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CBOE Holdings, Inc.
Form 425
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Subject Company: CBOE Holdings, Inc.

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On October 28, 2009, the Chicago Board Options Exchange, Incorporated issued the following information circular.

Information Circular IC09-328

October 28, 2009

To: CBOE Members

From: Alan J. Dean
Chief Financial Officer

Re: Three Months and Nine Months Ended September 30, 2009 Unaudited Financial Statements

For the third quarter ended September 30, 2009, Chicago Board Options Exchange (CBOE) reported total revenues of \$98.4 million, down 17 percent from the third quarter of 2008. Third-quarter 2009 income before income taxes of \$32.8 million was down 44 percent from \$58.5 million in the third quarter a year ago.

Third-quarter 2009 results reflect a challenging market recovery, making comparisons difficult with record results reported in last year's third quarter, when extraordinary market events resulted in record options trading volume. CBOE continues to focus on maintaining cost discipline while making prudent, targeted investments aimed at driving growth.

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Through the first nine months of 2009, total revenues were \$306.3 million, down 4 percent from the year-ago period. Income before income taxes through nine months was \$120.7 million, a 22-percent decrease versus the same period last year.

| Financial Summary (in thousands) | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|-------------------------------------|---------------------------------|------------|------------|-------|--------------------------------|------------|------------|-------|
| | 2009 | 2008 | Chg | % chg | 2009 | 2008 | Chg | % chg |
| Total Revenues | \$ 98,389 | \$ 117,872 | \$ -19,483 | -17% | \$ 306,332 | \$ 319,762 | \$ -13,430 | -4% |
| Total Expenses | 65,613 | 59,336 | 6,277 | 11% | 185,674 | 164,554 | 21,120 | 13% |
| Income Before | | | | | | | | |
| Income Taxes | 32,776 | 58,536 | -25,760 | -44% | 120,658 | 155,208 | -34,550 | -22% |
| Operating Margin | 33.3% | 49.7% | -16.4pts | | 39.4% | 48.5% | -9.1pts | |
| Net Income | \$ 19,160 | \$ 36,686 | \$ -17,526 | -48% | \$ 71,547 | \$ 92,697 | \$ -21,150 | -23% |
| Options Contracts | | | | | | | | |
| Per Day | 4,483 | 5,341 | -858 | -16% | 4,558 | 4,760 | -202 | -4% |

Review of Third-Quarter 2009 Financial Results

Total revenues for the third quarter decreased \$19.5 million, or 17 percent, due mainly to declines in transaction fees and investment income, partially offset by higher revenue from other member fees and regulatory fees. The following summarizes the primary changes in total revenues for the quarter:

- Transaction fees decreased \$22.4 million, or 23 percent, resulting from a 16-percent decline in trading volume and an 8-percent decrease in the average transaction fee per contract. Total options contracts traded for the quarter were 286.9 million compared with record volume of 341.8 million in last year's third quarter. CBOE's total average options contracts traded per day for the third quarter fell to 4.48 million versus last year's average of 5.34 million. The average total transaction fee per contract was \$0.265 for the quarter, down from \$0.288 in the third quarter of 2008. This decrease reflects a shift in the volume mix, with a lower percentage of CBOE's total volume coming from its higher-margin product categories. The lower average transaction fee per contract also reflects the impact of fee waivers implemented for certain transactions in response to competitive fee changes.
- Investment income was down \$1.6 million in the quarter due to lower yields on investments resulting from significantly lower interest rates.
- The decreases were partially offset by a \$2.1-million increase in other member fees resulting from temporary member access fees. Temporary member access fees assessed in the prior year were deferred and are being held in an escrow account pending the final resolution of the exercise right issue.
- Regulatory fees increased \$2.5 million versus last year's third quarter, primarily due to a change in CBOE's regulatory fee structure. In the third quarter of 2008, CBOE eliminated its registered representative fee, which led to a decrease in regulatory fees. This fee was replaced with an options regulatory fee effective March 1, 2009.

Third Quarter Expense Analysis

Total expenses were \$65.6 million for the third quarter of 2009, compared with \$59.3 million for third-quarter 2008. The \$6.3 million, or 11 percent, expense increase consisted primarily of the following:

- Trading volume incentives increased \$4.1 million in the quarter due to high costs for a designated primary market maker (DPM) linkage program and a liquidity provider program. The DPM market linkage program reimburses DPMs for the cost of linking customer orders to markets at other exchanges. The liquidity provider rebate program provides incentives to market participants for executing orders at CBOE as opposed to routing to away markets.
- Employee costs were up \$2.1 million, due mainly to headcount additions relating to C2; incremental costs for insurance benefits and higher expenses accrued for 2009 incentive awards resulting from a plan refinement that changed the timing of the expense recognition, impacting the quarterly year-over-year comparisons. For the full-year 2009, incentive awards are projected to be down compared with the prior year, based on lower earnings to date. CBOE had 596 employees at September 30, 2009, compared with 579 at the end of September 2008. This increase is attributable to employees hired to support C2, CBOE's new all-electronic exchange. C2 is expected to launch next year, pending regulatory approval.

- Expenses related to outside services increased \$2.1 million from third-quarter 2008 primarily due to higher legal fees and an increase in consulting costs for systems and software development.
- These increases were partially offset by a \$1.6-million decline in royalty fees versus last year's third quarter, resulting from lower trading volume in licensed products.

CBOE's operating margin for the quarter, representing income before taxes as a percentage of total revenues, decreased to 33.3 percent from 49.7 percent for the third quarter of 2008, reflecting a lower revenue base and higher expenses.

Net income for the third quarter fell 48 percent to \$19.2 million from \$36.7 million in last year's third quarter.

Overview of Year-To-Date 2009 Financial Results

For the first nine months of 2009, total revenues were down \$13.4 million, or 4 percent. The most significant decreases in revenue occurred in volume-related transaction fees, investment income and other revenue, which decreased \$20.8 million, \$4.8 million and \$3.0 million, respectively. These decreases were partially offset by higher revenue from other member fees and regulatory fees of \$13.2 million and \$2.6 million, respectively.

Total options trading volume through September 2009 declined 5 percent to 856.9 million contracts from 899.6 million contracts a year ago. CBOE's average options contracts traded per day was 4.56 million, down 4 percent versus the first nine months of 2008. The total average transaction fee per contract was \$0.276 through September 2009, a 3-percent decrease from \$0.286 for the nine months ended September 30, 2008.

Total expenses through the first nine months of 2009 were \$185.7 million, an increase of \$21.1 million, or 13 percent, compared with the prior year. This increase primarily resulted from higher costs related to trading volume incentives of \$9.7 million, employee costs of \$5.9 million, data processing of \$1.6 million and outside services of \$4.2 million. These increases were partially offset by a \$2.1 million decrease in royalty fees.

CBOE's operating margin through September 30, 2009, was 39.4 percent compared with 48.5 percent for the nine months of 2008.

CBOE reported net income of \$71.5 million, a decrease of 23 percent from \$92.7 million in the same period a year ago.

Strong Balance Sheet and Liquidity Position

At September 30, 2009, CBOE had \$348.9 million of available cash and cash equivalents on its balance sheet and no outstanding debt. In addition, at the end of September, the balance sheet included restricted cash of \$26.9 million, which represents deferred revenue from access fees paid by temporary members. Working capital, defined as current assets minus current liabilities, was \$339.3 million as of September 30, 2009, an increase of \$18.7 million and \$69.0 million compared with working capital at June 30, 2009 and December 31, 2009, respectively.

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Cash provided by operations was \$17.9 million for the third quarter and \$96.3 million for the first nine months of 2009. Capital expenditures were \$8.7 million for the third quarter and \$29.4 million year to date. The majority of capital spending supports CBOE's efforts to continually upgrade and enhance its systems capacity and capabilities, including hardware and capitalized software.

Questions may be directed to Debbie Koopman at 312-786-7136 or koopman@cboe.com or Alan Dean at 312-786-7023 or dean@cboe.com.

This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any state or jurisdiction in which an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

In connection with the proposed restructuring transaction, CBOE Holdings, Inc. ("CBOE Holdings") has filed certain relevant materials with the United States Securities and Exchange Commission (SEC), including a registration statement on Form S-4. Members are encouraged to read the registration statement, including the proxy statement/prospectus that are a part of the registration statement, because it contains important information about the proposed transaction. Members are able to obtain a free copy of the proxy statement/prospectus, as well as the other filings containing information about CBOE Holdings and the Chicago Board Options Exchange, Incorporated ("CBOE"), without charge, at the SEC's Web site, <http://www.sec.gov>, and the company's website, www.CBOE.com. In addition, CBOE members may obtain free copies of the proxy statement/prospectus and other documents filed by CBOE Holdings or the CBOE from CBOE Holdings by directing a request to the Office of the Secretary, CBOE Holdings, Inc., 400 South LaSalle Street, Chicago, Illinois 60605.

CBOE Holdings, the CBOE and their respective directors, executive officers and other employees may be deemed to be participants in the solicitation of proxies in connection with the proposed transaction. Information about the directors and executive officers of CBOE Holdings and of the CBOE is available in the prospectus/proxy statement.

CHICAGO BOARD OPTIONS EXCHANGE, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| (In thousands) | Quarter Ended | | YTD | |
|--|------------------|------------------|------------------|------------------|
| | 9/30/2009 | 9/30/2008 | 9/30/2009 | 9/30/2008 |
| REVENUES: | | | | |
| Transaction fees | \$ 75,983 | \$ 98,398 | \$ 236,407 | \$ 257,256 |
| Other member fees | 10,364 | 8,249 | 34,842 | 21,627 |
| Options Price Reporting Authority income | 4,754 | 4,947 | 14,609 | 15,137 |
| Regulatory fees | 4,062 | 1,524 | 11,894 | 9,321 |
| Investments income | 191 | 1,771 | 1,083 | 5,897 |
| Other | 3,035 | 2,983 | 7,497 | 10,524 |
| Total Revenues | 98,389 | 117,872 | 306,332 | 319,762 |
| EXPENSES: | | | | |
| Employee costs | 22,046 | 19,948 | 63,259 | 57,389 |
| Depreciation and amortization | 6,884 | 6,571 | 20,653 | 19,713 |
| Data processing | 5,727 | 5,476 | 15,978 | 14,367 |
| Outside services | 8,917 | 6,834 | 23,002 | 18,790 |
| Royalty fees | 8,012 | 9,648 | 23,793 | 25,881 |
| Trading volume incentives | 8,981 | 4,908 | 21,483 | 11,815 |
| Travel and promotional expenses | 2,372 | 2,577 | 7,795 | 7,846 |
| Facilities costs | 1,127 | 1,284 | 3,744 | 2,878 |
| Net loss from investment in affiliates | 197 | 196 | 674 | 606 |
| Other | 1,350 | 1,894 | 5,293 | 5,269 |
| Total Expenses | 65,613 | 59,336 | 185,674 | 164,554 |
| INCOME BEFORE TAXES | 32,776 | 58,536 | 120,658 | 155,208 |
| PROVISION FOR INCOME TAXES | 13,616 | 21,850 | 49,111 | 62,511 |
| NET INCOME | \$ 19,160 | \$ 36,686 | \$ 71,547 | \$ 92,697 |
| Other Statistics | | | | |
| Trading Days | 64 | 64 | 188 | 189 |
| Contracts Traded: | | | | |
| CBOE Options Contracts | 286,895,507 | 341,813,772 | 856,876,324 | 899,573,197 |
| Options Contracts Per Day | 4,482,742 | 5,340,840 | 4,557,853 | 4,759,647 |
| CFE Futures Contracts | 339,859 | 333,201 | 642,367 | 941,729 |
| Futures Contracts Per Day | 5,310 | 5,206 | 3,417 | 4,983 |
| Total Transaction Fees Per Contract | \$ 0.265 | \$ 0.288 | \$ 0.276 | \$ 0.286 |

CHICAGO BOARD OPTIONS EXCHANGE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

| (In thousands) | 9/30/2009 | 6/30/2009 | 12/31/2008 | 9/30/2008 |
|---|-------------------|-------------------|-------------------|-------------------|
| ASSETS | | | | |
| Cash and investments | \$ 348,938 | \$ 339,929 | \$ 281,423 | \$ 265,869 |
| Cash and investments - restricted | 26,946 | 26,673 | 26,157 | 20,907 |
| Other Current Assets | 50,625 | 49,828 | 53,645 | 63,868 |
| Total Current Assets | \$ 426,509 | \$ 416,430 | \$ 361,225 | \$ 350,644 |
| Investments in Affiliates/Subsidiary | 3,502 | 3,699 | 5,699 | 5,975 |
| Land | 4,914 | 4,914 | 4,914 | 4,914 |
| Property and Equipment - Net | 90,049 | 88,950 | 84,934 | 78,210 |
| Other Assets Net | 39,404 | 39,125 | 39,367 | 36,131 |
| Total Assets | \$ 564,378 | \$ 553,118 | \$ 496,139 | \$ 475,874 |
| LIABILITIES & MEMBERS EQUITY | | | | |
| Total Current Liabilities | \$ 87,232 | \$ 95,886 | \$ 90,927 | \$ 95,430 |
| Total Long-Term Liabilities | 23,833 | 23,088 | 23,552 | 21,380 |
| Total Members Equity | 453,313 | 434,144 | 381,660 | 359,064 |
| Total Liabilities and Members Equity | \$ 564,378 | \$ 553,118 | \$ 496,139 | \$ 475,874 |

CHICAGO BOARD OPTIONS EXCHANGE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| (In thousands) | Quarter Ended | | YTD | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 9/30/2009 | 9/30/2008 | 9/30/2009 | 9/30/2008 |
| Cash Flows from Operating Activities: | | | | |
| Net Income | \$ 19,160 | \$ 36,686 | \$ 71,547 | \$ 92,697 |
| <u>Adjustments to reconcile net income to net cash flows from operating activities:</u> | | | | |
| Depreciation and amortization | 6,884 | 6,571 | 20,653 | 19,713 |
| Amortization of banker fees re National Stock Exchange | 0 | 0 | 23 | 23 |
| Amortization of prior service costs | 16 | 0 | 175 | 0 |
| Equity in loss of OneChicago, LLC | 197 | 196 | 674 | 606 |
| Interest expense on post-retirement obligation | 21 | 0 | 63 | 0 |
| Loss/(gain) (net) on disposition of property | 0 | 0 | 0 | 195 |
| Deferred income taxes | 325 | 1,186 | (1,646) | 674 |
| Change in assets and liabilities: | (8,659) | 56 | 4,828 | 14,071 |
| Net Cash Flows from Operating Activities | 17,944 | 44,695 | 96,317 | 127,979 |
| Cash Flows from Investing Activities: | | | | |
| Capital and other assets expenditures | (8,662) | (12,108) | (29,414) | (28,482) |
| Restricted funds - temp access fees | (273) | (6,322) | (789) | (16,658) |
| Sale of NSX certificates of proprietary membership | 0 | 0 | 1,500 | 1,500 |
| Proceeds from disposition of assets | 0 | 0 | 0 | 105 |
| Net Cash Flows from Investing Activities | (8,935) | (18,430) | (28,703) | (43,535) |
| Cash Flows from Financing Activities: | | | | |
| Payments for debt issuance costs | 0 | 0 | (99) | 0 |
| Net Cash Flows from Financing Activities | 0 | 0 | (99) | 0 |
| Net Increase in Cash and Cash Equivalents | 9,009 | 26,265 | 67,515 | 84,444 |
| Cash and Cash Equivalents at Beginning of Period | 339,929 | 239,604 | 281,423 | 181,425 |
| Cash and Cash Equivalents at End of Period | \$ 348,938 | \$ 265,869 | \$ 348,938 | \$ 265,869 |
| Supplemental Disclosure of Cash Flow Information: | | | | |
| Cash paid for income taxes | \$ 15,245 | \$ 22,035 | \$ 39,820 | \$ 61,510 |
| Non-cash investing activities: | | | | |
| Change in post-retirement benefit obligation | (16) | 0 | (175) | 0 |
| Unpaid liability to acquire equipment and software | 2,631 | 6,620 | 2,631 | 6,620 |