

CBOE Holdings, Inc.
Form 10-K

February 19, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from _____ to _____

Commission File No. 001-34774

CBOE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

20-5446972

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

400 South LaSalle Street

60605

Chicago, Illinois

(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code

(312) 786-5600

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Exchange on Which Registered

Common Stock,

NASDAQ Global Select Market

par value \$0.01 per share

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer
(Do not check if a smaller reporting company) Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
As of June 30, 2015, the aggregate market value of the Registrant's outstanding voting common equity held by non-affiliates was approximately \$4.7 billion based on the closing price of \$57.22 per share of common stock. The number of outstanding shares of the registrant's common stock as of February 17, 2016 was 81,795,365 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Form 10-K Reference
Portions of the Company's Proxy Statement for the 2016 Annual Meeting of Stockholders	Part III

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CERTAIN DEFINED TERMS

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

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

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

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

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

“CBSX” refers to CBOE Stock Exchange, LLC, which is 49.96% owned by CBOE. CBSX wholly owned National Stock Exchange, Inc. (“NSX”), a stock exchange and self-regulatory organization, until it sold NSX to a third party on February 18, 2015. CBSX ceased operations on April 30, 2014 and during the time that CBSX owned NSX, NSX ceased operations on May 30, 2014. CBSX is not a consolidated subsidiary of the Company.

“CFTC” refers to the U.S. Commodity Futures Trading Commission.

“Consent Order” refers to the consent order that CBOE and C2 entered into with the SEC on June 11, 2013.

“Delaware Action” refers to the lawsuit, which was entitled CME Group Inc. et al. v. Chicago Board Options Exchange, Incorporated et al. (Civil Action No. 2369-VCN) and filed in the Delaware Court on August 23, 2006, in which the CBOE and its directors were sued in the Delaware Court by the Board of Trade of the City of Chicago, Inc. (“CBOT”), CBOT Holdings, Inc. and two members of the CBOT who purported to represent a class of individuals who claimed that they were, or had the right to become, members of the CBOE.

“FASB” refers to the Financial Accounting Standards Board.

“GAAP” refers to Generally Accepted Accounting Principles in the U.S.

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

“Our exchanges” refers to CBOE, C2 and CFE.

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

“SEC” refers to the U.S. Securities and Exchange Commission.

“Settlement Agreement” means the Stipulation of Settlement, as amended, approved by the Court of Chancery of the State of Delaware in the Delaware Action.

“SPX” refers to our S&P 500 Index exchange-traded options products.

“TPH” refers to either a Trading Permit Holder or Trading Privilege Holder.

“VIX” refers to the CBOE Volatility Index methodology.

TRADEMARK INFORMATION

CBOE®, Chicago Board Options Exchange®, CBOE Volatility Index®, CFE®, Livevol®, FLEX®, FLEXible EXchange®, Hybrid®, LEAPS®, and VIX® are registered trademarks and BuyWriteSM, CBOE Futures ExchangeSM, CBOE Russell 2000 Volatility IndexSM, CBOE/CBOT 10-year U.S. Treasury Note Volatility IndexSM, and WeeklysSM are service marks of CBOE. C2SM and C2 Options ExchangeSM are service marks of C2. VestSM is a service mark of Vest Financial Group, Inc. Standard & Poor's®, S&P® and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC and have been licensed for use by CBOE, C2 and CFE. Russell®, Russell 1000® and Russell 2000® are registered trademarks of Frank Russell Company, used under license. Dow Jones®, Dow Jones Industrial Average®, DJIA® and Dow Jones Indexes are registered trademarks or service marks of Dow Jones Trademark Holdings, LLC, used under license. The Nasdaq-100 Index®, Nasdaq-100®, The Nasdaq National Market®, Nasdaq®, Nasdaq-100 Shares and Nasdaq-100 Trust are registered trademarks or service marks of The Nasdaq Stock Market, Inc., used under license. MSCI, and the MSCI index names are service marks of MSCI Inc., used under license. All other trademarks and service marks are the property of their respective owners.

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FORWARD-LOOKING STATEMENTS

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

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

Some factors that could cause actual results to differ include:

- the loss of our right to exclusively list and trade certain index options and futures products;
- economic, political and market conditions;
- compliance with legal and regulatory obligations, including our obligations under the Consent Order;
- increasing price competition in our industry;
- decreases in trading volumes or a shift in the mix of products traded on our exchanges;
- legislative or regulatory changes;
- increasing competition by foreign and domestic entities;
- our dependence on third party service providers;
- our index providers' ability to perform under our agreements;
- our ability to operate our business without violating the intellectual property rights of others and the costs associated with protecting our intellectual property rights;
- our ability to accommodate trading volume and transaction traffic, including significant increases, without failure or degradation of performance of our systems;
 - our ability to protect our systems and communication networks from security risks, including cyber-attacks;
- the accuracy of our estimates and expectations;
- our ability to maintain access fee revenues;
- our ability to meet our compliance obligations, including managing potential conflicts between our regulatory responsibilities and our for-profit status;
- the ability of our compliance and risk management methods to effectively monitor and manage our risks;
- our ability to attract and retain skilled management and other personnel; and
- our ability to manage our growth and strategic acquisitions or alliances effectively.

For a detailed discussion of these and other factors that might affect our performance, see Part I, Item 1A. of this Report. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this filing.

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PART I

Item 1. Business

Overview

CBOE Holdings, Inc. is the holding company for Chicago Board Options Exchange, Incorporated, CBOE Futures Exchange, LLC, C2 Options Exchange, Incorporated and other subsidiaries.

The Company's principal business is operating markets that offer for trading options on various market indexes (index options), mostly on an exclusive basis, and futures contracts, as well as on non-exclusive "multiply-listed" options, such as options on the stocks of individual corporations (equity options) and options on other exchange-traded products (ETP options), such as exchange-traded funds (ETF options) and exchange-traded notes (ETN options). The Company operates three stand-alone exchanges, but reports the results of its operations in one reporting segment. CBOE is our primary options market and offers trading in listed options through a single system that integrates electronic trading and traditional open outcry trading on our trading floor in Chicago. This integration of electronic trading and traditional open outcry trading into a single exchange is known as our Hybrid trading model. CFE, our all-electronic futures exchange, offers trading in futures on the VIX Index and other products. C2 is our all-electronic exchange that also offers trading in listed options, and may operate with a different market model and fee structure than CBOE. All of our exchanges operate on our proprietary technology platform known as CBOE Command. Since 1974, the first full year of trading on CBOE, we have grown from 5.6 million contracts on one exchange to 1.2 billion contracts on three exchanges in 2015, our most recent fiscal year.

The following chart illustrates annual contract volume across the different categories of products traded at the Company for the periods indicated:

	Annual Contract Volume				
	2015	2014	2013	2012	2011
Equities	392,982,051	488,580,906	433,777,204	494,289,301	516,136,937
Indexes	408,281,695	406,454,861	372,647,443	304,339,908	320,389,993
Exchange-traded products	320,997,251	379,742,163	341,023,209	311,792,122	368,364,057
Total Options Volume	1,122,260,997	1,274,777,930	1,147,447,856	1,110,421,331	1,204,890,987
Futures	51,671,188	50,615,435	40,193,447	23,892,931	12,041,102
Total Contract Volume	1,173,932,185	1,325,393,365	1,187,641,303	1,134,314,262	1,216,932,089

Our operating revenues are primarily driven by transaction fee revenues, which are generated on the contracts traded on our exchanges. In 2015, approximately 71.9% of our operating revenues were generated by transaction fee revenues.

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

Our web site is www.cboe.com. Information contained on or linked through our web site is not incorporated by reference into this Annual Report on Form 10-K.

History

CBOE was founded in 1973 as a non-stock corporation owned by its Members. CBOE was the first organized marketplace for the trading of standardized, exchange-traded options on equity securities. In 2004, CFE began operations as a futures exchange. CBOE Holdings was incorporated in the State of Delaware on August 15, 2006. In June 2010, CBOE demutualized (see "Restructuring Transaction") and CBOE, CFE and C2 became wholly-owned subsidiaries of CBOE Holdings. In October 2010, C2, the Company's all-electronic options exchange, initiated operations.

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Restructuring Transaction

On June 18, 2010, CBOE converted from a non-stock corporation owned by its Members into a stock corporation that is a wholly-owned subsidiary of CBOE Holdings. In the restructuring transaction, each CBOE regular membership (an "Exchange Seat") owned by a CBOE Member on June 18, 2010 converted into 80,000 shares of Class A common stock of CBOE Holdings. Seat owners received a total of 74,400,000 shares of Class A common stock of CBOE Holdings in the restructuring transaction. In addition, certain persons who satisfied the qualification requirements set forth in the Settlement Agreement in the Delaware Action received a total of 16,333,380 shares of Class B common stock of CBOE Holdings on June 18, 2010. Pursuant to the Settlement Agreement, qualifying members of the plaintiff class received a cash payment of \$300.0 million.

The initial public offering of 13,455,000 shares of unrestricted common stock, including 2,085,774 shares of unrestricted common stock sold by selling stockholders, for a price of \$29.00 per share, was completed on June 18, 2010. Net proceeds to the Company after deducting underwriter's fees and commissions and other related expenses were \$301.2 million. Costs directly associated with the Company's initial public offering were recorded as a reduction of the gross proceeds received in arriving at the amount recorded in additional paid-in capital.

Upon consummation of the initial public offering, the shares of Class A and Class B common stock not converted into unrestricted common stock and sold in the initial public offering automatically converted into 44,323,803 shares of Class A-1 common stock and 44,323,803 shares of Class A-2 common stock. The Company conducted tender offers in November 2010 and purchased 12,017,895 shares of Class A-1 and Class A-2 common stock. On December 15, 2010 and June 13, 2011, respectively, each remaining share of Class A-1 and Class A-2 common stock issued and outstanding converted into one share of unrestricted common stock. As a result, as of December 31, 2011, no shares of Class A-1 or Class A-2 common stock were outstanding.

As of December 16, 2015, we amended and restated our Amended and Restated Certificate of Incorporation to, among other items, change the name of our unrestricted common stock to common stock and remove obsolete provisions related to the designations, rights and preferences of Class A-1 and Class A-2 common stock.

Industry

Our primary business of offering exchange-traded options and futures contracts on financial instruments is part of the large global derivatives industry. Derivatives are financial contracts whose value is derived from an underlying asset or reference value. While derivatives exist on a wide range of underlying assets and references, we currently focus on offering derivatives products on individual stocks, stock indexes, exchange-traded funds, exchange-traded notes, interest rates, and various benchmarks related to trading and investment strategies. The global derivatives industry includes both exchanges 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.

Options and Futures

Options represent a contract 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. Options provide investors a means for hedging, speculation and income generation, while at the same time providing leverage with respect to the underlying asset. Most options traded on U.S. securities exchanges and over-the-counter are on individual equities, market indexes and ETPs.

Futures are standardized, transferable, exchange-traded contracts that are settled by the delivery of the underlying asset or in cash by reference to the underlying asset or reference at a specified price and on a specified future date. Futures on CFE are settled in cash. Options on futures may also be listed for trading on futures exchanges.

Trading

In the listed options market, there are currently options contracts covering approximately 3,900 underlying stocks, indexes and ETPs, among other products. The presence of dedicated liquidity providers, including market-makers, is a key feature of the options market. Market-makers collectively provide continuous bids and offers for all listed options series. Over the past decade, trading in the options market has migrated from being primarily conducted face-to-face, or "open outcry," to being primarily electronic.

Trends

Increased Interest in Our Proprietary Products

Our proprietary products are those in which we have a property right or for which we have an exclusive license, and contribute almost all of our transaction fee revenues for index options and all of our transaction fee revenues for futures. Listed

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options on equities and ETPs currently may be listed on all options exchanges, while trading in our proprietary products is limited to our exchanges. Thus, our proprietary products are able to support a higher revenue per contract than multiply-listed products.

Over the past five years, average daily volume ("ADV") in our index options has increased from 1.27 million contracts to 1.62 million contracts, and ADV in our futures has increased from 48 thousand contracts to 205 thousand contracts. The increase in index options and futures trading significantly outpaced the growth in the industry and multiply-listed products in this time-frame. These increases are primarily due to increased interest in trading our proprietary VIX options and futures and SPX options. See "SPX Options" and "Volatility Trading."

Price Competition

The number of U.S. options exchanges that we compete with has more than doubled over the past ten years, from five exchanges to twelve, in large part due to existing exchange holding companies opening new exchanges that offer different markets and pricing models on existing technology. As the business continues to expand, and offers greater margins than the equity trading business, we expect that our competitors, or new entrants into the exchange business, may open new options exchanges.

The options exchanges that we compete with set fees to attract multiply-listed options business to their exchanges, which has reduced the revenue per contract that we generate from these options. Fees utilized include both transaction fees assessed to access liquidity and incentive programs to attract order flow. Order flow, particularly customer order flow, is the primary driver of multiply-listed options exchange volumes. In the past several years, the competition for this business has increased significantly, due in part to the limited number of firms, known as consolidators, who make routing decisions based on pricing and their ability to internalize order flow. Some exchanges have structured their options businesses in partnership with established market participants and order flow providers. Others offer specific payments for order flow, in addition to any economic incentives received from market-makers and other participants.

Regulatory Oversight

We are subject to regulation by the SEC and the CFTC and market participants may be subject to regulation by the SEC, the CFTC, the Board of Governors of the Federal Reserve, the U.S. Department of the Treasury and/or foreign regulators. Laws and regulations regarding our business and the business of market participants are frequently modified or changed. See "Regulatory Environment and Compliance" for more information on significant areas of regulation of us. As the number of legislative actions have increased, such as the implementation of Basel III, Dodd-Frank and the Collins Amendment to Dodd-Frank, some market participants have adjusted their businesses.

Competitive Strengths

We have established ourselves as a global leader and innovator in the options industry. We believe we are well positioned to further enhance our leadership position through several key competitive strengths:

Innovative Products and Services. We have worked closely and collaboratively with market participants to introduce new products and services to meet the evolving needs of the derivatives industry, and plan to continue these efforts.

Products we have developed including index options, options and futures on the VIX Index and other volatility indexes, short duration options, including Weeklys, FLExible EXchange Options ("FLEX options") and options strategy benchmark indexes.

We also connect with a growing customer base through trading and educational resources, including the world-renowned CBOE Options Institute, and we recently became the first U.S. options exchange to trade options in non-U.S. trading hours.