

CBOE Holdings, Inc.
Form 10-Q
May 07, 2013
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _____ to _____

Commission File No. 001-34774

CBOE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

20-5446972

(State or other jurisdiction of
incorporation or organization)

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

400 South LaSalle Street

60605

Chicago, Illinois

(Address of principal executive
offices)

(Zip Code)

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

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

Class

April 30, 2013

Unrestricted Common Stock, par value \$0.01

87,271,829 shares

Table of Contents

CBOE HOLDINGS, INC.
INDEX

	Page
 <u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Income — Three Months Ended March 31, 2013 and 2012</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income — Three Months Ended March 31, 2013 and 2012</u>	<u>6</u>
<u>Condensed Consolidated Balance Sheets — March 31, 2013 and December 31, 2012</u>	<u>7</u>
<u>Condensed Consolidated Statement of Stockholders' Equity — Three Months Ended March 31, 2013</u>	<u>8</u>
<u>Condensed Consolidated Statements of Cash Flows — Three Months Ended March 31, 2013 and 2012</u>	<u>9</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>10</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>26</u>
<u>Item 4. Controls and Procedures</u>	<u>26</u>
 <u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>27</u>
<u>Item 1A. Risk Factors</u>	<u>28</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>28</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>29</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>29</u>
<u>Item 5. Other Information</u>	<u>29</u>
<u>Item 6. Exhibits</u>	<u>29</u>
 <u>Signatures</u>	 <u>30</u>
<u>Exhibits</u>	<u>31</u>

Table of Contents

CERTAIN DEFINED TERMS

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

•"CBOE Holdings" refers to CBOE Holdings, Inc. and its subsidiaries.

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

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

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

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

•"FASB" refers to the Financial Accounting Standards Board.

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

•"OPRA" refers to the Options Price Reporting Authority.

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

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

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

•"We," "us," "our" or "the Company" refers to CBOE Holdings and its wholly-owned subsidiaries.

•"VIX" refers to the CBOE Volatility Index.

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

Table of Contents

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties. You can identify these statements by forward-looking words such as "may," "might," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," and the negative of these terms and other comparable terminology. All statements that reflect our expectations, assumptions or projections about the future other than statements of historical fact are forward-looking statements, including statements in the "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from that expressed or implied by the forward-looking statements. In particular, you should consider the risks and uncertainties described under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, Part II, Item 1A of this Quarterly Report on Form 10-Q and our other filings with the SEC.

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

Some factors that could cause actual results to differ include:

- the loss of our right to exclusively list certain index option products;
- increasing price competition in our industry;
- compliance with legal and regulatory obligations;
- our ability to operate, monitor and maintain our systems or program them so that they operate correctly, including in response to increases in trading volume and order transaction traffic;
- decreases in the amount of trading volumes or a shift in the mix of products traded on our exchanges;
- legislative or regulatory changes;
- increasing competition by foreign and domestic entities;
- economic, political and market conditions;
- our ability to operate our business without violating the intellectual property rights of others and the costs associated with protecting our intellectual property rights;
- our ability to maintain access fee revenues;
- our ability to protect our systems and communication networks from security risks, including cyber-attacks;
- our ability to attract and retain skilled management and other personnel;
- our ability to maintain our growth effectively;
- our dependence on third party service providers; and
- the ability of our compliance and risk management methods to effectively monitor and manage our risks.

We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this filing.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

CBOE Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Income
Three Months Ended March 31, 2013 and 2012

(in thousands, except per share amounts)	Three Months Ended March 31,	
	2013	2012
	(unaudited)	
Operating Revenues:		
Transaction fees	\$99,145	\$84,835
Access fees	15,654	15,980
Exchange services and other fees	9,088	7,449
Market data fees	5,537	6,373
Regulatory fees	9,700	4,696
Other revenue	3,581	2,059
Total Operating Revenues	142,705	121,392
Operating Expenses:		
Employee costs	30,837	25,290
Depreciation and amortization	8,282	8,320
Data processing	4,516	4,899
Outside services	11,035	7,170
Royalty fees	13,169	11,191
Trading volume incentives	1,013	2,649
Travel and promotional expenses	2,064	2,167
Facilities costs	1,253	1,303
Other expenses	1,106	988
Total Operating Expenses	73,275	63,977
Operating Income	69,430	57,415
Other Income/(Expense):		
Investment income	4	23
Net loss from investment in affiliates	(725)) (476)
Total Other Expense	(721)) (453)
Income Before Income Taxes	68,709	56,962
Income tax provision	26,336	23,545
Net Income	42,373	33,417
Net income allocated to participating securities	(584)) (554)
Net Income Allocated to Common Stockholders	\$41,789	\$32,863
Net Income Per Share Allocated to Common Stockholders (Note 4):		
Basic	\$0.48	\$0.37
Diluted	0.48	0.37
Weighted average shares used in computing income per share:		
Basic	87,272	88,146
Diluted	87,272	88,146

See notes to condensed consolidated financial statements

Table of Contents

CBOE Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
Three Months Ended March 31, 2013 and 2012

(in thousands)	Three Months Ended March 31,	
	2013 (unaudited)	2012
Net Income	\$42,373	\$33,417
Comprehensive Income (Loss) - net of tax:		
Post retirement benefit obligation	(208) (37
Comprehensive Income	42,165	33,380
Comprehensive income allocated to participating securities	(584) (554
Comprehensive Income allocated to common stockholders	\$41,581	\$32,826

See notes to condensed consolidated financial statements

Table of Contents

CBOE Holdings, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
March 31, 2013 and December 31, 2012

(in thousands, except share amounts)	March 31, 2013 (unaudited)	December 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	\$210,486	\$135,597
Accounts receivable—net allowances of \$353 and \$340	51,136	45,666
Marketing fee receivable	6,251	5,216
Income taxes receivable	481	11,717
Other prepaid expenses	6,335	4,146
Other current assets	735	567
Total Current Assets	275,424	202,909
Investments in Affiliates	14,221	14,270
Land	4,914	4,914
Property and Equipment:		
Construction in progress	89	89
Building	62,596	62,442
Furniture and equipment	266,120	263,155
Less accumulated depreciation and amortization	(256,528)	(251,642)
Total Property and Equipment—Net	72,277	74,044
Other Assets:		
Software development work in progress	5,204	4,370
Data processing software and other assets (less accumulated amortization - 2013, \$137,093; 2012, \$133,862)	37,585	38,351
Total Other Assets—Net	42,789	42,721
Total	\$409,625	\$338,858
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	\$43,168	\$45,148
Marketing fee payable	6,842	5,808
Deferred revenue and other liabilities	23,780	1,084
Post-retirement medical benefits	90	110
Income taxes payable	11,872	—
Total Current Liabilities	85,752	52,150
Long-term Liabilities:		
Post-retirement medical benefits	2,174	1,794
Income tax liability	22,708	20,857
Other long-term liabilities	3,924	3,946
Deferred income taxes	20,341	20,989
Total Long-term Liabilities	49,147	47,586
Commitments and Contingencies		
Total Liabilities	134,899	99,736
Stockholders' Equity:		
Preferred stock, \$0.01 par value: 20,000,000 shares authorized, no shares issued and outstanding at March 31, 2013 or December 31, 2012	—	—
	913	913

Edgar Filing: CBOE Holdings, Inc. - Form 10-Q

Unrestricted common stock, \$0.01 par value: 325,000,000 shares authorized;
91,270,509 issued and 87,271,829 outstanding at March 31, 2013; 91,270,274 issued
and 87,271,683 outstanding at December 31, 2012

Additional paid-in-capital	74,551	67,812	
Retained earnings	304,567	275,491	
Treasury stock at cost – 3,998,680 shares at March 31, 2013 and 3,998,591 shares at December 31, 2012	(104,204)	(104,201))
Accumulated other comprehensive loss	(1,101)	(893))
Total Stockholders' Equity	274,726	239,122	
Total	\$409,625	\$338,858	
See notes to condensed consolidated financial statements			

Table of Contents

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

(in thousands)	Preferred Stock	Unrestricted Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance—January 1, 2013	\$—	\$ 913	\$ 67,812	\$ 275,491	\$(104,201)	\$ (893)	\$ 239,122
Cash dividends on common stock				(13,297)			(13,297)
Stock-based compensation			6,739				6,739
Purchase of unrestricted common stock from employees					(3)		(3)
Net income							