UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2010

OR

o 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. 333-140574

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 Chicago, Illinois	**60605**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code

(312) 786-7462

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 o No x

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 o No o

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

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

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: None

Table of Contents

TABLE OF CONTENTS

INDEX

CBOE Holdings, Inc.

2

Table of Contents

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 as amended and the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties. We make forward-looking statements under the Risk Factors, Business, Management s Discussion and Analysis of Financial Condition and Results of Operations and in other sections of this filing. 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, 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. 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.

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 in and impact of litigation;
- 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.

For a detailed discussion of these and other factors that might affect our performance, see Part II, 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.

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. *Consolidated Financial Statements*

On April 26, 2010, CBOE Holdings, Inc. (CBOE Holdings or the Company) filed Amendment No. 7 to the Form S-4 Registration Statement with the Securities and Exchange Commission (the SEC) setting forth the details of the Chicago Board Options Exchange, Incorporated (CBOE or the Exchange) restructuring transaction. A special meeting of the voting members of CBOE was held on May 21, 2010, at which the adoption of an Agreement and Plan of Merger was approved by the affirmative vote of 89.6% of the memberships outstanding and entitled to vote at the special meeting. The Agreement and Plan of Merger provides for the restructuring of the CBOE pursuant to which the CBOE will convert from a non-stock corporation owned by its members into a stock corporation that will be a wholly-owned subsidiary of CBOE Holdings. In the restructuring transaction, each CBOE regular membership (a CBOE Seat) owned by a CBOE member on the date of the restructuring transaction will be converted into 80,000 shares of Class A common stock of CBOE Holdings. CBOE Seat owners will receive a total of 74,400,000 shares of Class A common stock of CBOE Holdings in the restructuring transaction. In addition, certain persons who satisfy the qualification requirements set forth in the Stipulation of Settlement, dated August 20, 2008 (the Settlement Agreement), among CBOE and other parties to the action entitled CME Group Inc. et al. v. Chicago Board Options Exchange Incorporated (the Delaware Action), will be issued a total of 16,333,380 shares of Class B common stock of CBOE Holdings.

Immediately following the issuance of the Class A and Class B common stock, the board of directors of CBOE Holdings intends to declare and pay a special dividend of $1.25 per outstanding share of Class A and Class B common stock, or $113,416,725 in the aggregate. The unaudited pro forma balance sheet as of March 31, 2010 reflects the impact of the special dividend as if the restructuring transaction were consummated on March 31, 2010.

The restructuring transaction is contingent on the concurrent completion by CBOE Holdings of an underwritten initial public offering of its unrestricted common stock. On May 27, 2010, CBOE Holdings filed Amendment No. 3 to Form S-1 Registration Statement with the SEC for an initial public offering (the Offering) of 11,700,000 shares of unrestricted common stock, comprised of 9,614,226 shares to be sold by the Company and 2,085,774 shares of to be sold by the selling stockholders.

The number of shares of common stock to be outstanding after the Offering gives effect to:

- the issuance of 74,400,000 shares of Class A common stock;
- the issuance of 16,333,380 shares of Class B common stock;
- grants of 2,217,911 shares of restricted stock to certain officers, directors and employees of CBOE Holdings pursuant to CBOE Holdings Long-Term Incentive Plan (the Long-Term Incentive Plan), which are subject to vesting under the terms of the grants;

- the conversion of 1,698,000 shares of Class A common stock and 387,774 shares of Class B common stock into 2,085,774 shares of unrestricted common stock in connection with the sale of such shares by the selling stockholders in the Offering;

- the initial public offering of 9,614,226 shares of unrestricted common stock by the Company; and

- the automatic conversion of the shares of Class A and Class B common stock not converted into unrestricted common stock and sold in the Offering into 44,323,803 shares of Class A-1 common stock and 44,323,803 shares of Class A-2 common stock upon consummation of the Offering. The Class A-1 and A-2 common stock will have all the same rights and privileges as the Class A common stock; however, the Class A-1 and A-2 common stock will be issued subject to certain transfer restrictions that will apply for 180 days and 360 days, respectively, following the Offering.

The unaudited pro forma net income per share was calculated by dividing historical net income for each of the periods presented by the weighted average number of common shares (basic and diluted) outstanding as if the restructuring transaction and Offering were consummated on January 1 of each respective period.

Table of Contents

We have received approval to list the unrestricted common stock of CBOE Holdings on the NASDAQ Global Select Market under the symbol CBOE.

PRIOR TO THE COMPLETION OF THE RESTRUCTURING TRANSACTION, CBOE HOLDINGS HAD NOT CONDUCTED ANY BUSINESS AS A SEPARATE ENTITY AND HAD NO ASSETS AND, THEREFORE, DOES NOT HAVE ITS OWN SET OF FINANCIAL STATEMENTS. AS A RESULT, THE FINANCIAL STATEMENTS INCLUDED ARE THOSE OF CBOE, WHICH WILL CONTINUE TO OPERATE THE EXCHANGE AFTER THE RESTRUCTURING TRANSACTION AS A WHOLLY-OWNED SUBSIDIARY OF CBOE HOLDINGS.

In this Form 10-Q, references to CBOE Holdings, or the Company, mean CBOE Holdings, Inc. References to CBOE, the Exchange, we, us our mean Chicago Board Options Exchange, Incorporated.

Table of Contents

Chicago Board Options Exchange, Incorporated and Subsidiaries

Condensed Consolidated Statements of Income

Three Months Ended March 31, 2010 and 2009

(in thousands, except per share amounts)	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(unaudited)	
Operating Revenues:		
Transaction fees	$ 83,411	$ 79,889
Access fees	2,204	2,253
Exchange services and other fees	4,361	6,074
Market data fees	5,748	5,275
Regulatory fees	3,829	2,888
Other revenue	1,528	1,688
Total Operating Revenues	**101,081**	**98,067**
Operating Expenses:		
Employee costs	23,137	20,274
Depreciation and amortization	7,301	6,884
Data processing	5,082	4,517
Outside services	8,123	6,584
Royalty fees	10,898	7,971
Trading volume incentives	3,696	5,704
Travel and promotional expenses	1,986	2,276
Facilities costs	1,384	1,377
Other expenses	745	2,160
Total Operating Expenses	**62,352**	**57,747**
Operating Income	**38,729**	**40,320**
Other Income/(Expense):		
Investment income	100	512
Net loss from investment in affiliates	(205)	(226)
Interest and other borrowing costs	(222)	(217)
Total Other Income/(Expense)	**(327)**	**69**
Income Before Income Taxes	**38,402**	**40,389**
Income tax provision	15,726	16,111
Net Income	**$ 22,676**	**$ 24,278**
Pro forma net income per common share (See Note 11):		
Basic	$ 0.23	$ 0.24
Diluted	0.22	0.24
Weighted average shares used in computing pro forma income per share:		
Basic	100,348	100,348
Diluted	102,566	102,566

See notes to condensed consolidated financial statements

Table of Contents

Chicago Board Options Exchange, Incorporated and Subsidiaries

Condensed Consolidated Balance Sheets

March 31, 2010 and December 31, 2009

(in thousands)	March 31, 2010 (unaudited)	December 31, 2009	Pro Forma reflecting Special Dividend (Note 12) March 31, 2010 (unaudited)
Assets			
Current Assets:			
Cash and cash equivalents	$ 439,497	$ 383,730	
Accounts receivable net allowances of $70 and $87	37,252	30,437	
Marketing fee receivable	9,028	8,971	
Income taxes receivable	295	1,583	
Prepaid medical benefits	589	2,085	
Other prepaid expenses	6,656	3,719	
Other receivable	1,500	2,086	
Other current assets	691	452	
Total Current Assets	**495,508**	**433,063**	
Investments in Affiliates	**2,885**	**3,090**	
Land	**4,914**	**4,914**	
Property and Equipment:			
Construction in progress	20,791	20,704	
Building	60,916	60,837	
Furniture and equipment	216,332	213,375	
Less accumulated depreciation and amortization	(208,048)	(203,665)	
Total Property and Equipment Net	**89,991**	**91,251**	
Other Assets:			
Software development work in progress	7,079	6,952	
Data processing software and other assets (less accumulated amortization 2010, $98,447; 2009, $95,500)	32,150	32,678	
Total Other Assets Net	**39,229**	**39,630**	
Total	**$ 632,527**	**$ 571,948**	
Liabilities and Members Equity			
Current Liabilities:			
Accounts payable and accrued expenses	$ 32,649	$ 42,958	
Marketing fee payable	9,878	9,786	
Deferred revenue	32,825	207	
Post-retirement medical benefits	72	96	
Dividend payable			113,417
Settlement payable	305,806	305,688	
Income tax payable	17,066		
Total Current Liabilities	**398,296**	**358,735**	**511,713**
Long-term Liabilities:			
Post-retirement medical benefits	1,465	1,444	
Income taxes payable	3,185	2,815	
Other long-term liabilities	206	244	
Deferred income taxes	18,551	20,576	
Total Long-term Liabilities	**23,407**	**25,079**	
Commitments and Contingencies			

Total Liabilities		**421,703**		**383,814**	**535,120**
Members Equity:					
Memberships		19,574		19,574	
Additional paid-in-capital		2,592		2,592	
Retained earnings		189,445		166,769	76,028
Accumulated other comprehensive loss		(787)		(801)	
Total Members Equity		**210,824**		**188,134**	**97,407**
Total	**$**	**632,527**	**$**	**571,948**	

See notes to condensed consolidated financial statements

Table of Contents

Chicago Board Options Exchange, Incorporated and Subsidiaries

Condensed Consolidated Statements of Members Equity

(Unaudited)

(in thousands)		Members Equity		Additional Paid-In Capital		Retained Earnings		Accumulated Other Comprehensive Loss		Total Members Equity
Balance December 31, 2009	$	19,574	$	2,592	$	166,769	$	(801)	**$**	**188,134**
Net income						22,676				22,676
Post-retirement benefit obligation adjustment net of tax expense of $4								14		14
Comprehensive income										22,690
Balance March 31, 2010	$	19,574	$	2,592	$	189,445	$	(787)	**$**	**210,824**

See notes to condensed consolidated financial statements

Table of Contents

Chicago Board Options Exchange, Incorporated and Subsidiaries

Condensed Consolidated Statements of Cash Flows

Three Months Ended March 31, 2010 and 2009

(in thousands)		**Three Months ended March 31, 2010**		**Three Months Ended March 31, 2009**
		(unaudited)		
Cash Flows from Operating Activities:				
Net Income	$	22,676	$	24,278
Adjustments to reconcile net income to net cash flows from operating activities:				
Depreciation and amortization		7,301		6,884
Other amortization		17		23
Provision for deferred income taxes		(2,028)		(1,128)
Equity in loss of affiliates		205		226
Changes in assets and liabilities:				
Accounts receivable		(6,815)		(9,590)
Marketing fee receivable		(57)		(3,774)
Income taxes receivable		1,288		7,725
Prepaid expenses		(1,441)		(908)
Other receivable		586		
Other current assets		(239)		(30)
Accounts payable and accrued expenses		(9,385)		(22,659)
Marketing fee payable		92		3,830
Deferred revenue		32,580		35,360
Post-retirement benefit obligations		(2)		
Income taxes payable		17,436		9,483
Access fees subject to fee-based payment		118		
Net Cash Flows from Operating Activities		**62,332**		**49,720**
Cash Flows from Investing Activities:				
Restricted funds temporary access fees				(4,980)
Capital and other assets expenditures		(6,562)		(9,830)
Sale of NSX certificates of proprietary membership				1,500
Net Cash Flows from Investing Activities		**(6,562)**		**(13,310)**
Cash Flows from Financing Activities:				
Payments for debt issuance costs		(3)		(79)
Net Cash Flows from Financing Activities		**(3)**		**(79)**
Net Increase in Cash and Cash Equivalents		**55,767**		**36,331**
Cash and Cash Equivalents at Beginning of Period		**383,730**		**281,423**
Cash and Cash Equivalents at End of Period	**$**	**439,497**	**$**	**317,754**
Supplemental Disclosure of Cash Flow Information				
Cash paid for income taxes	$	518	$	30
Non-cash activities:				
Change in post-retirement benefit obligation		(17)		
Unpaid liability to acquire equipment and software		1,388		5,094

See notes to condensed consolidated financial statements

9

Table of Contents

CHICAGO BOARD OPTIONS EXCHANGE, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

NOTE 1 BASIS OF PRESENTATION

These interim unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and notes thereto contained in the April 26, 2010, filing of the Company s Amendment No. 7 to the Form S-4 Registration Statement with the SEC setting forth the details of the CBOE restructuring transaction.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of operating revenues and expenses. On an ongoing basis, the Company evaluates its estimates, including those related to matters that require a significant level of judgment or are otherwise subject to an inherent degree of uncertainty. These estimates are based on management s knowledge and judgments, historical experience and observance of trends in particular matters. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. The results of operations for interim periods are not necessarily indicative of the results of operations for the full year.

NOTE 2 DESCRIPTION OF BUSINESS

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), various market indexes (index options) and securitized baskets of equity (exchange-traded funds). 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 we 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. In general, our operating revenues are primarily driven by the number of contracts traded on the Exchange. In order to increase the volume of contracts traded on the Exchange, we strive to develop and promote contracts designed to satisfy the trading, hedging and risk-management needs of our market participants.

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 CBOE instructed management to begin a transition to operating the CBOE on a for-profit basis. Therefore, the historical financial information will not necessarily be indicative of our future performance and should be read in that context.

The restructuring transaction will convert our organization from a non-stock company with members into a stock holding company with stockholders. Our members will become stockholders of CBOE Holdings. Following the restructuring transaction, we will earn access fee revenue from trading permit holders and will no longer generate revenue from membership dues. Based on our current assumptions, we expect that a significant amount of incremental operating revenues will be generated by access fees from trading permit holders. See Part I. Financial Information, Item 1. *Consolidated Financial Statements* for additional information on the restructuring transaction.

CBOE operates in one business segment.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Concentrations of Credit Risk CBOE s financial instruments, consisting primarily of cash and cash equivalents and account receivables, are exposed to concentrations of credit risk. CBOE places its cash and cash equivalents with highly-rated financial institutions, limits the amount of credit exposure with any one financial institution and conducts ongoing evaluations of the

Table of Contents

creditworthiness of the financial institutions with which it does business. Accounts receivable for transaction fees and marketing fees are collected through The Options Clearing Corporation (the OCC) and are with large, highly-rated clearing firms; therefore, concentrations of credit risk are limited.

Revenue Recognition CBOE s revenue recognition policies comply with ASC 605, *Revenue Recognition* (ASC 605). On occasion, customers will pay for services in a lump sum payment. When these circumstances occur, revenue is recognized as services are provided. Deferred revenue typically represents amounts received by CBOE for which services have not been provided. Revenue recognition policies for specific sources of revenue are discussed below.

Transaction Fees: Transaction fee revenue is considered earned upon the execution of a trade and is recognized on a trade date basis. Transaction fee revenue is presented net of applicable volume discounts. In the event liquidity providers prepay for transaction fees, revenue is recognized based on the attainment of volume thresholds resulting in the amortization of the prepayment over the calendar year.

Access Fees: Access fee revenue is recognized during the period the service is provided and assurance of collectability is confirmed. Access fees include member dues, interim trading permit revenue and temporary member access revenue.

Exchange Services and Other Fees: Exchange services and other fees are recognized during the period the service is provided. Exchange services and other fees include system services, trading floor charges and application revenue.

Market Data Fees: Market data fee revenue includes OPRA income and CBOE market data services. OPRA is a limited liability company consisting of representatives of the member exchanges and is authorized by the SEC to provide consolidated options information. OPRA income is allocated based upon the individual exchanges relative volume of total transactions. CBOE receives estimates of OPRA s distributable revenue which is accrued on a monthly basis. CBOE market data service fees represent fees charged for current and historical market data. Market data services are recognized in the period the data is provided.

Regulatory Fees: Regulatory fees are assessed based upon customer contracts cleared and are recognized during the period the service is provided.

Concentration of Revenue: At March 31, 2010, there were approximately 90 clearing firms, two of which cleared a combined 61% of our trades in the first three months of 2010. No one customer of either of these clearing firms represented more than 10% of transaction fees revenue for the three months ended March 31, 2010 or 2009. Should a clearing firm withdraw from the Exchange, management believes the customer portion of that firm s trading activity would likely transfer to another clearing firm. Therefore, management does not believe the Company is exposed to a significant risk from the loss of revenue received from a particular clearing firm.

Cash and Cash Equivalents Cash and cash equivalents, excluding cash equivalents-restricted funds, include highly liquid investments with maturities of three months or less from the date of purchase.

Accounts Receivable Accounts receivable consists primarily of transaction and regulatory fees from the OCC and CBOE s share of distributable revenue receivable from OPRA.

Prepaid expenses Prepaid expenses primarily consist of prepaid software maintenance and licensing expenses.

Investments in Affiliates Investments in affiliates represent investments in The Options Clearing Corporation (OCC), NSX Holdings, Inc. (NSX), the parent corporation of The National Stock Exchange, OneChicago, LLC (OneChicago) and CBOE Stock Exchange, LLC (CBSX).

The investment in the OCC (20% of its outstanding stock) and the investment in NSX (4.6% of the total outstanding of NSX as of March 31, 2010) are carried at cost because of CBOE s inability to exercise significant influence.

CBOE accounts for the investment in OneChicago (23.7% of its outstanding stock as of March 31, 2010) under the equity method due to CBOE s lack of effective control over OneChicago s operating and financing activities.

Table of Contents

CBOE accounts for the investment in CBSX under the equity method due to CBOE s lack of effective control over CBSX s operating and financing activities. CBOE received a 50% share in CBSX in return for non-cash property contributions. CBOE currently holds a 49.96% equity interest in CBSX.

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, CBOE would recognize a loss for the difference between the carrying amount and the estimated fair value of the equity method investment.

Property and Equipment Property and equipment are carried at cost, net of accumulated depreciation. Depreciation on building, furniture and equipment is provided on the straight-line method. Estimated useful lives are 40 years for the building and five to ten years for furniture and equipment. Leasehold improvements are amortized over the lesser of their estimated useful lives or the remaining term of the applicable leases.

Long-lived assets to be held and used are reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The CBOE bases the 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, the CBOE determines 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, the CBOE recognizes 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.

Property and equipment construction in progress is capitalized and carried at cost in accordance with ASC 360. Projects are monitored during the development stage to ensure compliance with ASC 360 and accordance with project initiatives. Upon completion, the projects are placed in service and amortized over the appropriate useful lives, using the straight-line method commencing with the date the asset is placed in service.

Software Development Work in Progress and Data Processing Software and Other Assets CBOE accounts for software development costs under ASC 350, *Intangibles Goodwill and Other* (ASC 350). CBOE expenses software development costs as incurred during the preliminary project stage, while capitalizing costs incurred during the application development stage, which includes design, coding, installation and testing activities.

Deferred financing fees Costs associated with CBOE s senior revolving credit facility were capitalized. The deferred financing fees are being amortized to interest expense on a straight-line basis over three years to match the terms of the facility. Deferred financing fees were $0.2 million for the three months ended March 31, 2010 and 2009.

Income Taxes Deferred income taxes are determined in accordance with ASC 740, *Income Taxes* (ASC 740), and arise from temporary differences between the tax basis and book basis of assets and liabilities. The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of the events that have been included in the condensed consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to be reversed. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date. CBOE files tax returns for federal, state and local income tax purposes. A valuation allowance is recognized if it is anticipated that some or all of a deferred tax asset may not be realized.

Upon adoption of ASC 740, CBOE changed its policy related to the accounting for income tax uncertainties. If CBOE considers that a tax position is more-likely-than-not of being sustained upon audit, based solely on the technical merits of the position, it recognizes the tax benefit. CBOE measures the tax benefit by determining the largest amount that is greater than 50% likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. These assessments can be complex, and CBOE often obtains assistance from external advisors. To the extent that CBOE s estimates change or the final tax outcome of these matters is different than the amounts recorded, such differences will impact the income tax provision in the period in which such determinations are made. Uncertain tax positions are classified as current only when CBOE expects to pay cash within the next twelve months. Interest and penalties, if any, are recorded

Table of Contents

within the provision for income taxes in CBOE s consolidated statements of income and are classified on the consolidated balance sheets with the related liability for unrecognized tax benefits.

Employee Benefit Plans ASC 715, *Compensation Retirement Benefits* (ASC 715), requires that the funded status of a defined benefit postretirement plan be recognized in the Consolidated Balance Sheet and changes in that funded status be recognized in the year of change in other comprehensive income (loss). ASC 715 also requires that plan assets and obligations be measured at year end. CBOE recognizes future changes in actuarial gains and losses and prior service costs in the year in which the changes occur through accumulated other comprehensive loss.

Insurance Proceeds Insurance proceeds for reimbursement of costs incurred as a result of legal proceedings pursuant to the Company s director and officer insurance policies are recorded upon receipt and are a reduction of outside services in the statements of operations.

Evaluation of Subsequent Events For the period ended March 31, 2010, management has evaluated all subsequent events through the issuance of financial statements.

Commitments and Contingencies Litigation CBOE accounts for contingencies in accordance with ASC 450, *Contingencies*, which requires the Company to accrue loss contingencies when the loss is both probable and estimable. All legal costs incurred in connection with loss contingencies are expensed as service is provided.

Recent Accounting Pronouncements In February 2010, the FASB issued an update to clarify the reporting requirements under ASC 855, *Subsequent Events* (ASC 855), and address what some constituents viewed as a conflict between FASB and SEC guidance. An entity that either (a) is an SEC filer or (b) is a conduit bond obligor for conduit debt securities that are traded in a public market is required to evaluate subsequent events through the date that the financial statements are issued. Otherwise, if neither of these criteria is met, an entity should evaluate subsequent events through the date the financial statements are available to be issued. The adoption of the update to ASC 855 did not have a material impact on CBOE s financial position, results of operations or statement of cash flows.

In January 2010, the FASB issued an update for ASC 820, *Fair Value Measurements and Disclosures* (ASC 820). For each class of assets and liabilities, reporting entities will have to provide additional disclosures describing the reasons for transfers of assets in and out of Levels 1 and 2 of the three-tier fair value hierarchy in accordance with ASC 820. For assets valued with the Level 3 method, the entity will have to separately present purchases, sales, issuances, and settlements in the reconciliation for fair value measurements. The update also states that an entity should provide fair value measurements for each class of asset or liability, and explain the inputs and techniques used in calculating Levels 2 and 3 fair value measurements. The update is effective for interim and annual filings for fiscal years beginning after December 15, 2010. The adoption of update to ASC 820 did not have an impact on the Company s interim financial statements and is not expected to have an impact on CBOE s annual financial position, results of operations or statement of cash flows.

In June 2009, the FASB issued ASC 810, *Consolidations* (ASC 810), which alters how a company determines when an entity that is insufficiently capitalized or not controlled through voting should be consolidated. A company has to determine whether it should provide consolidated reporting of an entity based upon the entity s purpose and design and the parent company s ability to direct the entity s actions. ASC 810 is effective for a company s first fiscal year beginning after November 15, 2009 or January 1, 2010 for companies reporting on a calendar-year basis. The adoption of ASC 810 did not have an impact on CBOE s financial position, results of operations or statement of cash flows.

NOTE 4 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

At March 31, 2010 and December 31, 2009, accounts payable and accrued liabilities consisted of the following (in thousands):

	March 31, 2010	December 31, 2009
Compensation and benefit-related liabilities	$ 6,450	$ 16,008
Royalties	10,289	8,386
Data processing related liabilities	2,692	2,887
Linkage	1,609	2,211
Other	11,609	13,466
Total	$ 32,649	$ 42,958

Table of Contents

NOTE 5 MARKETING FEE

CBOE facilitates the collection and payment of marketing fees assessed on certain trades taking place at CBOE. Funds resulting from the marketing fees are made available to Designated Primary Market Makers and Preferred Market Makers as an economic inducement to route orders to CBOE. Pursuant to ASC 605-45, *Revenue Recognition Principal Agent Considerations*, the Company reflects the assessments and payments on a net basis, with no impact on revenues or expenses.

As of March 31, 2010 and December 31, 2009, amounts assessed by CBOE on behalf of others included in current assets totaled $9.0 million and payments due to others included in current liabilities totaled $9.9 million and $9.8 million, respectively.

NOTE 6 SETTLEMENTS PAYABLE

The following table summarizes the remaining cash liabilities resulting from the final, non-appealable resolution of the Delaware Action pursuant to the Settlement Agreement and the settlement with the appellants as of March 31, 2010 and December 31, 2009 (in thousands):

		March 31, 2010		December 31, 2009
Exercise Right privilege payable	$	300,000	$	300,000
Settlement with appellants		3,000		3,000
Access fees subject to fee-based payments		2,806		2,688
Total settlements payable	$	305,806	$	305,688

The cash payments will be made based upon agreed terms or at the earlier of the completion of CBOE s restructuring transaction or one year after the order approving the Settlement Agreement became final.

NOTE 7 EMPLOYEE BENEFITS

Employees are eligible to participate in the Chicago Board Options Exchange SMART Plan (SMART Plan). The SMART Plan is a defined contribution plan, which is qualified under Internal Revenue Code Section 401(k). CBOE contributed $1.1 million and $0.9 million to the SMART Plan for the three months ended March 31, 2010 and 2009, respectively.

Eligible employees may participate in the Supplemental Employee Retirement Plan (SERP), and Deferred Compensation Plan. The SERP and Deferred Compensation Plan are defined contribution plans that are nonqualified by Internal Revenue Code regulations. CBOE contributed $0.8 million and $0.3 million to the SERP for the three months ended March 31, 2010 and 2009, respectively.

CBOE also has a Voluntary Employees Beneficiary Association (VEBA). The VEBA is a trust, qualifying under Internal Revenue Code Section 501(c)(9), created to provide certain medical, dental, severance and short-term disability benefits to employees of CBOE. Contributions to the trust are based on reserve levels established by Section 419(a) of the Internal Revenue Code. No contributions were made for the three months ended March 31, 2010 and 2009.

CBOE has a postretirement medical plan for certain current and former members of senior management. CBOE recorded immaterial postretirement benefits expense for the three months ended March 31, 2010 and 2009, resulting from the amortization of accumulated actuarial expense included in accumulated other comprehensive loss at March 31, 2010 and 2009.

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law, potentially impacting CBOE s costs to provide healthcare benefits to its retired employees. The PPACA has both short and long-term implications on

Table of Contents

healthcare benefit plan standards. CBOE is currently analyzing this legislation to determine the full extent of the impact on healthcare plans and the resulting costs.

NOTE 8 SENIOR REVOLVING CREDIT FACILITY

On December 23, 2008, CBOE entered into a senior revolving credit facility with three financial institutions. The credit agreement is a three-year revolving credit facility of up to $150 million and expires on December 23, 2011. Borrowing under the facility became available upon the final, non-appealable resolution of the Delaware Action pursuant to the Settlement Agreement. As part of the Settlement Agreement, CBOE is required to pay qualifying class members $300 million in cash at the earlier of the completion of CBOE s restructuring transaction or one year after the order approving the Settlement Agreement became final. CBOE secured this line of credit to ensure that it had adequate funds available to meet this obligation. The proceeds can also be used for general corporate purposes. The company may, at its option, so long as no default is continuing, increase the facility an additional $100 million up to $250 million with the consent of the participating financial institutions. As of March 31, 2010 and December 31, 2009, there were no borrowings against the credit facility.

Under the terms of the senior revolving credit facility, there are two financial covenants with which CBOE must comply. The consolidated leverage ratio at any time during any period of four fiscal quarters must not be greater than 1.5 to 1.0 and the consolidated interest coverage ratio as of the end of any fiscal quarter must not be less than 5.0 to 1.0. CBOE is in compliance with all covenants as of December 31, 2009 and March 31, 2010.

CBOE pays a commitment fee on the unused portion of the facility. The commitment fee rate was 0.375% for the three months ended March 31, 2010. The commitment fee and interest rate have two pricing levels based on the company s consolidated leverage ratio. At its option, CBOE may borrow under the facility at either (1) LIBOR plus an applicable margin of 1.5% or 2.0% as determined in accordance with a leverage-based threshold or (2) a base rate, defined as the highest of (a) the Bank of America prime rate, (b) the federal funds rate plus 0.50% or (c) the one-month LIBOR rate plus 0.50%, plus the applicable margin rate. In accordance with the leverage-based threshold, the commitment fee increases to 0.50% if CBOE s consolidated leverage ratio exceeds 1.0.

NOTE 9 FAIR VALUE MEASUREMENTS

Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk, including the Company s own credit risk.

The three-level hierarchy of fair value measurements is based on whether the inputs to those measurements are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s market assumptions. The fair-value hierarchy requires the use of observable market data when available and consists of the following levels:

- Level 1 Unadjusted inputs based on quoted markets for identical assets or liabilities.

- Level 2 Observable inputs, either direct or indirect, not including Level 1, corroborated by market data or based upon quoted prices in non-active markets.

- Level 3 Unobservable inputs which reflect management s best assumptions of what market participants would use in valuing the asset or liability.

All of the Company s financial assets that are measured at fair value on a recurring basis are measured using Level 1 inputs. The Company has not included a tabular disclosure as the Company s only financial assets that are measured at fair value on a recurring basis in the consolidated balance sheet as of March 31, 2010 are money market funds comprising approximately $439.2 million of the cash and cash equivalents balance. The Company holds no financial liabilities that are measured at fair value on a recurring basis.

Table of Contents

The Company adopted ASC Subtopic 825-10 but did not elect the fair value option.

NOTE 10 COMMITMENTS AND CONTINGENCIES

CBOE was or is currently a party to the following legal proceedings:

Last Atlantis Litigation

On November 7, 2005, an amended and consolidated complaint (the Consolidated Complaint) was filed on behalf of Last Atlantis Capital LLC, Lola L.L.C., Lulu L.L.C., Goodbuddy Society L.L.C., Friendly Trading L.L.C., Speed Trading, LLC, Bryan Rule, Brad Martin and River North Investors LLC in the U.S. District Court for the Northern District of Illinois against the CBOE, three other options exchanges and 35 market maker defendant groups (the Specialist Defendants). The Consolidated Complaint combined complaints that had been filed by Bryan Rule and Brad Martin with an amendment of a previously dismissed complaint (the Original Complaint) that originally had been brought by a number of the other plaintiffs. The Consolidated Complaint raised claims for securities fraud, breach of contract, common law fraud, breach of fiduciary duty, violations of the Illinois Consumer Fraud and Deceptive Trade Practices Act and tortious interference with plaintiffs business and contracts. The previously dismissed Original Complaint also had brought claims under the antitrust laws, and the dismissal of those claims against CBOE remains subject to appeal.

With regard to the CBOE, the Consolidated Complaint alleged that the CBOE and the other exchange defendants knowingly allowed the Specialist Defendants to discriminate against the plaintiffs electronic orders or facilitated such discrimination, failed adequately to investigate complaints about such alleged discrimination, allowed the Specialist Defendants to violate CBOE s Rules and the rules of the SEC, failed to discipline the Specialist Defendants, falsely represented and guaranteed that electronically entered orders would be executed immediately and knowingly or recklessly participated in, assisted and concealed a fraudulent scheme by which the defendants supposedly denied the customers the electronic executions to which they claim they were entitled. Plaintiffs sought unspecified compensatory damages, related injunctive relief, attorneys fees and other fees and costs.

On September 13, 2006, the Court dismissed the Consolidated Complaint in its entirety and entered judgment in favor of all defendants. On March 22, 2007, the Court denied plaintiffs request to reconsider the dismissal of the claims against CBOE and held that the prior dismissal of those claims with prejudice would stand. The Court, however, granted plaintiffs motion to reconsider the dismissal of the claims against the Specialist Defendants and ordered plaintiffs to file another amended complaint asserting only their claims against the Specialist Defendants.

Since 2007, the claims against a number of Specialist Defendants have been dismissed. In January 2009, the Court dismissed the claims of plaintiffs Lulu L.L.C., Lola L.L.C., Friendly Trading L.L.C. and Goodbuddy Society L.L.C. with prejudice. The remaining plaintiffs, however, will be able to appeal the dismissal of their claims against CBOE after the Court disposes of all of the claims that remain pending against the remaining Specialist Defendants. In addition, in March 2010 the plaintiffs subpoenaed CBOE seeking documents and data. On April 15, 2010, the Court suspended further discovery against CBOE and other exchanges pending resolution of summary judgment motions brought by various defendants.

Index Options Litigation

On November 2, 2006, the ISE and its parent company filed a lawsuit in federal court in the Southern District of New York against The McGraw-Hill Companies, Inc. (McGraw-Hill) and Dow Jones & Co. (Dow Jones), the owners, respectively, of the S&P 500 Index and the DJIA, which are the basis for index options, or SPX options and DJX options, respectively, that the CBOE lists pursuant to exclusive licenses from McGraw-Hill and Dow Jones. The CBOE is not a party in this lawsuit. The ISE seeks a judicial declaration that it may list and trade SPX and DJX options without a license and without regard to the CBOE s exclusive licenses to list options on those indexes, on the ground that any state-law claims based on the unlicensed listing of SPX and DJX options allegedly would be preempted by the federal Copyright Act and because McGraw-Hill and Dow Jones supposedly cannot state an actionable copyright claim. McGraw-Hill and Dow Jones filed a motion to dismiss this action on December 22, 2006, on the ground that there is no federal jurisdiction over this dispute. This motion has not been decided. Consistent with the jurisdictional position of McGraw-Hill and Dow Jones, those parties joined with the CBOE to file a state court action in Circuit Court of Cook County, Illinois on November 15, 2006 against the ISE and OCC (the Illinois action). In the Illinois action, the CBOE and the other plaintiffs seek a judicial declaration that the ISE may not list, or offer trading of, SPX or DJX options because of both the proprietary rights of McGraw-Hill and Dow Jones in the underlying indexes and the CBOE s exclusive license rights to trade such options. The Illinois action alleges that the ISE s threatened action would misappropriate the proprietary interests of McGraw-Hill and Dow Jones and the exclusive license rights of the CBOE, would interfere with the CBOE s prospective business relationships with its member firms and customers and would constitute unfair competition. On December 12, 2006, the ISE removed the Illinois action to federal court in the Northern District of Illinois. On December 15, 2006, the CBOE and the other plaintiffs in the Illinois action moved to remand the matter to the Illinois state court on the ground that there is no federal jurisdiction over the claims. The federal court granted the motion to remand the Illinois action to state court, where it is now pending. The ISE moved to dismiss or stay the Illinois action on the alternative grounds of inconvenient forum and the prior-pending suit it filed in New York. The CBOE and the other plaintiffs opposed the ISE s motion and on May 15, 2007, the Illinois circuit court denied ISE s motion to dismiss or stay. The ISE appealed the denial of its request for a stay, and the Illinois appellate court denied the ISE s motion for leave to appeal the denial of the ISE s motion to dismiss on the basis that the Illinois court is an inconvenient forum. The federal court in the Southern District of New York granted a motion by Dow Jones and McGraw-Hill to stay the New York action pending resolution of the Illinois action. The ISE appealed the federal court s stay of the New York action it initiated.

On June 2, 2008, the Illinois appellate court affirmed the Illinois circuit court s decision denying ISE s motion to dismiss or stay, which was based on ISE s argument that the case should be decided in a prior-pending lawsuit by ISE in New York federal court. ISE s New York federal lawsuit remains stayed. The federal appellate court in New York affirmed the district court s stay on January 8, 2009, after hearing oral arguments on January 5.

On March 23, 2009, based on an allegation of copyright preemption, ISE filed a motion to dismiss the complaint of CBOE and its co-plaintiffs. On April 14, 2009, the Illinois trial court denied ISE s motion to dismiss. On May 1, 2009, ISE filed a motion in the Illinois Supreme Court for leave to file a writ of prohibition, or alternatively, for a supervisory order directing the Illinois trial court to dismiss the action for an alleged lack of subject matter jurisdiction. CBOE and the other plaintiffs filed an objection in response on May 8, 2009. On June 15, 2009, the Illinois Supreme Court denied ISE s motion.

Table of Contents

Expert discovery concluded on February 12, 2010. On February 26, 2010, both plaintiffs and ISE parties filed cross-motions for summary judgment, seeking a ruling in their favor as a matter of law. Briefing on these motions was completed on April 28, 2010. Oral arguments on the motions took place on May 26, 2010. The judge stated that he intends to rule on the summary judgment motions on July 8, 2010.

Patent Litigation

On November 22, 2006, the ISE filed an action in federal court in the Southern District of New York claiming that CBOE s hybrid trading system infringes ISE s U.S. Patent No. 6,618,707 (the 707 patent) directed towards an automated exchange for trading derivative securities. On January 31, 2007, the CBOE filed an action in federal court in the Northern District of Illinois (the Chicago action) seeking a declaratory judgment that the ISE patent that is the subject of the action in New York, and two other patents that the ISE had raised in communications with the CBOE, are either not infringed and/or not valid and/or not enforceable against the CBOE.

On February 5, 2007, the CBOE filed a motion to transfer the matter pending in the Southern District of New York to federal court in the Northern District of Illinois. On May 24, 2007, the magistrate judge for the Southern District of New York recommended that the motion to transfer be granted, and the case was transferred on August 9, 2007 after the district court adopted the magistrate judge s recommendation. On October 16, 2007, CBOE and ISE entered into a stipulated order for the dismissal of any patent infringement claims that ISE may have against CBOE for patent infringement of U.S. Patents Nos. 6,377,940 and/or 6,405,180. ISE has also executed a covenant not to sue CBOE in relation to U.S. Patents Nos. 6,377,940 and 6,405,180. Fact discovery is now closed.

On May 11, 2007 CBOE filed an Amended Complaint in the Chicago action, alleging that in addition to the defenses of non-infringement and invalidity, the 707 patent was unenforceable by reason of inequitable conduct.

CBOE advised the Court that it was not pursuing the inequitable conduct claim pleaded in its May 2007 Amended Complaint. Nevertheless, CBOE twice sought to amend its complaint to add allegations of inequitable conduct based on additional facts uncovered during discovery. These motions were denied by the Court on December 22, 2009 and January 27, 2010. In the Court s January 27th decision, the Court dismissed CBOE s May 2007 inequitable conduct claim with prejudice. The merits of the amended inequitable conduct claim have not been adjudicated by the Court.

A pretrial hearing (known as a Markman hearing) was conducted over several days in August 2009, during which the Court examined evidence from the parties on the appropriate meanings of relevant key words used in the patent claims asserted against the CBOE. On January 25, 2010, the judge issued a decision on a final construction of the claims of the 707 patent. This decision is favorable for CBOE s positions on noninfringement on all asserted claims and is also favorable on CBOE s positions on the invalidity of certain asserted claims of the 707 patent. ISE filed a motion for clarification of the Court s Markman ruling that sought to vitiate one of the Court s rulings. CBOE opposed ISE s clarification motion. The Court issued an order that clarified the Markman ruling to further support the positions of CBOE.

As the case currently stands, CBOE s claims and defenses of non-infringement, invalidity and unenforceability based on the defenses of waiver, laches, equitable estoppel, patent misuse and unclean hands related to the asserted claims of the 707 patent remain in the case. At a status conference on April 1, 2010, the Court granted CBOE s request to file a motion for summary judgment and briefing on that motion was concluded on May 21, 2010.

On July 22, 2009, Realtime Data, LLC d/b/a/ IXO (Realtime) filed a complaint in the Eastern District of Texas (the Texas action) claiming that CME Group Inc., BATS Trading, Inc., ISE, NASDAQ OMX Group, Inc., NYSE Euronext and OPRA infringed four Realtime patents by using, selling or offering for sale data compression products or services allegedly covered by those patents. Although CBOE was not initially named in the Texas action, the allegations in that case created a controversy as to whether CBOE infringed one or more of the four Realtime patents. Accordingly, on July 24, 2009, CBOE filed an action against Realtime in the Northern District of Illinois (Illinois action) seeking a declaratory judgment that the four patents are not infringed by CBOE and are not valid and/or are not enforceable against CBOE. On July 27, 2009, Realtime filed an amended complaint in the Texas action to add CBOE as a defendant. In that amended complaint, Realtime claims that CBOE, along with the exchanges listed above, directs and controls the activities of OPRA and that OPRA and CBOE, among others, use, sell, or offer for sale data compression products or services allegedly covered by the Realtime patents. The amended complaint in the Texas action seeks declaratory and injunctive relief as well as unspecified damages, attorneys fees, costs and expenses.

Table of Contents

CBOE responded to the complaint filed by Realtime by filing a motion to dismiss, transfer or stay Realtime s action on the bases that CBOE s first-filed action should take precedence over the Texas action filed by Realtime and that the Eastern District of Texas lacks jurisdiction over CBOE.

Realtime did not answer CBOE s complaint but did file a motion to dismiss CBOE s complaint claiming the Northern District of Illinois has no jurisdiction over Realtime. The Court granted Realtime s motion and the Illinois action was dismissed January 8, 2010. CBOE appealed the dismissal of the Illinois action on February 5, 2010, and the appeal is presently pending in the U.S. Court of Appeals for the Federal Circuit.

In light of the Court s decision in the Illinois action, CBOE amended its request for alternative relief in January 2010 by joining the motion filed by all of the other defendants in the action and seeking a transfer of the Texas action to the U.S. District Court for the Southern District of New York. This motion was denied. Meanwhile, CBOE s motion for dismissal for lack of personal jurisdiction is pending in the Texas action while Realtime obtains discovery from CBOE on that issue.

Additionally, on May 11, 2010, Realtime filed a complaint in the Eastern District of Texas claiming that CME Group Inc., Board of Trade of the City of Chicago, Inc., New York Mercantile Exchange, Inc., BATS Trading, Inc., ISE, NASDAQ OMX Group, Inc., NYSE Euronext, NYSE Arca, Inc., NYSE AMEX LLC, SIAC, CBOE, Boston Options Exchange Group LLC and OPRA infringe another Realtime patent by using, selling or offering for sale data compression and decompression products or services allegedly covered by that patent. CBOE has not yet responded to the complaint in this action.

SFB Market Systems Litigation

On February 3, 2010, a complaint was filed on behalf of SFB Market Systems, Inc., or SFB, in the U.S. District Court for the Southern District of New York against the CBOE, six other options exchanges, the OCC and another entity. The complaint raises claims for copyright infringement, breach of contracts, breach of non-disclosure agreements, theft of trade secrets, declaratory judgment and, as to the OCC only, tortious interference with contract, including a contract between SFB and the CBOE. All claims relate to SFB s Symbol Manager system and the alleged development of a system to replace Symbol Manager. SFB alleges that defendants no longer are entitled to use Symbol Manager as a result of defendants alleged breaches of contract. With regard to the CBOE specifically, the complaint alleges breach of a software agreement between SFB and the CBOE entered into on or about January 3, 2006 and also asserts that C2 had agreed to use the alleged replacement system. The complaint seeks declaratory and injunctive relief, including removal of certain software from defendants systems and return of certain allegedly proprietary or confidential information; unspecified actual or statutory damages and exemplary damages; and attorneys fees and costs. The parties have reached an agreement in principle to settle the case. Pending final settlement, the case has been dismissed without prejudice.

Other

As a self-regulatory organization under the jurisdiction of the SEC, and as a designated contract market under the jurisdiction of the Commodity Futures Trading Commission (CFTC), CBOE and CFE are subject to routine reviews and inspections by the SEC and the CFTC. CBOE is also currently a party to various other legal proceedings including those already mentioned. Management does not believe that the outcome of any of these reviews, inspections or other legal proceedings will have a material impact on the consolidated financial position, results of operations or cash flows of CBOE; however, litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance.

Leases and Other Obligations

CBOE leases facilities with lease terms remaining from 3 months to 39 months as of March 31, 2010. Total rent expense related to these lease obligations, reflected in data processing and facilities costs line items on the Consolidated Statements of Income, for the three months ended March 31, 2010 and 2009, were $0.8 million and $0.7 million, respectively. In addition, CBOE has contractual obligations related to certain advertising programs and licensing agreements with various licensors. The licensing agreements contain annual minimum fee requirements which total $13.2 million for the next five years and $2.8 million for the five years thereafter. Future minimum payments under these non-cancelable lease and advertising agreements are as follows at March 31, 2010 (in thousands):

Year	Operating Leases	Other Obligations	Total
2010	$ 1,842	$	$ 1,842
2011	1,820	1,370	3,190
2012	1,594	1,452	3,046
2013	1,027		1,027
2014			
Total	$ 6,283	$ 2,822	$ 9,105

NOTE 11 PROPOSED RESTRUCTURING TRANSACTION, INITIAL PUBLIC OFFERING AND SPECIAL DIVIDEND

On April 26, 2010, CBOE Holdings filed Amendment No. 7 to the Form S-4 Registration Statement with the SEC setting forth the details of CBOE s proposed restructuring transaction. A special meeting of the voting members of CBOE was held on May 21, 2010 at which the adoption of the Agreement and Plan of Merger was approved. The Agreement and Plan of Merger provides for the restructuring of the CBOE in which the CBOE will convert from a non-stock corporation owned by its members into a stock corporation that will be a wholly-owned subsidiary of CBOE Holdings. In the proposed transaction, each CBOE Seat owned by a CBOE member on the date of the restructuring transaction will be converted into 80,000 shares of Class A common stock of CBOE Holdings. CBOE Seat owners will receive a total of 74,400,000 shares of Class A common stock of CBOE Holdings in the restructuring transaction. In addition, certain persons who satisfy the qualification requirements set forth in the Stipulation of Settlement, dated August 20, 2008, among CBOE and other parties to the Delaware Action, will be issued a total of 16,333,380 shares of Class B common stock of CBOE Holdings. The restructuring transaction is contingent on the concurrent completion by CBOE Holdings of an underwritten initial public offering of its unrestricted common stock. CBOE Holdings currently expects to offer approximately 9,614,226 shares of unrestricted common stock in the initial public offering. The unaudited pro forma net income per share was calculated by dividing historical net income for each of the periods presented by the weighted average number of common shares (basic and diluted) outstanding as if the restructuring transaction and initial public offering were consummated on January 1 of each respective period.

Immediately following the issuance of the Class A and Class B common stock, the board of directors of CBOE Holdings intends to declare and pay a special dividend of $1.25 per outstanding share of Class A and Class B common stock, or $113,416,725 in the aggregate. The unaudited pro forma balance sheet as of March 31, 2010 reflects the impact of the special dividend as if the restructuring transaction was consummated on March 31, 2010.

Table of Contents

NOTE 12 SUBSEQUENT EVENTS

On May 21, 2010, CBOE held a special meeting of its voting members to vote on the adoption of the Agreement and Plan of Merger (the Merger Agreement) that will provide for the restructuring of the CBOE, in which the CBOE will convert from a non-stock corporation owned by its members into a stock corporation that will be a wholly-owned subsidiary of CBOE Holdings, Inc. The Merger Agreement was approved by the voting members of CBOE by the affirmative vote of 89.6% of the memberships outstanding and entitled to vote at the special meeting.

On May 27, 2010, CBOE and Standard & Poor s Financial Services LLC (S&P) reached an agreement that establishes certain understandings of CBOE and S&P with respect to options that: (i) use the S&P 500 Index as their underlying interest, (ii) were subject to regulation as securities, and not as futures or options on futures, as of December 1, 1990, and (iii) are traded over-the-counter and reported to a clearing agency for the performance of clearing services. The agreement provides that, during the term of the agreement, S&P may license one or more clearing agencies to perform clearing services with respect to these options and CBOE will be compensated by S&P based on the notional value of these options.

In May 2010, CBOE and S&P reached an understanding under which CBOE has agreed to reimburse S&P approximately $2.0 million for costs incurred by S&P in defending its proprietary rights in the S&P 500 Index, which CBOE has an exclusive license to use as the underlying interest for index options.

On May 26, 2010, CBOE entered into an agreement with FlexTrade Systems Inc. (FlexTrade) pursuant to which CBOE purchased a 50% interest in a newly-formed entity named Signal Trading Systems, LLC (STS). The initial business purpose of STS is to develop and market a multi-asset front-end order entry system, known as Pulse , with particular emphasis on options trading.

Table of Contents

CHICAGO BOARD OPTIONS EXCHANGE, INCORPORATED AND SUBSIDIARIES

Item 2. ***Management s Discussion And Analysis Of Financial Condition And Results Of Operations***

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto, included in Item 1 in this Quarterly Report on Form 10-Q and in the Company s Amendment No. 7 to the Form S-4 Registration Statement and with the information under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Amendment No. 7 to the Form S-4 Registration Statement. This discussion contains forward-looking information. Please see Forward-Looking Statements and Part II, Item 1A. Risk Factors for a discussion of the uncertainties, risks and assumptions associated with these statements.

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), various market indexes (index options) and securitized baskets of equity (exchange-traded funds). 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 we 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 transaction fees relating to the trading in our markets; these fees accounted for 82.5% of total operating revenues for the three months ended March 31, 2010. Other revenues are generated by access fees for trading permits and dues payments, user fees charged members for certain exchange services, the sale of market data generated by trading in our markets, and regulatory related fees, which accounted for 2.2%, 4.3%, 5.7% and 3.8%, respectively, of total operating revenues for the three months ended March 31, 2010. In general, our operating revenues are primarily driven by the number of contracts traded on the Exchange. In order to increase the volume of contracts traded on the Exchange, we strive to develop and promote contracts designed to satisfy the trading, hedging and risk-management needs of our market participants.

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 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 our future performance and should be read in that context.

The restructuring transaction will convert our organization from a non-stock company with members into a stock holding company with stockholders. Our members will become stockholders of CBOE Holdings. Following the restructuring transaction, we will earn access fee revenue from trading permit holders and will no longer generate revenue from membership dues. Based on our current assumptions, we expect that a significant amount of incremental operating revenues will be generated by access fees from trading permit holders.

CBOE operates in one business segment.

Components of Operating Revenues

Transaction Fees

The primary and 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 primarily 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 revenue is 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. In addition, the SEC recently published for comment proposed rule amendments that, if adopted as proposed, would place a $0.30 per contract limit on the total access fees that an exchange may charge for the execution of an order against a quotation that is the best bid or best offer of such

Table of Contents

exchange in a listed option. If the proposed rules are adopted as proposed, or are adopted in a form substantially similar to that proposed, they would reduce transaction fees materially.

Revenue is recorded as transactions occur on a trade-date basis. Transaction fee revenue accounted for 82.5% and 81.5% of total operating revenues for the three months ended March 31, 2010 and 2009, respectively.

Recent years have seen a steady increase in the total trading volume on U.S. options exchanges. According to OCC, total options contract volume in 2005, 2006, 2007, 2008 and 2009 was 1.50 billion, 2.03 billion, 2.86 billion, 3.58 billion and 3.61 billion contracts, respectively, representing year-over-year growth of 35% in 2006, 41% in 2007, 25% in 2008 and 1% in 2009. The options industry was not immune to the financial crisis that began in the fall of 2008. Most participants in the options markets, including major investment banks, hedge funds and institutional and retail investors, suffered reductions in their asset and capital bases and generally reduced their trading activity. As a result, the growth in options trading in 2009 did not keep pace with the historical trend.

For the quarter ended March 31, 2010, total options contract volume at CBOE was 277.3 million, an increase of 1% as compared with the same period in 2009.

The following chart illustrates trading volume across the different categories of products traded at CBOE for the first three months of 2010 and 2009:

	Options Contract Volume	
Three months ended March 31	**2010**	**2009**
Equities	146,171,101	148,665,177
Indexes	67,670,542	53,693,386
Exchange-traded funds	63,421,428	70,744,815
Total	277,263,071	273,103,378

The equities category reflects trading in options contracts on the stocks of individual companies. Indexes include options contracts on market indexes and on the interest rates of U.S. Treasury Securities. Exchange-traded funds (ETFs) are baskets of stocks designed to generally track an index, but which trade like individual stocks.

For CBOE specifically, our volume growth has equaled or exceeded industry averages driven by strong product offerings, as well as the implementation of our hybrid trading model. For the years 2005 through 2009, the industry growth rate was 24% versus 25% for CBOE. For the same time period, CBOE s market share increased to 31.4% in 2009 from 31.1% in 2005. For the first three months of 2010, CBOE s market share declined to 30.0% compared with 31.7% for the same period in 2009.

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. Furthermore, 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.

While there is no certainty, we expect that the industry-wide and CBOE-specific factors that contributed to past volume changes will continue to contribute to future volume levels. Therefore, if these same factors continue to exist, we may experience similar changes 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.

Access Fees

Access fees represent fees assessed to CBOE Temporary Members and interim trading permit holders for the right to trade at CBOE and dues charged to members. The interim trading permit program was initiated in July 2008.

CBOE has assessed access fees to CBOE Temporary Members since September 2007, but the revenue recognition was deferred pending the resolution of the Settlement Agreement. The Delaware Court issued a Memorandum Opinion in June 2009 approving the Settlement Agreement. Based on the favorable settlement ruling, CBOE, in June 2009, began recognizing as revenue

Table of Contents

the fees assessed to CBOE Temporary Members in 2009 that were not subject to the fee-based payments under the Settlement Agreement. Based on the final, non-appealable resolution of the Delaware Action pursuant to the Settlement Agreement in December 2009, CBOE recognized as revenue fees assessed to and collected from CBOE Temporary Members in 2007 and 2008 that were not subject to the fee-based payments under the Settlement Agreement. This category of revenue accounted for 2.2% of total operating revenues for each of the three months ended March 31, 2010 and 2009. Following the restructuring transaction, we will generate access fees from trading permit holders, which, based on our current assumptions, we expect will represent a larger percentage of our operating revenues.

Exchange Services and Other Fees

To facilitate trading and provide technology services, the Exchange offers trading floor space, terminal, printer and other equipment rentals, maintenance services and telecommunications services. Trading floor and equipment rents are generally on a month-to-month basis. Facilities, systems services and other fees are generally monthly fee-based, although certain services are influenced by trading volume or other defined metrics, while others are based solely on demand. Revenue from exchange services and other fees has been flat to trending down as a greater number of our market participants access CBOE through electronic means rather than in an open outcry environment. This category of revenue accounted for 4.3% and 6.2% of our total operating revenues for the three months ended March 31, 2010 and 2009, respectively.

Market Data Fees

Market data fees represent income derived from the sale of our transaction information through the OPRA and CBOE s market data services. OPRA is not consolidated with CBOE. OPRA gathers market data from various options exchanges, including CBOE, and, in turn, disseminates this data to third parties who pay fees to OPRA to access the data. As a member exchange, we are members of a management committee with other member exchanges that administer the OPRA limited liability agreement. Revenue generated by OPRA from the dissemination of market data is shared among OPRA s members according to the relative number of trades executed by each of the member exchanges as calculated each quarter. A trade consists of a single transaction, but may consist of several contracts. Each member 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. CBOE also derives revenue from the direct sale of a wide range of current and historical market data. This category of revenue accounted for 5.7% and 5.4% of our total operating revenues for the three months ended March 31, 2010 and 2009, 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. Historically, most of this revenue was based on the number of registered representatives that a CBOE member firm maintained. In 2008, CBOE eliminated the Registered Representative Fee and announced a new fee structure that was implemented in 2009, under which regulatory fees are based on the number of customer contracts executed by member firms. CBOE began charging the customer contracts-based Options Regulatory Fee as of March 1, 2009. CBOE expects the amount of revenue collected from the Options Regulatory Fee to be approximately the same as the amount of revenue collected from the former Registered Representative Fee. This source of revenue could decline in the future if the number of customer contracts executed by CBOE member firms declines and rates are not increased. This category of revenue accounted for 3.8% and 3.0% of our total operating revenues for the three months ended March 31, 2010 and 2009, respectively.

Other Revenue

Other revenue accounted for 1.5% and 1.7% of our total operating revenues for the three months ended March 31, 2010 and 2009, 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*;
- Rental of commercial space in the lobby of our building;
- Revenue generated through our order routing cancel fee; and
- Revenue derived from fines assessed for rule violations.

Table of Contents

Components of Operating Expenses

Our operating expenses generally support our open outcry markets and hybrid trading model 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 licensed products, trading volume incentives and costs related to outside services.

Other Income/(Expense)

Income and expenses incurred through activities outside of our core operations are considered non-operating and are classified as other income/(expense). These activities primarily include investing of excess cash, financing activities and investments in other business ventures.

• Investment income represents our return from the investment of our excess cash. Currently, CBOE invests its excess cash in highly liquid, short-term investments, such as money market funds. Historically, we have also invested our cash in highly-liquid, investment grade commercial paper, corporate bonds and U.S. Treasuries. Our highest priority in making investment decisions is to assure the preservation of principal and secondarily to retain liquidity to meet projected cash requirements and maximize yield within the specified quality and maturity restrictions.

• Net loss from investment in affiliates includes losses from our investment in OneChicago, LLC (OneChicago).

• Other borrowing costs are associated with a $150 million senior credit facility. These costs primarily represent commitment fees paid on the unused portion of the facility and the amortization of deferred financing costs.

Recent Developments

For the period April 1, 2010 through May 31, 2010, CBOE s average daily options contract volume was 5.92 million. Within that total, equity contracts averaged 2.93 million per day, index contracts averaged 1.39 million per day, and ETF contracts averaged 1.60 million contracts per day. Also, within the index category, SPX averaged 0.93 million contracts per day and VIX averaged 0.30 million contracts per day for the period April 1, 2010 through May 31, 2010.

As of May 26, 2010, CBOE has confirmed requests for 817 trading access permits following the restructuring transaction. These requests consist of 706 market maker permits and 111 floor broker permits. Of the 706 market maker permits, 184 include access to SPX. In addition, 36 electronic access permits have been requested. The initial trading permits will have a term of one month and will automatically renew on a monthly basis, subject to the holders right to terminate.

CONSOLIDATED RESULTS OF OPERATIONS

The following summarizes changes in financial performance for the three months ended March 31, 2010 compared to the same period in 2009.

	2010	2009	Inc./(Dec.)	Percent Change
		(dollars in millions)		
Total operating revenues	$ 101.1	$ 98.1	$ 3.0	3.1%
Total operating expenses	62.4	57.8	4.6	8.0%
Operating income	38.7	40.3	(1.6)	(4.0)%
Total other income/(expense)	(0.3)	0.1	(0.4)	(400.0)%
Income before income taxes	38.4	40.4	(2.0)	(5.0)%
Income tax provision	15.7	16.1	(0.4)	(2.5)%
Net income	$ 22.7	$ 24.3	$ (1.6)	(6.6)%
Operating income percentage	38.3%	41.1%		
Net income percentage	22.5%	24.8%		

Table of Contents

- Total operating revenues increased due to higher transaction fees, regulatory fees and market data fees, partially offset by a decrease in exchange services and other fees and other revenue.

- Total operating expenses increased primarily due to increases in employee costs, royalty fees and outside services, partially offset by a decrease in trading volume incentives and other expenses.

- Total other income/(expense) decreased primarily due to lower investment income for the first three months of 2010 as compared to the same period in 2009.

Significant Events in 2010

On April 21, 2010, the SEC published for comment proposed rule amendments that, if adopted as proposed, would place a $0.30 per contract limit on the total access fees that an exchange may charge for the execution of an order against a quotation that is the best bid or best offer of such exchange in a listed option. If the proposed rule amendments are adopted as proposed, or are adopted in a form substantially similar to that proposed, they would materially reduce transaction fees. A 60-day comment period ends June 21, 2010 after which the SEC will review responses from constituents. CBOE intends to comment on the proposal, seek clarification on omissions and inconsistencies and defend its pricing structure for its premium products. The results for the three months ended March 31, 2010 were not impacted by the proposed rule amendments.

On April 23, 2010, CBOE provided information regarding a post-demutualization access program. Following the restructuring transaction, physical and electronic access to the trading facilities of 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 CBOE. The initial trading permits will be issued at monthly rates established by the CBOE and filed with the SEC. The initial trading permits will have a term of one month and will automatically renew on a monthly basis, subject to the holders right to terminate. The initial permit fees that CBOE currently plans to assess are $7,500 per month for market maker and floor broker permits and $2,000 per month for electronic access permits. CBOE currently plans to discount these permit fees by 20% through the end of 2010. CBOE currently anticipates initially charging $3,750 per month for quoting and order entry bandwidth packets and $2,000 per month for order entry bandwidth packets and also plans to discount these fees by 20% through the end of 2010. CBOE currently intends to initially assess a $3,000 per month surcharge to market makers that trade SPX options. CBOE currently plans to begin assessing these fees on the first day of the month following the month in which the restructuring transaction is completed. The revenue collected for trading permits, quoting and order entry bandwidth will be reflected in access fees.

Operating Revenues

Total operating revenues for the three months ended March 31, 2010 were $101.1 million, an increase of $3.0 million, or 3.1%, compared with the same period in 2009. The following summarizes changes in total operating revenues for the three months ended March 31, 2010 compared to the same period in 2009.

	2010	2009 (in millions)	Inc./(Dec.)	Percent Change
Transaction fees	$ 83.4	$ 79.9	$ 3.5	4.4%
Access fees	2.2	2.2		
Exchange services and other fees	4.4	6.1	(1.7)	(27.9)%
Market data fees	5.8	5.3	0.5	9.4%
Regulatory fees	3.8	2.9	0.9	31.0%
Other revenue	1.5	1.7	(0.2)	(11.8)%
Total operating revenues	$ 101.1	$ 98.1	$ 3.0	3.1%

Table of Contents

Transaction Fees

Transaction fees increased 4.4% to $83.4 million for the three months ended March 31, 2010, representing 82.5% of total operating revenues, compared with $79.9 million for the same period in 2009, or 81.5% of total operating revenues. This increase was largely driven by increases of 1.7% and 2.7% in trading volume and average transaction fee per contract, respectively. The following summarizes transactions fees by product for the three months ended March 31, 2010 compared to the same period in 2009.

	2010	2009 (in millions)	Inc./(Dec.)	Percent Change
Equities	$ 26.9	$ 29.0	$ (2.1)	(7.2)%
Indexes	40.4	30.5	9.9	32.5%
Exchange-traded funds	14.9	20.2	(5.3)	(26.2)%
Total options transaction fees	82.2	79.7	2.5	3.1%
Futures	1.2	0.2	1.0	
Total transaction fees	$ 83.4	$ 79.9	$ 3.5	4.4%

Trading Volume

CBOE s average daily trading volume for the first three months of 2010 was 4.55 million contracts, up 1.6% compared with 4.48 million for the same period in 2009. Total trading days for the first three months of 2010 and 2009 was sixty-one. The following summarizes changes in total trading volume and average daily trading volume (ADV) by product for the three months ended March 31, 2010 compared to the same period in 2009.

	2010		2009		Volume Percent Change	ADV Percent Change
	Volume	ADV	Volume	ADV		
		(in millions)				
Equities	146.1	2.40	148.7	2.44	(1.7)%	(1.6)%
Indexes	67.7	1.11	53.7	0.88	26.1%	26.1%
Exchange-traded funds	63.4	1.04	70.7	1.16	(10.3)%	(10.3)%
Total options contracts	277.2	4.55	273.1	4.48	1.5%	1.6%
Futures contracts	0.6		0.1			
Total contracts	277.8	4.55	273.2	4.48	1.7%	1.6%

Average transaction fee per contract

The average transaction fee per contract was $0.300 for the three months ended March 31, 2010, an increase of 2.7% compared with $0.292 for the same period in 2009. Average transaction fee per contract represents transaction fees divided by total contracts. In general, CBOE faces continued pressure on transaction fees in the markets in which it competes. The following summarizes average transaction fee per contract by product for the three months ended March 31, 2010 compared to the same period in 2009.

	2010	2009	Percent Change
Equities	$ 0.184	$ 0.195	(5.6)%
Indexes	0.597	0.569	4.9%
Exchange-traded funds	0.236	0.285	(17.2)%
Total options average transaction fee per contract	0.297	0.292	1.7%
Futures	1.952	1.689	15.6%
Total average transaction fee per contract	$ 0.300	$ 0.292	2.7%

There are a number of factors that contributed to the increase in our average transaction fee per contract for the three months ended March 31, 2010 compared to the same period in 2009. These include:

Table of Contents

• *Product mix* The increase in the average transaction fee per contract reflects a shift in the volume mix by product. Indexes accounted for 24.4% and 19.7% of options contracts traded in the first three months of 2010 and 2009, respectively. Since indexes represent CBOE s highest-margin products, their increase as a percent of total volume contributed to the increase in the total average transaction fee per contract.

• *Premium products* Premium products are those which we believe warrant the same or higher pricing for customer, professional and voluntary professional orders as our market-maker, member firm and broker-dealer orders and for all non-public customer transactions. These products include options on all licensed and proprietary index options and futures. Contract volume in premium products increased for the first three months ended March 31, 2010 as compared with same period in 2009, primarily due to a 14.4% and 175.4% increase in SPX and VIX, respectively. As a percentage of total index options volume for the three months ended March 31, 2010 and 2009, SPX and VIX accounted for 65.9% and 20.5%, respectively, and 72.6% and 9.4%, respectively. As a percentage of total index options transaction fees for the three months ended March 31, 2010 and 2009, SPX and VIX accounted for 71.0% and 16.4%, respectively, and 75.6% and 8.6%, respectively.

• *New order type* In 2010, CBOE implemented a new order type, referred to as Professional. The purpose of the new order type is to distinguish between those public customer orders routed to CBOE which are for non-professional, retail investors and those public customer orders which are for persons or entities that have access to information and technology that enables them to professionally trade listed options in the same manner as a broker-dealer. In the prior year, CBOE did not charge transaction fees for these types of orders as they were included in the order type Customer.

We have and will continue to change our fees in response to competitive pressures in the options industry. Any future fee changes may increase or decrease our average transaction fee per contract. Our average transaction fee may also increase or decrease based on changes in trading patterns of market makers and order-flow providers which are based on factors not in our control. Our average transaction fee will also change if recently proposed SEC rule changes are adopted as proposed.

At March 31, 2010, there were approximately 90 clearing firms, two of which cleared a combined 61% of our trades in the three months ended March 31, 2010. No one customer of either of these clearing firms represented more than 10% of our transaction fees revenue for the first three months of 2010 or 2009. Should a clearing firm withdraw from the Exchange, we believe the customer portion of that firm s trading activity would likely transfer to another clearing firm. Therefore, we do not believe CBOE is exposed to a significant risk from the loss of revenue received from a particular clearing firm.

Access Fees

Access fees for the three months ended March 31, 2010 and 2009 were $2.2 million, representing 2.2% of total operating revenues. Though the access fees for the first three months ended March 31, 2010 were comparable to the same period in 2009, components of the line item reflected significant variances. Temporary access fees increased $1.0 million for the three months ended March 31, 2010 compared to the same period in 2009. For the three months ended March 31, 2009, revenue recognition of the temporary access fees were deferred pending final, non-appealable resolution of the Delaware Action pursuant to the Settlement Agreement. The increase in temporary access fees was primarily offset by a decrease in interim trading permit revenue. For the three months ended March 31, 2010 as compared to the same period in 2009, interim trading permit revenue decreased $0.9 million primarily due to a decline in permit fees, which reflects lower seat lease prices, the quantity of interim trading permits issued and an increase in amounts paid by CBOE to compensate members for unleased memberships in accordance with the interim trading permit program.

Exchange Services and Other Fees

Exchange services and other fees for the three months ended March 31, 2010 decreased 27.9% to $4.4 million from $6.1 million for the same period in 2009, representing 4.3% and 6.2% of total operating revenues, respectively. The decrease can primarily be attributed to the elimination of the hybrid electronic quoting fee, which totaled a net assessed amount of $1.2 million in the first three months of 2009. The hybrid quoting fee was established with the purpose of promoting and encouraging more efficient quoting by assessing or crediting liquidity providers based on a bid and offer table. For 2010, CBOE believes the fee is no longer necessary to help mitigate quote message traffic. CBOE believes liquidity providers generally are quoting more efficiently in response to the expansion of the Penny Pilot Program in order to remain competitive in the penny classes.

Table of Contents

Market Data Fees

Market data fees increased $0.5 million to $5.8 million for the three months ended March 31, 2010 from $5.3 million for the same period in 2009. This category accounted for 5.7% and 5.4% of total operating revenues, respectively. Market data fees represent income derived from OPRA as well as CBOE s market data services. For the three months ended March 31, 2010 and 2009, OPRA and CBOE market data fees were $4.5 million and $1.2 million, respectively, and $5.0 million and $0.3 million, respectively. OPRA income is allocated through OPRA based on each exchange s share of total options transactions cleared. CBOE s share of OPRA income for the three months ended March 31, 2010 decreased to 28.0% from 30.6% for the same period in 2009. CBOE s market data services provide users with current and historical options and futures data. The increase in CBOE market data fees is due to CBOE s introduction of new market data products in the first quarter of 2010 partially offset by a decrease in CBOE s share of total options transactions cleared.

Regulatory Fees

Regulatory fees increased 31.0% for the three months ended March 31, 2010 to $3.8 million from $2.9 million for the same period in 2009. As a percent of total operating revenues, regulatory fees accounted for 3.8% and 3.0%, respectively. Effective March 1, 2009, CBOE implemented a new fee structure under which regulatory fees are based on the number of customer contracts executed by member firms rather than the number of registered representatives. The increase is primarily due to the timing of the fee implementation in 2009.

Other Revenue

Other revenue was $1.5 million for the three months ended March 31, 2010 compared with $1.7 million for the same period in 2009, representing a decline of $0.2 million. This category accounted for 1.5% and 1.7% of total operating revenues, respectively.

Operating Expenses

Total operating expenses increased $4.6 million, or 8.0%, to $62.4 million for the three months ended March 31, 2010 from $57.8 million for the same period in 2009. This increase was primarily due to increases in employee costs, outside services and royalty fees, partially offset by a decrease in trading volume incentives and other expenses. Expenses increased to 61.7% of total operating revenues for the three months ended March 31, 2010 compared with 58.9% for the same period in 2009.

The following summarizes changes in operating expenses for the three months ended March 31, 2010 compared to the same period in 2009.

	2010	2009	Inc./(Dec.)	Percent Change

	(in millions)			
Employee costs	$ 23.1	$ 20.3	$ 2.8	13.8%
Depreciation and amortization	7.3	6.9	0.4	5.8%
Data processing	5.1	4.5	0.6	13.3%
Outside services	8.1	6.6	1.5	22.7%
Royalty fees	10.9	8.0	2.9	36.3%
Trading volume incentives	3.7	5.7	(2.0)	(35.1)%
Travel and promotional expenses	2.0	2.3	(0.3)	(13.0)%
Facilities costs	1.4	1.4		
Other expenses	0.8	2.1	(1.3)	(61.9)%
Total operating expenses	$ 62.4	$ 57.8	$ 4.6	8.0%

Employee Costs

For the three months ended March 31, 2010, employee costs were $23.1 million, or 22.9% of total operating revenues, compared with $20.3 million, or 20.7% of total operating revenues, for the same period in 2009. This represents an increase of

Table of Contents

$2.8 million, or 13.8%. The increase is primarily attributed to increases in qualified and non-qualified benefit plan contributions of $0.8 million, an increase in projected incentive awards of $0.8 million reflecting the current portion of annualized expense which is aligned with CBOE s financial performance, increased severance expense of $0.6 million due to targeted staff reductions and higher salary costs of $0.5 million due to a slight increase in headcount coupled with compensation increases granted in July of the prior year.

Depreciation and Amortization

Depreciation and amortization increased by $0.4 million to $7.3 million for the three months ended March 31, 2010 compared with $6.9 million for the same period in 2009, primarily reflecting additions to fixed assets. Additions were primarily purchases of systems hardware and software to enhance CBOE s systems functionality and expand capacity. Depreciation and amortization charges represented 7.2% and 7.0% of total operating revenues for the three months ended March 31, 2010 and 2009, respectively.

Data Processing

Data processing expenses increased to $5.1 million for the three months ended March 31, 2010 compared with $4.5 million in the prior-year period, representing 5.0% and 4.6% of total operating revenues for the three months ended March 31, 2010 and 2009, respectively.

Outside Services

Expenses related to outside services increased to $8.1 million for the three months ended March 31, 2010 from $6.6 million in the prior-year period and represented 8.0% and 6.7% of total operating revenues for the three months ended March 31, 2010 and 2009, respectively. The $1.5 million increase primarily reflects higher legal expenses associated with the restructuring transaction and other litigation costs.

Royalty Fees

Royalty fees expense for the three months ended March 31, 2010 was $10.9 million compared with $8.0 million for the same period in 2009, an increase of $2.9 million, or 36.3%. This increase is directly related to higher trading volume in CBOE s licensed options products and a fee increase on certain licensed index products for the three months ended March 31, 2010 compared with the same period in 2009. Royalty fees represented 10.8% and 8.2% of total operating revenues for the three months ended March 31, 2010 and 2009, respectively.

Trading Volume Incentives

Trading volume incentives decreased by $2.0 million to $3.7 million for the three months ended March 31, 2010 compared to $5.7 million for the same period in 2009, representing 3.7% and 5.8% of total operating revenues for the three months ended March 31, 2010 and 2009, respectively. The decrease reflects a decline in expenses related to a market linkage program partially offset by an increase in expenses for an incentive program for market-makers related to penny pilot classes.

The market linkage program is intended to encourage broker-dealers to route customer orders to CBOE rather than to our competitors and provides our liquidity providers the opportunity to quote on the order while saving customers the execution fee they would otherwise incur by routing directly to a competing exchange. If a competing exchange quotes a better price, we route the customer s order to that exchange and pay the associated costs. Regardless of whether the transaction is traded at CBOE, the order flow potential enhances CBOE s overall market position and participation and provides cost savings to customers. Market linkage expenses vary based on the volume of contracts linked to other exchanges and fees charged by other exchanges. For the three months ended March 31, 2010, the decrease in the expense for the market linkage program represents a decrease in the number of customer orders routed to CBOE.

CBOE provides an incentive to market-makers for transactions in a penny pilot class. To qualify for the incentive, 60% of the market-maker s quotes in that class in the prior period must be on one side of the National Best Bid and Offer (NBBO). Due to increased offerings in the Penny Pilot Program, CBOE has experienced an increase in expenses related to the incentive program for

Table of Contents

the three months ended March 31, 2010 as compared to the same period in 2009. In the second half of 2009, the SEC approved a proposal to continue to expand the Penny Pilot Program through December 31, 2010. The expansion is achieved by adding the 300 most actively traded, multiply listed options classes, in groups of 75 through August 2010, that are not currently in the program. As of March 31, 2010, 150 of the 300 most actively traded, multiply listed options classes have been added to the Penny Pilot Program with the remaining 150 most actively traded, multiply listed classes being added, in groups of 75, in May and August 2010.

Facilities Costs

Facilities costs for the three months ended March 31, 2010 and 2009 were $1.4 million, representing 1.4% of total operating revenues for the three months ended March 31, 2010 and 2009.

Other Expenses

Other expenses totaled $0.8 million for the three months ended March 31, 2010, a decrease of $1.3 million from the same period in 2009. The decrease is primarily attributed to residual costs of $0.5 million recorded in the first quarter of 2009 for an autoquote subsidy program, which was eliminated at the end of 2008. In 2009, CBOE also experienced higher costs for interruptions or omissions which impacted trading operations. The interruptions or omissions can range from power outages to issues regarding data input. CBOE did not experience the same level of expense for the three months ended March 31, 2010 as compared to the same period in 2009. Other expenses were 0.7% and 2.1% of total operating revenues for the three months ended March 31, 2010 and 2009, respectively.

Operating Income

As a result of the items above, operating income for the three months ended March 31, 2010 was $38.7 million compared to $40.3 million for the same period in 2009, a reduction of $1.6 million.

Other Income/(Expense)

Investment Income

Investment income totaled $0.1 million for the three months ended March 31, 2010, a decrease of $0.4 million compared with the same period in 2009. The drop in investment income was due to lower yields realized on higher invested cash for the three months ended March 31, 2010 as compared to the same period in 2009.

Net Loss from Investment in Affiliates

Net loss from investment in affiliates was $0.2 million for the three months ended March 31, 2010 and 2009. The loss reflects CBOE s share of the operating losses of OneChicago.

Other Borrowing Costs

On December 23, 2008, CBOE entered into a senior credit facility with three financial institutions. The credit agreement is a three-year revolving credit facility of up to $150 million and expires on December 23, 2011. CBOE pays a commitment fee on the unused portion of the facility. The commitment fee and amortization of deferred financing costs associated with the credit facility totaled $0.2 million for the three months ended March 31, 2010 and 2009. There have been no borrowings against the credit facility in 2010.

Income before Income Taxes

As a result of the items above, income before income taxes for the three months ended March 31, 2010 was $38.4 million compared to $40.4 million for the same period in 2009, a reduction of $2.0 million.

Table of Contents

Income Tax Provision

For the three months ended March 31, 2010, the income tax provision was $15.7 million compared to $16.1 million for the same period in 2009. This decrease is directly related to the decline in income before income taxes partially offset by an increase in the effective tax rate. The effective tax rate was 41.0% and 39.9% for the three months ended March 31, 2010 and 2009, respectively. The increase in our effective tax rate was primarily due to an increase in permanent and other differences.

Net Income

As a result of the items above, net income for the three months ended March 31, 2010 was $22.7 million compared to $24.3 million for the same period in 2009, a reduction of $1.6 million.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

As of March 31, 2010, total assets were $632.5 million, an increase of $60.6 million compared with $571.9 million at December 31, 2009. This increase was primarily due to positive cash flow generated from operations. The following highlights the key factors that contributed to the change in total assets:

- Cash and cash equivalents increased by $55.8 million to $439.5 million, reflecting an increase in funds available due to positive cash generated from operations and the prepayment of liquidity provider transaction fees. Our cash and cash equivalents were primarily comprised of investments in money market funds.

- Accounts receivable increased by $6.9 million to $37.3 million from $30.4 million primarily due to growth in transaction fees.

At March 31, 2010, total liabilities were $421.7 million, an increase of $37.9 million from the December 31, 2009 balance of $383.8 million. This increase is primarily due to an increase in deferred revenue of $32.6 million due to prepayments of liquidity provider transaction fees that are amortized over the year and an increase in income taxes payable of $17.4 million, partially offset by a $10.3 million decrease in accounts payable and accrued expenses primarily due to the payment of prior year incentive compensation in the first quarter of 2010, partially offset by current year accruals for incentive compensation.

Historically, we have financed our operations, capital expenditures and other cash needs through cash generated from operations. Cash requirements principally consist of funding operating expenses and capital expenditures and, for 2010, also will include the cash payment under the Settlement Agreement and an anticipated special dividend to be paid following the restructuring. We expect to use cash on hand at March 31, 2010 and funds generated from operations to fund our 2010 cash requirements.

To ensure that CBOE has adequate funds available, it secured a $150 million revolving credit facility in December 2008, which became available upon the final, non-appealable resolution of the Delaware Action pursuant to the Settlement Agreement. Although CBOE does not anticipate that it will need to borrow funds under the facility to meet its 2010 cash requirements, including its obligation under the Settlement Agreement and the anticipated special dividend, the facility provides us the flexibility in accessing available sources of funds. As of March 31, 2010, no borrowings were outstanding under the credit facility.

Net Cash Flows from Operating Activities

Net cash provided by operating activities was $62.3 million for the first three months of 2010, compared with $49.7 million in the same period in 2009. Net cash provided by operating activities in 2010 was $39.6 million higher than net income. The primary adjustments are an increase in deferred revenue of $32.6 million due to the prepayment of transaction fees that are amortized over the year, an increase in income taxes payable of $17.4 million and $7.3 million in depreciation and amortization. These amounts are partially offset by a decrease in accounts payable and accrued expenses during the current quarter of $9.4 million primarily due to the payment of 2009 incentive compensation in the first quarter of 2010, partially offset by current year incentive compensation accruals.

Table of Contents

Net Cash Flows from Investing Activities

Net cash used in investing activities was $6.6 million and $13.3 million for the three months ended March 31, 2010 and 2009, respectively. Expenditures for capital and other assets totaled $6.6 million and $9.8 million for the three months ended March 31, 2010 and 2009, respectively. These expenditures primarily represent purchases of systems hardware and software.

Capital Expenditures

Capital expenditures totaled $6.6 million and $9.8 million for the three months ended March 31, 2010 and 2009, respectively, and $38.0 million, $43.8 million and $32.1 million for the 2009, 2008 and 2007 fiscal years, respectively. The majority of these capital expenditures were for the enhancement or the expansion of CBOE s 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.

CBOE expects capital expenditures in 2010 to be at approximately the same level of 2009 capital expenditures.

Net Cash Flows from Financing Activities

Net cash flows from financing activities totaled $0.1 million for the three months ended March 31, 2010 and 2009.

Dividends

As a member organization, CBOE has never paid dividends. If the restructuring occurs, we intend to pay regular quarterly dividends to our shareholders beginning in 2010. The annual dividend target will be approximately 20% to 30% of prior year s net income adjusted for unusual items. The decision to pay a dividend, however, remains within the discretion of our board of directors and may be affected by various factors, including our earnings, financial condition, capital requirements, level of indebtedness and other considerations our board of directors deems relevant. Future credit facilities, other future debt obligations and statutory provisions, may limit, or in some cases prohibit, our ability to pay dividends.

The CBOE Holdings board of directors has appointed a special committee for purposes of declaring a special dividend. The committee has been authorized to declare a dividend of $1.25 per share of Class A and Class B common stock outstanding immediately following the completion of the restructuring transaction and the issuance of Class B common stock pursuant to the Settlement Agreement. The committee may not declare or pay the special dividend unless the restructuring transaction is approved by a majority of the CBOE memberships entitled to vote and the restructuring has been completed.

Credit Facility

CBOE and CBOE Holdings entered into a credit agreement dated as of December 23, 2008 with The Bank of America, N.A., as administrative agent, and the other lenders party thereto. The credit agreement provides for borrowings on a revolving basis of up to $150,000,000 and has a maturity date of December 23, 2011. Borrowings may be maintained at a Eurodollar rate or a base rate. The Eurodollar rate is based on LIBOR plus a margin. The base rate is based on the highest of (i) the federal funds rate plus 50 basis points, (ii) the prime rate or (iii) the Eurodollar rate plus 50 basis points, plus, in each case, a margin. The margin ranges from 150 to 200 basis points, depending on leverage. The credit agreement requires us to maintain a consolidated leverage ratio not to exceed 1.5 to 1.0 and a consolidated interest coverage ratio of no less than 5.0 to 1.0.

Commercial Commitments and Contractual Obligations

The CBOE leases office space in downtown Chicago, Illinois for its