitive strengths:

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***Strong Brand Name.*** As the world's first options exchange, the CBOE's leadership role in options is recognized worldwide. The CBOE has been the originator of many product and market structure innovations in the U.S. options market. As a result, the CBOE has developed

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strong brand recognition for the exchange and its products both in the U.S. and globally. Our website, which consists of over 40,000 pages, is the most extensive in the industry. Forbes Magazine has named it a "Best of the Web" for options investors each year for the past five years. Our positions on industry issues are sought by regulators and officials worldwide.

**Highly Competitive Quotes.** The CBOE generally provides quotes in multiply listed options that represent the national best bid or offer a majority of the time. In an expanding and increasingly competitive industry, we have retained overall market leadership and have experienced significant growth in volume.

**Innovation and Product Development.** In addition to being the original marketplace for standardized, exchange-traded options, the CBOE also created the world's first index option and has been the source of many innovations with respect to products, systems and market structure in the options industry. We continue to introduce new products and services to meet the evolving needs of the derivatives industry.

**Proprietary Products.** The CBOE enjoys long-term relationships with the providers of several market indexes that are industry benchmarks. Our exclusive licenses to provide options based on the S&P 500, the S&P 100 and the DJIA index have allowed us to create centralized markets that provide the depth and liquidity that the industry needs and relies on for executing many trading and hedging strategies. In addition, the CBOE has created its own proprietary indexes and index methodologies, which provide benchmarks for options users, serve as the basis for products and provide licensing revenue to the exchange.

**Leading Technology Platform.** The CBOE*direct* trading platform is among the most advanced trading platforms in the world. It can simultaneously support multiple trading models, multiple products and multiple matching algorithms. The technology underlying CBOE*direct* is designed for extremely high performance. It is built on open standards providing platform independence and is designed to be scalable for both capacity and throughput.

**Technological Independence.** The CBOE owns its systems and has strong internal resources for the ongoing development and implementation of systems capabilities. Market participants rely on the technology and infrastructure of the CBOE, and we have worked to provide a high level of availability and reliability of our systems.

**Hybrid Trading Model.** Unlike other markets that offer both open outcry and screen-based trading, our Hybrid System integrates open outcry and electronic trading into a single market. We believe that this innovative integration offers our users more choices, a diverse pool of liquidity and an ability to execute complex strategies that is not available on purely screen-based systems.

**Strong Regulatory Reputation.** We believe that the CBOE's reputation as a strong but fair regulator enhances its reputation and helps it maintain a strong brand name.

**Industry's Most Experienced Management Team.** The CBOE's management team has extensive experience in the options industry and the technology required to support options trading. The CBOE Chairman and Chief Executive Officer, William J. Brodsky, has over 35 years experience with exchanges and derivative products. Edward J. Joyce, our President and Chief Operating Officer, has over 30 years experience in options and exchange management. The remaining seven members of the senior management team have an average of over 25 years experience in the options industry, and many of them have worked together since 1990 or earlier. We believe that our management team has demonstrated an ability to continue to grow the options business through continued product and technological innovations and has evidenced the ability to respond to changing industry dynamics through ongoing adaptation of the CBOE's market model.

**Premier Membership Community.** The CBOE supports the options trading activities of approximately 225 trading firms and 1,100 members on a daily basis. The CBOE's member firm community includes over 200 leading financial securities firms. The CBOE's member firm community is represented on our board and governance structure.

## Growth Strategy

Trading in derivative products continues to expand at a rapid pace as a result of a number of factors including increased investor access as a result of technological advances, declining costs to users, globalization and greater understanding of the products by increasingly sophisticated market participants. The CBOE is well positioned to leverage its competitive strengths to take advantage of these trends. Our growth strategy has several key components:

**Conversion of the CBOE business model.** The initial step in the CBOE's growth strategy is the conversion of our business model from a member-owned, non-stock corporation to a for-profit, stock corporation, as described elsewhere in this document. This type of restructuring is sometimes referred to as a "demutualization." We believe that changing our focus to that of a for-profit business and adopting a corporate and governance structure more like that of a for-profit business will provide us with greater flexibility to respond to the demands of a rapidly changing business and regulatory environment. This conversion will create a common criterion for decision-making, namely, the creation of stockholder value. It will also allow for more rapid decision making in a highly competitive environment. In addition, by being structured like a for-profit, stock corporation, we will be able to pursue opportunities to engage in business combinations and joint ventures with other organizations and to access capital markets in ways that are not available to membership corporations.

**Continuing enhancement of our market model and trading platform.** As we convert our business model, our market model is also evolving to provide more open access. We intend to continue to expand customer access and product distribution through the expansion of remote electronic access for both existing and new market participants. In addition, we recognize that the opportunity to participate in the growth of the derivative markets will be driven in great part by the trading functionality and systems capabilities that an exchange offers to market participants. We believe that our market model offers unparalleled flexibility to market participants while the CBOE *direct* trading platform offers industry leading functionality, speed, performance, capacity and reliability. We intend to use our strong in-house development capabilities to continue to expand the products the CBOE offers, the functionality of the CBOE trading systems and the capacity of our systems.

**Product Innovation.** We intend to build on our reputation as industry innovator through the continued development of new products. This will include the use of both licensed products and the CBOE proprietary intellectual property to create exclusive products that meet the needs of the derivatives industry and enhance the CBOE brand. We believe that we will be able to develop new, value-added products in both equity and non-equity asset classes. Furthermore, the combination of screen-based trading systems and an evolving regulatory structure will allow us to better compete with over-the-counter markets for trading in customized products and product structures. We also hope to expand our volume and trading activity through products that attract customers from outside our traditional core business. These products include stocks, futures, OTC derivatives and products based on other asset classes.

**New Service Offerings.** We believe there are opportunities to derive revenue from expanded services in the licensing of CBOE intellectual property and in the sale of value-added information to market users. As a for-profit entity, we intend to generate stockholder value by exploiting existing capabilities and pursuing new opportunities in these areas.

**Selective Expansion Across Value Chain.** In addition to broadening the CBOE's product and service offerings across different asset classes and product types, we believe there are significant opportunities to develop new revenue sources through selective expansion across products and services. These include the provision of additional technology to users of the markets and the provision of exchange-based services to participants in the over-the-counter markets.

**Selective Pursuit of Alliances.** Technology, globalization and competition have led to the emergence of a number of world-class exchanges offering large pools of liquidity across multiple asset classes and product types. At the same time, the Internet has also created a fertile testing ground for new risk management products and new market models. We expect these trends to continue and to prompt consolidations and alliances among existing organizations. The CBOE intends to pursue consolidation and strategic alliances both domestically and abroad where they will allow us to generate value for our stockholders.

## Market Model

The CBOE provides a reliable, orderly, liquid and efficient marketplace for the trading of securities options. We operate a quote-driven auction market that employs a combination of specialists, market makers and floor brokers. At the CBOE, DPMs are specialists that are charged with maintaining fair, orderly and continuous markets in specific option classes, with multiple specialists assigned to the most heavily traded options classes. DPMs trade for their own account and are not permitted to act as agent on behalf of customers. Market makers, operating in-person on the trading floor and/or from remote locations, supplement the liquidity provided by the specialists by quoting both bids and offers for their own accounts, electronically streaming their individual quotes in their assigned classes. Floor brokers act as agents on the trading floor to facilitate primarily large or complicated orders that customers choose not to direct to the electronic system.

### *Market Participants*

Members typically perform one or more of the functions described below in their roles as members of the CBOE.

**Market Maker.** A market maker is an individual or firm that engages in trading the exchange's products either for his own account or for the account of his firm. A market maker may operate on the trading floor or remotely. Market makers do not act as an agent representing customer orders. Market makers have certain quoting obligations in their appointed classes. Like stock specialists, they are granted margin relief to ensure they can conduct business without requiring excessive amounts of capital. Market makers must have a relationship with a clearing firm that will hold and guarantee their positions. When a person is referred to as a "trader," it typically implies that the individual acts as a market maker.

**Floor Broker.** An individual who represents customers' orders on the CBOE trading floor as their agent is known as a floor broker. Approximately 10% of the memberships in use at the CBOE are for floor broker purposes, but the orders they represent constitute a significant portion of the CBOE's total volume. Floor brokers generally do not trade for their own account and do not receive any margin benefit. They generate revenue by charging commissions to their customers for their services. A floor broker may represent orders for his firm's proprietary account provided it is done in accordance with the CBOE Rules.

**Designated Primary Market Maker, or DPM.** A DPM is a member firm that has been assigned specialist responsibilities in certain options classes at the CBOE. As such, the term "DPM" and "specialist" are used interchangeably in this document. Although they may be affiliated with a firm that conducts an agency business, DPMs trade for their own account and are not permitted to act as agent on behalf of customers. DPMs are obligated to provide continuous quotes in their appointed classes but at a notably higher standard than that of regular market makers. DPMs are also expected to participate in business development efforts to attract business to the CBOE for their appointed classes. Like market makers, they receive margin relief, but unlike market makers, DPMs also are granted "participation rights" in their appointed classes. Participation rights guarantee DPMs a greater share of a trade than they would typically receive as a market maker. As of October 1, 2008, there are 17 different DPM firms covering 28 different DPM trading crowds.

**Electronic Designated Primary Market Maker, or eDPM.** An eDPM is a member firm that has been assigned specialist responsibilities similar to a DPM but operates remotely, not in person. They also are granted participation rights in their appointed classes but at a lower level than that of DPMs, reflecting their slightly lesser obligations. There may be up to four eDPMs assigned to a class in addition to the DPM. eDPMs serve to supplement the role of the DPM and are also motivated to engage in business development efforts in their appointed classes. The appointments and class allocations granted to DPMs and eDPMs are not permanent and may be revoked or reassigned for cause. There are six eDPM firms at the CBOE, each having between 200 and 500 appointed classes.

**Lead Market Maker, or LMM.** An LLM is a firm that assumes special obligations with respect to providing quotes for specific options classes. Currently, LMMs are utilized in SPX and OEX where they manage the single pricing model that generates options values for the trading crowd. In OEX and SPX multiple LMMs are appointed and then rotate each expiration cycle, with two firms operating as LMMs at a time in SPX and one firm operating as the LMM at a time in OEX. LMMs are also currently required to maintain a physical presence in the trading crowd of their appointed classes.

**Member Firm.** The term "member firm" is typically used to refer to those firms that bring customer order flow to the exchange and that are members of the exchange for the purpose of executing their customers' orders on the CBOE marketplace. These firms are also referred to as "order flow providers." They generate revenue by charging commissions for their services to their customers and in some cases through the receipt of payment for their order flow. Most traditional brokerage firms fall into this category. Other firms that are members of the exchange are technically member firms but are usually referred to by one or the functions described above (i.e., DPM, Market Maker, etc.).

Several of the functions described above, namely, market maker, DPM, eDPM, RMM and LMM, are often grouped together as "liquidity providers." This name refers to the fact that they all provide liquidity to the options market through various obligations to provide to the marketplace firm quotes at which they are obligated to trade.

Direct access to the CBOE marketplace is granted to individuals and firms that are CBOE members. A membership entitles the member to conduct business on the exchange in one of the participant roles described above. As of October 1, 2008, the CBOE had 1,106 memberships, utilized by 225 active trading firms. There were approximately 570 memberships being used on the CBOE trading floor and 533 memberships being utilized by remote participants, with the balance being used by members who operate in both environments. A membership is required for any individual or firm that wishes to have direct access to the CBOE unless a market participant is a sponsored user of a member as further described below. There are 930 CBOE memberships that were created through the sale of CBOE seats. When we refer to "CBOE Seats" we refer exclusively to these 930 CBOE memberships.

In addition the CBOE had temporarily extended the membership status of 252 former CBOT members who were CBOE members as a result of the CBOT Exercise Right prior to the acquisition of the CBOT by the CME Group. As of October 1, 2008, a total of 176 individuals have maintained their temporarily extended membership status. In July 2008, CBOE received authorization for an additional 50 access permits, called Interim Trading Permits (ITPs), of which 49 are currently in use. These ITPs convey trading access but not equity in CBOE. They were issued by lottery to CBOE members and member firms.

CBOE has a sponsored user program that permits non-member sponsored users to be provided with electronic access, through a sponsorship arrangement with a sponsoring CBOE member, to enter orders on certain CBOE trading systems. These systems include CFLEX (CBOE's electronic FLEX option trading system) and CBSX. Additionally, up to 15 sponsored users may be provided with electronic access to all other products traded on CBOE.

### *Hybrid Trading System*

Most options are traded on the CBOE both electronically and in open outcry using its Hybrid Trading System. The CBOE developed the first hybrid-trading model, in which aspects of both open-outcry and electronic trading are integrated to function as a single market. This trading model is supported by state-of-the-art technology, including the *CBOEdirect* trading platform. Since the CBOE equity option trading migrated to the Hybrid Trading System, a significant portion of the volume in these products has moved to electronic execution. However, for two of our most active index products, a significant portion of the volume continues to trade in open-outcry, supported by automated execution of certain types of orders.

The Hybrid Trading System enables the CBOE market makers to each employ their own, individual pricing models and to stream their own individual quotes into the CBOE trading engine. The CBOE market makers present on the trading floor are able to both stream their quotes into the CBOE's central trading engine and to participate in open-outcry transactions effected in their trading crowd. The Hybrid System allowed the CBOE to pursue both electronic and open-outcry trading models simultaneously without sacrificing the benefits each brings.

At the core of the Hybrid Trading System is the matching algorithm, which is the means by which trades are executed and allocated to market participants. The CBOE's technology and rules provide for a variety of different algorithms for matching buyers and sellers, e.g. price/time priority. The CBOE has the ability to apply different matching algorithms to different products, and currently has two different algorithms in operation for various products. Each matching algorithm is designed to meet the needs of a particular market segment. The setting of the matching algorithm affects the share of each trade that a quoting participant receives, and is central to the opportunity and profit potential of market makers and other liquidity providers.

The CBOE's matching algorithms reward price, depth and liquidity. The Hybrid Trading System calculates the national best bid and offer (NBBO), and no order is executed at a price worse than the NBBO. The system scans all other option marketplaces, and it has the capability to route orders to other marketplaces for execution if a better price exists elsewhere, via an inter-exchange system known as the Options Intermarket Linkage Plan. In classes traded on the Hybrid Trading System, approximately 95% of total orders and 75% of total volume is executed in the electronic environment by *CBOEdirect*.

The Hybrid Trading System also supports off-floor participants, including remote market making and eDPMs. In June 2004, the CBOE introduced eDPMs into 400 of the most actively traded options classes, which accounted in the aggregate for approximately 90% of average daily contract volume. Currently, eDPMs make market in over 500 classes. Remote market making is available in all Hybrid classes, including several of the CBOE's proprietary products.

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The CBOE's market model continues to evolve as we innovate and adapt to changes in the marketplace. Details on the CBOE's technological capabilities, as well as key systems offerings employed by the CBOE members, are described below.

### Technology

The CBOE's technology supports trading on multiple exchanges: CBOE, CFE, CBSX and OneChicago. The CBOE's systems can simultaneously support multiple trading models and multiple matching algorithms per exchange. For example, different products could trade simultaneously using open outcry, screen based or a hybrid model. Within these trading models, different products can be traded using different matching algorithms. *CBOEdirect* has recently been enhanced to support trading options on futures.

#### *Trading Platform*

*CBOEdirect*, the central platform for the CBOE's Hybrid Trading System, was launched in 2003. The *CBOEdirect* platform integrates the *CBOEdirect* trading engine with the routing, display systems and broker handling systems that support the trading floor. It provides features of screen-based and floor-based trading in what we believe is a "best of both worlds" market model.

The CBOE uses a quote-driven market model where liquidity providers have quoting obligations. The *CBOEdirect* trade engine includes the match engine, the order book, and the quote processor. *CBOEdirect* enables the users to stream live quotes, to post quotes with size and expedite order execution. *CBOEdirect* accepts streaming quotes from individual Market Makers, DPMs and eDPMs, automatically executes marketable orders and opens the book to non-customers.

*CBOEdirect* functionality includes: quote trigger, quote lock, Quote Risk Monitor, User Input Monitor, numerous matching and allocation algorithms, a complex order book, preferenced orders and several auction mechanisms. The various matching and allocation algorithms are configurable by product. Auction mechanisms exist for an automated internalization mechanism, complex orders, and for marketable orders whether or not the CBOE is at the NBBO.

*CBOEdirect's* underlying technology is a Java application with an infrastructure designed for high performance.

The technology is designed to be scalable for capacity and throughput.

The CBOE's trading platform is capable of accommodating significantly more than 4,800 distinct options symbols and 246,000 options series currently trading on the exchange. In addition to simple orders, the CBOE's systems support trading spreads and other complex orders, as well as options that expire weekly.

The CBOE's system is scalable to accommodate the increasing needs of the industry. In 2008, the CBOE has transmitted to OPRA peaks of nearly 200,000 quotes per second.

The CBOE has a session-based system design that allows for a quick introduction of different types of derivative and securities products, including options, futures, options on futures and stock products. In addition, the CBOE's systems facilitate different trading models, allowing the CBOE to move from a floor-based model to a screen-based model.

The CBOE and each of the other U.S. options exchanges have electronic support for multiple quoters, trade entry by order flow providers and specific algorithms to allocate trades. CBOE uses multiple matching algorithms, configurable by product. The CBOE accepts from its users and disseminates to OPRA more quotes than any other exchange.

The CBOE provides multiple application programming interfaces, or APIs, to facilitate both quote and order entry as well as auction processing. These include a proprietary API called CBOE Member

interface, or CMi, and the industry-standard Financial Information Exchange, or FIX API and a customized version of the Common Message Switch, or CMS.

***Order Routing, Trade Match, Ticker Plant and Market Data***

The CBOE's order routing system allows members to use the CMS format for orders, FIX or CMi. The CBOE has begun migrating the order routing system, electronic market linkage and functions that support non-hybrid trading from the mainframe to the CBOE*direct* platform and will complete this migration in 2008.

The CBOE's Trade Match system uses CBOE*direct* technology. It sends matched trades to the OCC, which then settles and clears the trades. The Trade Match system currently provides matched trade information to clearing firms via CBOE*direct* technology. This web-based interface also gives brokers access to their trades and related account information.

The CBOE's ticker plant, XTP was migrated to CBOE*direct* technology in 2006. XTP takes in market data feeds from CTS/CQS, Nasdaq, CBOT, the CME and other sources and disseminates the data internally to other systems on a publish/subscribe basis. XTP's recent processing peak was 626,000 messages per second, or MPS, inbound from the OPRA, with over 4.6 billion messages per day.

The CBOE disseminates options market data to OPRA and to its members via FIX and CMi. The CBOE also uses Ticker Express to provide fast, accurate market data to its members. CFE disseminates futures market data via the CBOE Financial Network, or CFN, CBOE's futures market data network. The CBOE has a fully integrated real-time system to track electronic trading for Help Desk troubleshooting and Regulatory analysis. The CBOE also has an extensive data warehouse with terabytes of historical trading data that provides fast and easy access to data for analysis.

***Disaster Recovery***

The CBOE has developed an off-site disaster recovery facility to help ensure continuity of trading of its exclusively listed products on a next-day basis in the event of a disaster that would require closing the CBOE's building. CBOE*direct* is the disaster recovery platform. The disaster recovery site will be expanded over the next two years to include support for futures, options on futures, equities and all equity options.

***Clearing System***

OCC clears the CBOE's options products. OCC acts as the issuer, counter party and guarantor for all options contracts traded on the CBOE and other U.S. securities exchanges. Upon execution of an option trade, we transmit to OCC a record of all trading activity for clearing and settlement purposes. OCC fulfills these same functions for futures products traded on the CBOE's wholly-owned futures subsidiary, CFE. The National Securities Clearing Corporation clears the CBOE's stock and ETF products.

**Options Price Reporting Authority (OPRA) Income**

Our markets generate valuable information regarding the prices of our products and the trading activity in those markets. Market data relating to price and size of market quotations and the price and size of trades is collected and consolidated by OPRA. OPRA disseminates the information to vendors who redistribute the data to brokers, investors and other persons or entities that use our markets or that monitor general economic conditions, such as financial information providers, broker-dealers, banks, futures commission merchants, public and private pension funds, investment companies, mutual funds, insurance companies, hedge funds, commodity pools, individual investors and other financial services companies or organizations. After costs are deducted the fees collected are distributed among

exchange participants based on their transaction volumes pursuant to the OPRA Plan. Revenues from OPRA market data represented about 5.3% of our total revenues in 2007.

As of October 1, 2008, our market data was displayed on over 200,000 terminals worldwide.

Through our subsidiary, Market Data Express, LLC, or MDX, we are expanding our market data offerings. MDX is an OPRA vendor and can provide the consolidated OPRA data. MDX also offers, or may in the future offer, a range of additional data services, including information on market depth, information on specialized indexes with related settlement values, time and sales information and specialized reports of historical market data.

#### **Other Business Relationships**

In addition to its options operation, the CBOE is an owner of or an investor in several related organizations:

***The Options Clearing Corporation, or OCC.*** The CBOE is a one-fifth owner of OCC, which is the sole entity providing clearing and settlement of exchange-traded securities options in the U.S. OCC also clears securities futures for OneChicago and futures for CFE. The other owners of OCC, in equal one-fifth proportions, are the AMEX, the ISE, the NYSE/Arca and the PHLX. Our OCC ownership is not a source of dividend income to us.

***The National Stock Exchange, or the NSX.*** The CBOE owns an equity interest in NSX. In January 2005, the CBOE entered into an agreement with the NSX to sell the majority of the CBOE's ownership in the NSX back to the NSX for \$11 million over a four-year period, subject to certain minimum NSX working capital levels. Subsequent to the January 2005 agreement, the NSX converted into a holding company structure consisting of NSX Holdings, Inc. and National Stock Exchange, Inc., both Delaware for-profit corporations. As part of this demutualization, the CBOE received 8,428 shares of Class A common stock and 58,698 shares of Class B common stock in NSX Holdings, Inc. At the conclusion of the last of the payments required under the 2005 agreement, the CBOE will have sold all of its Class B common stock in NSX Holdings. The CBOE will continue to hold its Class A common stock in NSX Holdings, representing an equity interest of approximately 4.98%.

***OneChicago, LLC.*** The CBOE owns an equity interest in OneChicago, a joint venture created with the CME and the CBOT for the trading of securities futures, which are jointly regulated by both the SEC and the CFTC. On March 15, 2006, Interactive Brokers Group, or IBG, made a major investment in OneChicago and became an owner of a 40% interest. Prior to the IBG investment, the CBOE held a 39.81% interest in OneChicago. The IBG investment reduced the CBOE's equity interest to 24.01%. Subsequent stock grants to management on October 9, 2008 further reduced CBOE's equity interest to 23.7%.

***CBOE Futures Exchange, or CFE.*** In 2004, the CBOE began to operate a futures subsidiary, CFE, which is regulated by the CFTC. As a wholly-owned subsidiary, the results of operations, assets and liabilities of CFE are consolidated with the CBOE. The primary products traded on CFE are futures on various measures of market volatility. The volumes of trading, revenues and expenses associated with CFE are not significant in the CBOE's overall operation.

***CBOE Stock Exchange, or CBSX.*** In July 2006, the CBOE announced that it would enter the stock trading business through a new facility jointly owned with several broker/dealers: VDM Chicago, LLC, LaBranche & Co., Inc., IB Exchange Corp., and Susquehanna International Group, LLP. This new entity, CBSX, has been organized as a Delaware limited liability company in which CBOE holds a 50% equity interest. CBSX uses CBOE Hybrid technology to trade approximately 5,200 stocks listed on the NYSE, Nasdaq and AMEX. CBSX was launched in the first quarter of 2007 and operates an electronic market model utilizing the CBOE*direct* trade engine and a simple price-time matching algorithm. Each security traded has a DPM and one or

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more remote market makers all of whom have affirmative obligations to assure that a continuous two-sided market is disseminated at all times in their assigned securities. CBOE members are eligible to obtain access to trade on CBSX. CBSX is also authorized to issue up to 100 trading permits in addition to those issued to CBOE members. The CBSX permits do not carry any equity interest in CBSX or the CBOE. A total of 42 permits have been issued, and an additional 86 members of CBOE have become members of CBSX.

**C2.** On October 21, 2008, the CBOE announced that it had approved a plan to launch a new and separate options exchange, which we are currently referring to as "C2". C2 will operate under a separate exchange license with a separate access structure and fee schedule. C2 will be an all-electronic options marketplace, capable of eventually supporting listing and trading all CBOE products using multiple market models and pricing structures. C2 will have its own Board of Directors, rules, connectivity and systems architecture, with its primary data center located in the New York City metropolitan area. Once complete, C2 would be a wholly-owned subsidiary of CBOE and a wholly-owned subsidiary of CBOE Holdings upon the demutualization. CBOE expects C2 to launch in 2009, pending regulatory approval.

CBOE also has long-term business relationships with several providers of market indexes. CBOE licenses these indexes as the basis for cash-settled index options. In some instances, these licenses provide CBOE with the exclusive right to trade cash-settled options contracts based on these indexes. Of particular note are the following:

**Standard & Poor's Corporation.** We are able to offer contracts on the S&P 500 Index as a result of a licensing arrangement with Standard & Poor's. This license provides us a license to use the S&P 500, the S&P 100, and several other indexes published by Standard & Poor's as the basis for standardized, exchange-traded options contracts. Under its license with Standard & Poor's, the CBOE has the exclusive right to trade cash-settled options on the S&P 500 Index and S&P 100 Index.

**Dow Jones & Co.** We are able to offer contracts on the DJIA as a result of a licensing arrangement with Dow Jones & Co.. This license provides us the right to use the DJIA and several other indexes published by Dow Jones & Co. as the basis for standardized, exchange-traded options contracts. Under its license with Dow Jones & Co., CBOE has the exclusive right to trade cash-settled options on the DJIA during standard U.S. trading hours.

**NASDAQ.** We are able to offer contracts on the Nasdaq 100 Index as a result of a licensing arrangement with Nasdaq. This license provides us the right to use the Nasdaq 100 as the basis for standardized, exchange-traded contracts. The license with Nasdaq is non-exclusive.

**Frank Russell Co.** We are able to offer contracts on the Russell 2000 and other indexes in the Russell index family, as a result of a licensing arrangement with Frank Russell Co. This license provides us the right to use the Russell indexes as the basis for standardized, exchange-traded contracts. This license is non-exclusive.

The CBOE is also a party to licenses granting us the right to create options contracts based on certain indexes developed by Morgan Stanley.

### Information Sharing

The CBOE has Information Sharing Agreements, Market Surveillance Agreements and Memoranda of Understanding with over 20 exchanges outside the U.S. for the purpose of sharing information related to specific regulatory investigations. These agreements also facilitate the listing of options on indexes on foreign stocks and options on exchange-traded funds based on those indexes. In addition to these bilateral agreements, the CBOE is a member of the Intermarket Surveillance Group, which consists of over 30 exchanges and regulatory organizations both within and outside the U.S. The

Intermarket Surveillance Group serves this same purpose of providing for the sharing of information under specific circumstances related to the enforcement of regulations.

In 2005, the CBOE entered into a series of Memorandums of Understanding with the three futures exchanges and the two stock exchanges in the Peoples Republic of China. As of October 1, 2008, no options or other financial derivatives are traded on these markets. These agreements govern the sharing of information on market and product development and provide for the CBOE to potentially work with these exchanges toward the development of new markets for derivative products.

### **Intellectual Property**

The CBOE's intellectual property assets include the above-referenced license rights, proprietary indexes created and calculated by the CBOE and the methodologies used to calculate several of the CBOE's proprietary indexes, patents and patents pending on certain CBOE technologies and products, the CBOE market data, trade secrets and various trademarks, service marks and internet domain names that are used in conjunction with the CBOE, its products and services. We attempt to protect this intellectual property by seeking patents, applying for copyright and trademark registrations, taking steps to protect our trade secrets, entering into appropriate contract provisions and other methods.

We review our systems, products and methods of doing business to identify properties that should be protected, and we u