CBOE Holdings, Inc.
Form 10-Q
May 11, 2017

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-37732
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) 786-5600

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No
Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class	May 5, 2017
Common Stock, par value $0.01	112,042,728 shares

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CERTAIN DEFINED TERMS

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

- "CBOE Holdings," "we," "us," "our" or "the Company" refers to CBOE Holdings, Inc. and its subsidiaries.
- “Bats Global Markets” and “Bats” refer to our wholly-owned subsidiary Bats Global Markets, Inc., now known as CBOE V, LLC, and its subsidiaries.
- “Bats Hotspot” and “Hotspot” refer to our foreign currency exchange. Hotspot operates in the United States and the United Kingdom.
- “Bats Trading” and “Trading” refer to our broker-dealer entity, Bats Trading, Inc., operated in the United States.
- “BTL” refers to Bats Trading Limited, the U.K. operator of our Multilateral Trading Facility ("MTF"), and our Regulated Market ("RM"), under its Recognized Investment Exchange ("RIE") status, collectively known as “Bats Europe”.
- “BYX” refers to Bats BYX Exchange, Inc., a wholly-owned subsidiary of CBOE Holdings, Inc.
- “BZX” refers to Bats BZX Exchange, Inc., a wholly-owned subsidiary of CBOE Holdings, Inc.
- "C2" refers to C2 Options Exchange, Incorporated, a wholly-owned subsidiary of CBOE Holdings, Inc.
- "CBOE" refers to Chicago Board Options Exchange, Incorporated, a wholly-owned subsidiary of CBOE Holdings, Inc.
- "CFE" refers to CBOE Futures Exchange, LLC, a wholly-owned subsidiary of CBOE Holdings, Inc.
- "CFTC" refers to the U.S. Commodity Futures Trading Commission.
- “Chi-X Europe” refers to our broker-dealer operated in the United Kingdom.

“EDGA” refers to Bats EDGA Exchange, Inc., a wholly-owned subsidiary of CBOE Holdings, Inc.

- “EDGX” refers to Bats EDGX Exchange, Inc., a wholly-owned subsidiary of CBOE Holdings, Inc.
- "FASB" refers to the Financial Accounting Standards Board.
- "FCA" refers to the U.K. Financial Conduct Authority.
- "GAAP" refers to Generally Accepted Accounting Principles in the United States.
- "Merger" refers to our acquisition of Bats Global Markets, completed on February 28, 2017.
- "OCC" refers to The Options Clearing Corporation, which is the issuer and registered clearing agency for all U.S. exchange-listed options and is the designated clearing organization for futures traded on CFE.
- "Our exchanges" refers to CBOE, C2, CFE, BZX, BYX, EDGX, and EDGA.
- "SEC" refers to the U.S. Securities and Exchange Commission.
- "SPX" refers to our S&P 500 Index exchange-traded options products.
- "VIX" refers to the CBOE Volatility Index methodology.

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TRADEMARK AND OTHER INFORMATION

CBOE®, Chicago Board Options Exchange®, CFE®, Bats®, BZX®, BYX®, EDGX®, EDGA®, Direct Edge®, Livevol®, CBOE Volatility Index® and VIX® are registered trademarks and CBOE Futures Exchange℠ and CBOE Vest℠ are service marks of CBOE Holdings, Inc. and its subsidiaries. C2℠ and C2 Options Exchange℠ are service marks of C2. Standard & Poor's®, S&P®, S&P 100® and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC and have been licensed for use by CBOE, C2 and CFE. Dow Jones®, Dow Jones Industrial Average®, DJIA® and Dow Jones Indexes are registered trademarks or service marks of Dow Jones Trademark Holdings, LLC, used under license. MSCI, and the MSCI index names are service marks of MSCI Inc., used under license. Russell®, Russell 1000® and Russell 2000® are registered trademarks of Frank Russell Company, used under license. FTSE® and the FTSE indexes are trademarks and service marks of FTSE International Limited, used under license. All other trademarks and service marks are the property of their respective owners.

This Quarterly Report on Form 10-Q includes market share and industry data that we obtained from industry publications and surveys, reports of governmental agencies and internal company surveys. Industry publications and surveys generally state that the information they contain has been obtained from sources believed to be reliable, but we cannot assure you that this information is accurate or complete. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position are based on the most currently available market data. While we are not aware of any misstatements regarding industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors. We refer you to the “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q and our other filings with the SEC.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties. You can identify these statements by forward-looking words such as "may," "might," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," and the negative of these terms and other comparable terminology. All statements that reflect our expectations, assumptions or projections about the future other than statements of historical fact are forward-looking statements, including statements in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this report. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from that expressed or implied by the forward-looking statements. In particular, you should consider the risks and uncertainties described under “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q and our other filings with the SEC. While we believe we have identified the risks that are material to us, these risks and uncertainties are not exhaustive. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible to predict all risks and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Some factors that could cause actual results to differ include:

- the loss of our right to exclusively list and trade certain index options and futures products;
- economic, political and market conditions;
- compliance with legal and regulatory obligations;
- price competition and consolidation in our industry;
- decreases in trading volumes, market data fees or a shift in the mix of products traded on our exchanges;
- legislative or regulatory changes;
- increasing competition by foreign and domestic entities;
- our dependence on and exposure to risk from third parties;
- our index providers' ability to maintain the quality and integrity of their indexes and to perform under our agreements;
- our ability to operate our business without violating the intellectual property rights of others and the costs associated with protecting our intellectual property rights;
- our ability to attract and retain skilled management and other personnel, including those experienced with post-acquisition integration;
- our ability to accommodate trading volume and transaction traffic, including significant increases, without failure or degradation of performance of our systems;
- our ability to protect our systems and communication networks from security risks, including cyber-attacks and unauthorized disclosure of confidential information;
- challenges to our use of open source software code;
- our ability to meet our compliance obligations, including managing potential conflicts between our regulatory responsibilities and our for-profit status;
- damage to our reputation;
- the ability of our compliance and risk management methods to effectively monitor and manage our risks;
- our ability to manage our growth and strategic acquisitions or alliances effectively;
- unanticipated difficulties or expenditures relating to the Merger, including, without limitation, difficulties that result in the failure to realize expected synergies, accretion, efficiencies and cost savings from the Merger within the expected time period (if at all), whether in connection with integration, migrating trading platforms, broadening distribution of product offerings or otherwise;

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- restrictions imposed by our debt obligations;
- our ability to maintain an investment grade credit rating;
- potential difficulties in our migration of trading platforms and our ability to retain employees as a result of the Merger; and
- the accuracy of our estimates and expectations.

For a detailed discussion of these and other factors that might affect our performance, see Part II, Item 1A of this Report. We do not undertake, and expressly disclaim, any duty to update any forward-looking statement whether as a result of new information, future events or otherwise, except as required by law. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this filing.

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements.
CBOE Holdings, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in millions, except share and per share amounts)

	March 31, 2017 (unaudited)	December 31, 2016
Assets		
Current Assets:		
Cash and cash equivalents	$ 153.3	$ 97.3
Financial investments	41.3	—
Accounts receivables, net	233.3	76.7
Income taxes receivable	12.0	53.7
Other current assets	15.8	7.4
Total Current Assets	455.7	235.1
Investments	82.0	72.9
Land	4.9	4.9
Property and equipment, net	74.6	55.9
Goodwill	2,675.6	26.5
Intangible assets, net	1,996.0	8.7
Other assets, net	56.3	72.7
Total Assets	$ 5,345.1	$ 476.7
Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 149.7	$ 82.4
Section 31 fees payable	76.3	4.4
Deferred revenue and other current liabilities	18.0	3.1
Income tax payable	10.3	—
Current portion of contingent consideration liability	6.6	—
Total Current Liabilities	260.9	89.9
Long-term Liabilities:		
Long-term debt, less current portion	1,486.7	—
Contingent consideration liability	49.1	—
Income tax liability	63.5	52.1
Deferred income taxes	720.6	—
Other non-current liabilities	6.3	4.2
Total Long-term Liabilities	2,326.2	56.3
Commitments and Contingencies		
Total Liabilities	2,587.1	146.2
Redeemable Noncontrolling Interest	12.6	12.6
Stockholders' Equity:		
Preferred stock, $.01 par value: 20,000,000 shares authorized, no shares issued and outstanding at March 31, 2017 and December 31, 2016	—	—
Common stock, $.01 par value: 325,000,000 shares authorized, 123,805,644 and 112,042,728 shares issued and outstanding, respectively at March 31, 2017 and 92,950,065 and 81,285,307 shares issued and outstanding, respectively at December 31, 2016	1.2	0.9
	(540.1)	(532.2)

Treasury Stock, at cost: 11,762,916 shares at March 31, 2017 and 11,664,758 shares at December 31, 2016		
Additional paid-in capital	2,584.5	139.2
Retained earnings	697.7	710.8
Accumulated other comprehensive income (loss), net	2.1	(0.8)
Total Stockholders' Equity	2,745.4	317.9
Total Liabilities and Stockholders' Equity	$ 5,345.1	$ 476.7

See accompanying notes to condensed consolidated financial statements.

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CBOE Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Income
(unaudited)
(in millions, except per share data)

	Three Months Ended March 31,	
	2017	2016
Revenues:		
Transaction fees	$256.4	$126.2
Access fees	17.8	13.2
Exchange services and other fees	15.4	11.4
Market data fees	22.5	8.0
Regulatory fees	38.3	9.1
Other revenue	5.8	2.6
Total Revenues	356.2	170.5
Cost of Revenues:		
Liquidity payments	105.3	6.6
Routing and clearing	6.3	1.7
Section 31 fees	30.0	—
Royalty fees	21.2	19.1
Total Cost of Revenues	162.8	27.4
Revenues less Cost of Revenues	193.4	143.1
Operating Expenses:		
Compensation and benefits	47.8	27.1
Depreciation and amortization	25.1	11.9
Technology support services	7.5	5.7
Professional fees and outside services	14.4	13.6
Travel and promotional expenses	3.3	2.5
Facilities costs	2.1	1.5
Acquisition-related costs	65.2	—
Change in contingent consideration	0.2	—
Other expenses	1.7	1.3
Total Operating Expenses	167.3	63.6
Operating Income	26.1	79.5
Non-operating (Expenses) Income:		
Interest (expense) income, net	(7.9)	0.7
Other income	0.1	0.3
Income Before Income Tax Provision	18.3	80.5
Income tax provision	3.1	31.3
Net income	15.2	49.2
Net loss attributable to noncontrolling interests	0.3	0.2
Net Income Excluding Noncontrolling Interests	15.5	49.4
Change in redemption value of noncontrolling interests	(0.3)	—
Net income allocated to participating securities	(0.1)	(0.2)
Net Income Allocated to Common Stockholders	$15.1	$49.2
Net Income Per Share Allocated to Common Stockholders:		
Basic earnings per share	$0.16	$0.60
Diluted earnings per share	0.16	0.60

Basic weighted average shares outstanding	91.9	81.8
Diluted weighted average shares outstanding	92.0	81.8

See accompanying notes to condensed consolidated financial statements.

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CBOE Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(unaudited)
(in millions)

	Three Months Ended March 31,	
	2017	2016
Net Income	$15.2	$49.2
Other comprehensive income		
Foreign currency translation adjustments	3.0	—
Post retirement benefit obligations	—	—
Comprehensive Income	18.2	49.2
Comprehensive loss attributable to noncontrolling interests	0.3	0.2
Comprehensive Income Excluding Noncontrolling Interests	18.5	49.4
Comprehensive income allocated to participating securities	(0.1)	(0.2)
Comprehensive Income Allocated to Common Stockholders	18.4	49.2
Income tax benefit	(0.1)	—
Comprehensive Income Allocated to Common Stockholders, net of tax	$18.3	$49.2

See accompanying notes to condensed consolidated financial statements.

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CBOE Holdings, Inc. and Subsidiaries
Condensed Consolidated Statement of Changes in Stockholders' Equity
(unaudited)
(in millions)

	Preferred Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Total Stockholders Equity	Redeemable Noncontrolling Interests
Balance at December 31, 2016	$ —	$ 0.9	$(532.2)	$ 139.2	$ 710.8	$ (0.8)	$ 317.9	$ 12.6
Issuance of stock for acquisition of Bats Global Markets, Inc.	—	0.3	—	2,424.4	—	—	2,424.7	—
Repurchase of restricted stock from employees	—	—	(7.9)	—	—	—	(7.9)	—
Stock-based compensation	—	—	—	20.9	—	—	20.9	—
Net income excluding noncontrolling interests	—	—	—	—	15.5	—	15.5	—
Cash dividends on common stock of $0.25 per share	—	—	—	—	(28.3)	—	(28.3)	—
Other comprehensive income, net of tax	—	—	—	—	—	2.9	2.9	—
Net loss attributable to redeemable noncontrolling interest	—	—	—	—	—	—	—	(0.3)
Redemption value adjustment	—	—	—	—	(0.3)	—	(0.3)	0.3
Balance at March 31, 2017	—	$ 1.2	$(540.1)	$ 2,584.5	$ 697.7	$ 2.1	$ 2,745.4	$ 12.6

See accompanying notes to condensed consolidated financial statements.

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CBOE Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(unaudited)
(in millions)

	Three Months Ended March 31, 2017	2016
Cash Flows from Operating Activities:		
Net income	$15.2	$49.2
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	25.1	11.9
Amortization of debt issuance cost	0.9	—
Change in fair value of contingent consideration	0.2	—
Realized gain on available-for-sale securities	0.1	—
Provision for deferred income taxes	2.1	(0.2)
Stock-based compensation expense	20.9	3.4
Impairment of data processing software	14.8	—
Equity in investments	(0.3)	(0.3)
Excess tax benefit from stock-based compensation	1.6	—
Changes in assets and liabilities:		
Accounts receivable	(33.6)	4.0
Income taxes receivable	47.1	23.1
Prepaid and other assets	—	(2.8)
Other current assets	(4.7)	0.4
Accounts payable and accrued liabilities	7.2	(9.3)
Section 31 fees payable	(71.7)	—
Deferred revenue	11.5	10.8
Income tax liability	(9.0)	1.2
Income tax payable	(44.1)	6.0
Other liabilities	(1.0)	—
Net Cash Flows (used in) provided by Operating Activities	(17.7)	97.4
Cash Flows from Investing Activities:		
Acquisitions, net of cash acquired	(1,405.4)	(14.3)
Purchases of available-for-sale financial investments	(20.3)	—
Proceeds from maturities of available-for-sale financial investments	45.0	—
Investments	—	(4.7)
Other	1.3	—
Purchases of property and equipment	(7.4)	(8.9)
Net Cash Flows used in Investing Activities	(1,386.8)	(27.9)
Cash Flows from Financing Activities:		
Proceeds from long-term debt	1,644.2	—
Principal payments of long term debt	(150.0)	—
Debt issuance costs	(0.3)	—
Distributions paid	(28.3)	(18.9)
Purchase of unrestricted stock from employees	(7.9)	(4.1)
Excess tax benefit from stock-based compensation	—	1.1
Purchase of common stock under announced program	—	(42.4)
Net Cash provided by (used in) Financing Activities	1,457.7	(64.3)
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash equivalents	2.8	—

Increase in Cash and Cash Equivalents	56.0	5.2
Cash and Cash Equivalents:		
Beginning of Period	97.3	102.3
End of Period	$153.3	$107.5
Supplemental disclosure of noncash investing activities:		
Accounts receivable acquired	$117.8	$—
Financial investments	66.0	—
Property and equipment acquired	21.8	—
Goodwill acquired	2,649.3	—
Intangible assets acquired	2,000.0	—
Other assets acquired	32.8	—
Accounts payable and accrued expenses acquired	(60.1)	—
Section 31 fees payable acquired	(143.6)	—
Deferred tax liability acquired	(718.5)	—
Other liabilities assumed	(135.4)	—
Issuance of common stock related to acquisition	(2,424.7)	—

See accompanying notes to condensed consolidated financial statements.

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CBOE Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

CBOE Holdings, Inc. (CBOE Holdings or the Company) is the owner of the Chicago Board Options Exchange, the Bats exchanges, CBOE Futures Exchange (CFE) and other subsidiaries, is one of the world's largest exchange holding companies and a leader in providing global investors cutting-edge trading and investment solutions.

The Company offers trading across a diverse range of products in multiple asset classes and geographies, including options, futures, U.S. and European equities, exchange-traded products (ETPs), and multi-asset volatility and global foreign exchange ("FX") products. CBOE Holdings' fourteen trading venues include the largest options exchange in the U.S. and the largest stock exchange in Europe, and the Company is the second-largest stock exchange operator in the U.S. and a leading market globally for ETP trading.

Basis of Presentation

These interim unaudited condensed consolidated financial statements have been prepared in accordance with 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 Company's Annual Report on Form 10-K for the year ended December 31, 2016.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, valuation of redeemable noncontrolling interests and reported amounts of revenues and expenses. On an ongoing basis, management evaluates its estimates based upon historical experience, observance of trends, information available from outside sources and various other assumptions that management believes to be reasonable under the circumstances. Actual results may differ from these estimates under different conditions or assumptions.

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.

For those consolidated subsidiaries in which the Company's ownership is less than 100% and for which the Company has control over the assets and liabilities and the management of the entity, the outside stockholders' interest are shown as non-controlling interests.

The Company made a change in the presentation of liquidity payments, or rebates paid to customers in accordance with published fee schedules, as a cost of revenue, which historically netted against transaction fees. The Company also changed the presentation of royalty fees to be a cost of revenue. Routing fees and costs were also presented in transaction fees in total revenues and routing and clearing in total cost of revenues. These fees were previously presented as a net operating expense. These changes were made to conform to current presentation and the changes have been reflected in all periods presented.

Segment information

The Company previously operated as a single reportable business segment. As a result of the Bats acquisition on February 28, 2017 (Note 3), the Company is reporting five business segments: Options, U.S. Equities, Futures, European Equities, and Global FX, which is reflective of how the Company's chief operating decision-maker reviews and operates the business (Note 15). This change has been reflected in all periods presented.

Recent Accounting Pronouncements - Adopted

In the first quarter of 2017, the Company adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows

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CBOE Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)

arising from contracts with customers. The Company applied the five step method outlined in the ASU to all revenue streams and elected the full retrospective implementation method. The additional disclosures required by the ASU have been included in Note 2.

In the first quarter of 2017, the Company also adopted ASU 2016-09, Compensation — Stock Compensation. This standard simplifies several aspects of the accounting for stock-based payment transactions, including the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. The Company has chosen to use the actual forfeiture rate and applied the prospective transition method for excess tax benefits and employees taxes paid. As of the adoption date, the Company did not have any awards classified as a liability under the previous guidance.

In the first quarter of 2017, the Company also adopted ASU 2016-16, Accounting for Income Taxes:Intra-Entity Transfers of Assets other than Inventory. The standard requires that the income tax impact of intra-entity sales and transfers of property, except for inventory, be recognized when the transfer occurs. The Company applied the full retrospective application which did not result in any impact to the financial statements.

Recent Accounting Pronouncements - Issued, not yet Adopted

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805)-Clarifying the Definition of a Business. ASU No. 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. There are three elements of a business: inputs, processes, and outputs. While an integrated set of assets and activities (collectively, a “set”) that is a business usually has outputs, outputs are not required to be present. Additionally, all of the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. ASU No. 2017-01 provides a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If, however, the screen is not met, then the amendments in this ASU (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. Finally, the amendments in this ASU narrow the definition of the term “output” so that it is consistent with the manner in which outputs are described in Topic 606 - Revenue from Contracts with Customers. For public entities, the update is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2018. Early adoption is permitted under certain circumstances. The Company is in the process of evaluating this guidance and assessing the impact the standard could have on our consolidated financial statements. The adoption of this standard will result in less real estate acquisitions qualifying as businesses and, accordingly, acquisition costs for those acquisitions that are not businesses will be capitalized rather than expected.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This update simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. In computing the implied fair value of goodwill under Step 2, an entity, prior to the amendments in ASU No. 2017-04, had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities, in accordance with the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. However, under this ASU, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, ASU No. 2017-04 removes the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails such qualitative test, to perform Step 2 of the goodwill impairment test. For public entities, the update is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is in the process of evaluating this guidance and assessing the impact the standard could have on our consolidated financial statements.

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In February 2016, the FASB issued ASU 2016-02, Leases. This update requires a lessee to recognize on the balance sheet a liability to make lease payments and a corresponding right-of-use asset. The guidance also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. This update is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company is in the process of evaluating this guidance and assessing the impact the standard could have on our consolidated financial statements.

In September 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) — Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force). ASU No. 2016-15 addresses eight specific cash flow issues in an effort to reduce diversity in practice: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon bonds; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. The ASU is effective for the Company for fiscal years beginning after December 15, 2017, and for the interim periods within that fiscal year, Early adoption is permitted, including adoption during an interim period. The Company is in the process of evaluating this guidance and assessing the impact the standard could have on our consolidated financial statements.

2. REVENUE RECOGNITION

As of January 1, 2017, the Company adopted ASU 2014-09 Revenue from Contracts with Customers - Topic 606 and all subsequent ASUs that modified ASC 606. The Company has elected to apply the standard and all related ASUs retrospectively to each prior reporting period presented. The implementation of the new standard had no material impact on the measurement or recognition of revenue of prior periods, however additional disclosures have been added in accordance with the ASU.

The main types of revenue contracts are:

- Transaction fees - Transaction fees represent fees charged by the Company for the performance obligation of executing a trade on its markets. These fees can be variable based on trade volume tiered discounts, however as all tiered discounts are calculated monthly, the actual discount is recorded on a monthly basis. Transaction fees, as well as any tiered volume discounts, are calculated and billed monthly in accordance with the Company's published fee schedules. Transaction fees are recognized across all segments. The Company also pays liquidity payments to customers based on its published fee schedules. The Company uses these payments to improve the liquidity on its markets and therefore recognizes those payments as a cost of revenue.
- Access fees - Access fees represent fees assessed for the opportunity to trade, including fees for trading-related functionality across all segments. They are billed monthly in accordance with the Company's published fee schedules and recognized on a monthly basis when the performance obligation is met and there is no remaining performance obligation after revenue is recognized.
- Exchange services and other fees - To facilitate trading, the Company offers technology services, terminal and other equipment rights, maintenance services, trading floor space and telecommunications services. Trading floor and equipment rights 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. All fees associated with the trading floor are recognized in the Options segment.
- Market data fees - Market data fees represent the fees received by the Company from the U.S. tape plans and fees charged to customers for proprietary market data. Fees from the U.S. tape plans are collected monthly based on published fee schedules and distributed quarterly to the U.S. exchanges based on a known formula. A contract around proprietary market data is entered into and charged on a monthly basis in accordance with the Company's published fee schedules as the service is provided. Both types of market data are satisfied over time, and revenue is recognized

on a monthly basis as the customer receives and consumes the benefit as the Company provides the data. U.S. tape plan market data is recognized in the U.S. Equities and Options segment. Proprietary market data fees are recognized across all segments.

- Regulatory fees - Regulatory fees represent fees collected by the Company to cover the Section 31 fees charged to the exchanges by the SEC. Consistent with industry practice, the fees charged to customers are based on the fee set by the SEC per notional value of the transaction executed on the Company's U.S. securities markets and calculated and billed monthly. These fees are recognized in the U.S. Equities and Options segments and as the exchanges are responsible for the ultimate payment to the SEC, the exchanges are considered the principals in these transactions. Regulatory fees

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also includes the options regulatory fee (ORF) which supports the Company's regulatory oversight function in the Options segment and other miscellaneous regulatory fees.

- Other revenue - Other revenue primarily includes, among other items, revenue from various licensing agreements, all fees related to the trade reporting facility operated in the European Equities segment, and revenue associated with advertisements through the Company's website.

All revenue recognized in the income statement is considered to be revenue from contracts with customers. The following table depicts the disaggregation of revenue according to product line and segment (in millions):

	Options	U.S. Equities	Futures	European Equities	Global FX	Corporate Items and Eliminations	Total
Three months ended March 31, 2017							
Transaction fees	$ 140.2	$ 76.7	$ 27.6	$ 7.2	$ 3.6	$ 1.1	$ 256.4
Access fees	12.3	4.2	0.5	0.6	0.2	—	17.8
Exchange services and other fees	12.9	2.0	—	0.4	0.1	—	15.4
Market data fees	10.4	11.1	—	0.9	0.1	—	22.5
Regulatory fees	12.7	25.6	—	—	—	—	38.3
Other revenue	4.2	0.6	0.7	0.2	—	0.1	5.8
	$ 192.7	$ 120.2	$ 28.8	$ 9.3	$ 4.0	$ 1.2	$ 356.2
Three months ended March 31, 2016							
Transaction fees	$ 104.5	$ —	$ 20.8	$ —	$ —	$ 0.9	$ 126.2
Access fees	13.0	—	0.2	—	—	—	13.2
Exchange services and other fees	11.4	—	—	—	—	—	11.4
Market data fees	8.0	—	—	—	—	—	8.0
Regulatory fees	9.1	—	—	—	—	—	9.1
Other revenue	2.6	—	—	—	—	—	2.6
	$ 148.6	$ —	$ 21.0	$ —	$ —	$ 0.9	$ 170.5
Timing of revenue recognition							
Services transferred at a point in time	$ 192.7	$ 120.2	$ 28.8	$ 9.3	$ 4.0	$ 1.2	$ 356.2
Services transferred over time	—	—	—	—	—	—	—
	$ 192.7	$ 120.2	$ 28.8	$ 9.3	$ 4.0	$ 1.2	$ 356.2

Contract liabilities for the period ended March 31, 2017 primarily represent prepayments of transaction fees and access fees to the Company's exchanges. The revenue recognized from contract liabilities and the remaining balance is shown below (in millions):

	January 1, 2017	Cash Additions	Revenue Recognition	March 31, 2017
Liquidity provider sliding scale (1)	$ —	$ 12.0	$ (3.0)	$ 9.0
Other, net	3.1	8.4	(2.5)	9.0
Total deferred revenue	$ 3.1	$ 20.4	$ (5.5)	$ 18.0

(1) Liquidity providers are eligible to participate in the sliding scale program, which involves prepayment of transaction fees, and receive reduced fees based on the achievement of certain volume thresholds within a calendar month. This amount is amortized and recorded ratably as the transactions occur, as transaction fees, over the period.

3. ACQUISITIONS

Bats Global Markets, Inc.

On February 28, 2017, pursuant to the Agreement and Plan of Merger, dated as of September 25, 2016 (the “Merger Agreement”), by and among CBOE Holdings, Inc., a Delaware corporation (“CBOE Holdings”), Bats Global Markets, Inc., a Delaware corporation (“Bats”), CBOE Corporation, a Delaware corporation and a wholly-owned subsidiary of CBOE Holdings

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("Merger Sub"), and CBOE V, LLC, a Delaware limited liability company and a wholly-owned subsidiary of CBOE Holdings ("Merger LLC"), CBOE Holdings completed the merger (the "Merger") of Merger Sub with and into Bats and the subsequent merger (the "Subsequent Merger") of Bats with and into Merger LLC. As a result of the Merger, Bats became a wholly-owned subsidiary of CBOE Holdings.

The acquisition-date fair value of the consideration transferred totaled $4.0 billion, which consisted of the following (in millions):

Cash	$955.5
Common stock issued	2,387.3
Equity awards issued	37.4
	3,380.2
Debt extinguished	580.0
Total consideration paid	$3,960.2

As a result of the Merger, each share of voting common stock of Bats, par value of $0.01 per share ("Bats Voting Common Stock"), and each share of non-voting common stock of Bats, par value of $0.01 per share ("Bats Non-Voting Common Stock" and, together with the Bats Voting Common Stock, "Bats Common Stock"), issued and outstanding immediately prior to the effective time of the Merger (the "Effective Time") (other than shares held by CBOE Holdings, Bats or any of their respective subsidiaries, shares held by any holder of Bats Common Stock who was entitled to demand and properly demanded appraisal of such shares under Delaware law and unvested restricted shares of Bats Common Stock granted under any Bats equity incentive plan (all such shares described in this parenthetical, "Excluded Shares")) was converted into, at the election of the holder of such share, either (i) 0.3201 of a share of common stock, par value of $0.01 per share, of CBOE Holdings ("CBOE Holdings Common Stock") and $10.00 in cash (the "Mixed Consideration"), (ii) $14.99 in cash and 0.2577 of a share of CBOE Holdings Common Stock (the "Cash Election Consideration") or (iii) 0.4452 of a share of CBOE Holdings Common Stock (the "Stock Election Consideration"). Pursuant to the terms of the Merger Agreement, the Cash Election Consideration and Stock Election Consideration payable in the Merger were calculated based on the volume-weighted average price (rounded to four decimal places) of shares of CBOE Holdings Common Stock on The Nasdaq Stock Market LLC for the period of ten consecutive trading days ended on February 24, 2017, which was $79.9289. The Cash Election Consideration and the Stock Election Consideration were subject to automatic adjustment, as described in the Merger Agreement and in the definitive joint proxy statement/prospectus dated December 9, 2016, filed by CBOE Holdings with the U.S. Securities and Exchange Commission (the "SEC") on December 12, 2016, as amended and supplemented from time to time (the "Prospectus"), to ensure that the total amount of cash paid and the total number of shares of CBOE Common Stock issued in the Merger were the same as what would have been paid and issued if all holders of Bats Common Stock received the Mixed Consideration at the Effective Time.

The amounts in the table below represent the preliminary allocation of the purchase price and are subject to revision during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date. Adjustments to the provisional values during the measurement period will be recorded in the reporting period in which the adjustment amounts are determined. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in millions):

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Cash and cash equivalents	$130.1
Accounts receivable	117.8
Financial investments	66.0
Property and equipment	21.8
Other assets	32.8
Goodwill	2,649.3
Intangibles	2,000.0
Accounts payable	(33.7)
Accrued expenses	(26.4)
Section 31 fee payable	(143.6)
Income tax payable	(52.8)
Deferred tax liability	(718.5)
Other liabilities	(82.6)
	$3,960.2

For tax purposes, no tax deductible goodwill was generated as a result of this acquisition. Goodwill was assigned to the Options, U.S. Equities, European Equities, and Global FX segments as further described in Note 9 and is attributable to the expansion of asset classes, broadening of geographic reach, and expected synergies of the combined workforce, products and technologies of the Company and Bats. The preliminary intangible assets were assigned to the Options, U.S. Equities, European Equities, and Global FX segments in the following manner and will be amortized over the following useful lives:

(amounts in millions)	Options	U.S. Equities	European Equities	Global FX	Useful life
Trading registrations and licenses	$95.5	$572.7	$ 171.8	$ —	indefinite
Customer relationships	37.1	222.9	160.0	140.0	20 years
Market data customer relationships	53.6	322.0	60.0	64.4	15 years
Technology	22.5	22.5	22.5	22.5	7 years
Trademarks and trade names	1.0	6.0	1.8	1.2	2 years
Goodwill	226.4	1,736.4	419.3	267.2	
	$436.1	$2,882.5	$ 835.4	$ 495.3	

There was no goodwill or intangible assets assigned to the Futures segment as a result of this transaction as Bats did not operate a Futures business and no synergies are attributable to this segment.

The fair value of accounts receivable acquired was $117.8 million. The gross amount of accounts receivable was $118 million of which $0.2 million was deemed uncollectable.

The Company expensed $65.2 million of acquisition-related costs expensed during the three months ended March 31, 2017 that included $30.2 million of compensation related costs, $19.3 million of professional fees, $14.8 million of an impairment of capitalized data processing software, and $0.9 million of facilities expenses. These costs are included in acquisition-related costs in the condensed consolidated statements of income.

The amounts of revenue, operating loss and net income of Bats are included in the Company's condensed consolidated statements of income from the acquisition date to March 31, 2017 and are as follows (in millions):

	One Month Ended March 31, 2017
Revenue	$ 159.8
Operating loss	(2.0)
Net loss	(0.7)

The financial information in the table below summarizes the combined results of operations of the Company and Bats, on a pro forma basis, as though the companies had been combined as of January 1, 2016. The pro forma financial information is

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presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the period presented. Such pro forma financial information is based on the historical financial statements of the Company and Bats. This pro forma financial information is based on estimates and assumptions that have been made solely for purposes of developing such pro forma information, including, without limitation, preliminary purchase accounting adjustments. The pro forma financial information does not reflect any synergies or operating cost reductions that may be achieved from the combined operations. The pro forma financial information combines the historical results for the Company and Bats for the three months ended March 31, 2017 and 2016 in the following table (in millions, except per share amounts):

	Three Months Ended March 31,	
	2017	2016
Revenue	$629.1	$681.6
Operating income	106.9	107.0
Net income allocated to common stockholders	73.0	58.1
Earnings per share:		
Basic	$0.65	$0.52
Diluted	$0.65	$0.52

The supplemental 2017 and 2016 pro forma amounts have been calculated after applying the Company's accounting policies and adjusting the results to reflect the additional depreciation and amortization that would have been charged assuming the adjusted fair values of property and equipment and acquired intangible assets had been applied on January 1, 2017 and on January 1, 2016. The supplemental 2017 pro forma financial information includes pro forma adjustments of $66.8 million for acquisition-related costs, such as fees to investment bankers, attorneys, accountants and other professional advisors, as well as severance to employees.

4. SEVERANCE

Subsequent to the Bats acquisition, the Company determined that certain employees' positions were redundant. As such, the Company communicated employee termination benefits to theses employees.

The following is a summary of the employee termination benefits recognized within acquisition costs in the Corporate Items and Eliminations unit in the condensed consolidated statements of income (in millions):

	Employee Termination Benefits
Balance at December 31, 2016	$ 0.4
Termination benefits accrued	20.5
Termination payments made	(9.2)
Balance at March 31, 2017	$ 11.7

As a result of ongoing integration activities, we are not in a position to provide the expected activity and completion dates.

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5. INVESTMENTS
As of March 31, 2017 and December 31, 2016, the Company's investments were comprised of the following (in millions):

	March 31, 2017	December 31, 2016
Equity Method		
Investment in Signal Trading Systems, LLC	$ 13.2	$ 12.4
Investment in EuroCCP	8.3	—
Total equity method investments	21.5	12.4
Cost Method		
Investment in OCC	30.3	30.3
Other cost method investments	30.2	30.2
Total cost method investments	60.5	60.5
Total Investments	$ 82.0	$ 72.9

Equity Method
Equity method investments include investments in Signal Trading Systems, LLC ("Signal") and EuroCCP, a Dutch domiciled clearing house. EuroCCP is one of three interoperable central counterparties, or CCPs, used to clear trades conducted on Bats Europe's markets. BTL owns 20% of EuroCCP and can exercise significant influence over the entity as an equal shareholder with four other investors.
In the three months ended March 31, 2017, the Company recorded contributions to Signal of $0.5 million and equity earnings in Signal of $0.3 million.
Cost method

The carrying amount of cost method investments totaled $60.5 million for March 31, 2017 and December 31, 2016, and is included in investments in the condensed consolidated balance sheet. The company accounts for these investments using the cost-method of accounting primarily as a result of the Company's inability to exercise significant influence as the Company is a smaller shareholder of these investments. As of March 31, 2017, cost method investments primarily reflect a 20% investment in OCC and minority investments in American Financial Exchange, CurveGlobal and Eris Exchange Holdings, LLC.
In December 2014, OCC announced a newly-formed capital plan. The OCC capital plan was designed to strengthen OCC's capital base and facilitate its compliance with proposed SEC regulations for Systemically Important Financial Market Utilities ("SIFMUs") as well as international standards applicable to financial market infrastructures. On February 26, 2015, the SEC issued a notice of no objection to OCC's advance notice filing regarding the capital plan, and OCC and OCC’s existing exchange stockholders, which include CBOE, subsequently executed agreements effecting the capital plan. Under the plan, each of OCC's existing exchange stockholders agreed to contribute its pro-rata share, based on ownership percentage, of $150 million in equity capital, which would increase OCC's shareholders' equity, and to provide its pro rata share in replenishment capital, up to a maximum of $40 million per exchange stockholder, if certain capital thresholds are breached. OCC also adopted policies under the plan with respect to fees, customer refunds, and stockholder dividends, which envision an annual dividend payment to the exchange stockholders equal to the portion of OCC’s after-tax income that exceeds OCC’s capital requirements after payment of refunds to OCC’s clearing members (with such customer refunds generally to constitute 50% of the portion of OCC’s pre-tax income that exceeds OCC’s capital requirements). On March 3, 2015, in accordance with the plan, CBOE contributed $30 million to OCC. On March 6, 2015, OCC informed CBOE that the SEC, acting though

delegated authority, had approved OCC's proposed rule filing for the capital plan. The SEC approval order was stayed on March 13, 2015 automatically as a result of the initiation of petitions to review the order. On September 10, 2015, the SEC issued orders that discontinued the automatic stay of the approval order and granted the petitions for the SEC to review the approval order. On September 15, 2015, the petitioners filed motions to reinstitute the automatic stay. On February 11, 2016, based on a de novo review of the entire record, the SEC approved the proposed rule change implementing OCC's capital plan and dismissed the petitions for

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review and the petitioners' motions. Certain petitioners subsequently appealed the SEC approval order for the OCC capital plan to the U.S. Court of Appeals for the D.C. Circuit and moved to stay the SEC approval order. On February 23, 2016, the Court denied the petitioners' motion to stay. The appeal of the SEC approval order remains pending. CBOE's contribution has been recorded under investments in the condensed consolidated balance sheets as of March 31, 2017.

6. FINANCIAL INVESTMENTS

The Company's financial investments with original or acquired maturities longer than three months, but that mature in less than one year from the condensed consolidated balance sheet date are classified as current assets and are summarized as follows (in millions):

	March 31, 2017			
	Cost basis	Unrealized gains	Unrealized losses	Fair value
Available-for-sale:				
U.S. Treasury securities	$41.0	$ —	$ (0.2)	$ 40.8
Trading securities:				
U.S. Treasury securities	0.5	—	—	0.5
Money market funds	46.5	—	—	46.5
Total financial investments	$88.0	$ —	$ (0.2)	$ 87.8

	December 31, 2016			
	Cost basis	Unrealized gains	Unrealized losses	Fair value
Money market funds	$67.5	—	—	$ 67.5
Total financial investments	$67.5	$ —	$ —	$ 67.5

7. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following as of March 31, 2017 and December 31, 2016 (in millions):

	March 31, 2017	December 31, 2016
Construction in progress	$ 2.9	$ 0.2
Building	77.3	77.0
Furniture and equipment	161.0	138.8
Total property and equipment	241.2	216.0
Less accumulated depreciation	(166.6)	(160.1)
Total property and equipment, net	$ 74.6	$ 55.9

Depreciation expense was $6.4 million and $11.5 million for the three months ended March 31, 2017 and 2016 respectively.

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8. OTHER ASSETS, NET

Other assets, net consisted of the following as of March 31, 2017 and December 31, 2016 (in millions):

	March 31, 2017	December 31, 2016
Software development work in progress	$ 8.2	$ 12.3
Data processing software	214.8	222.6
Less accumulated depreciation	(175.8)	(172.0)
Data processing software, net	47.2	62.9
Other assets (1)	9.1	9.8
Data processing software and other assets, net	$ 56.3	$ 72.7

(1) At December 31, 2016, other assets included $6.2 million of deferred financing costs and $3.5 million of deferred tax assets. The deferred financing costs were subsequently reclassified and recorded as a reduction of long-term debt. As a result of the recording deferred tax liabilities related to the acquisition of Bats, as of March 31, 2017, the Company no longer has a deferred tax asset balance.

9. GOODWILL AND INTANGIBLE ASSETS, NET

The following table presents the details of goodwill by segment (in millions):

	Options	U.S. Equities	European Equities	Global FX	Corporate Items and Eliminations	Total
Balance as of December 31, 2016	$7.7	$—	$ —	$—	$ 18.8	$26.5
Additions	226.4	1,736.4	419.3	267.2	—	2,649.3
Dispositions	(1.4)	—	—	—	—	(1.4)
Changes in foreign currency exchange rates	—	—	1.2	—	—	1.2
Balance as of March 31, 2017	$232.7	$1,736.4	$ 420.5	$267.2	$ 18.8	$2,675.6

Goodwill has been allocated to specific reporting units for purposes of impairment testing - Options, U.S. Equities, European Equities and Global FX. Goodwill impairment testing is performed annually in the fiscal fourth quarter or more frequently if conditions exist that indicate that the asset may be impaired. The allocation of the new goodwill did not impact the existing goodwill assignment to reporting units and there are no aggregate impairments of goodwill.

The following table presents the details of the intangible assets (in millions):

	Options	U.S. Equities	European Equities	Global FX	Corporate Items and Eliminations	Total
Balance as of December 31, 2016	$2.0	$—	$—	$—	$ 6.7	$8.7
Additions	209.7	1,146.1	416.1	228.1	—	2,000.0
Dispositions	(0.2)	—	—	—	—	(0.2)
Amortization	(1.6)	(7.4)	(2.3)	(2.8)	(0.3)	(14.4)
Changes in foreign currency exchange rates	—	—	1.9	—	—	1.9
Balance as of March 31, 2017	$209.9	$1,138.7	$415.7	$225.3	$ 6.4	$1,996.0

For the three months ended March 31, 2017 and March 31, 2016 amortization expense was $14.4 million and $0.4 million, respectively. The estimated future amortization expense is $127.4 million for the remainder of 2017, $158.5 million for 2018, $137.5 million for 2019, $121.1 million for 2020, $105.8 million for 2021 and $93.5 million for

2022.

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The following tables present the categories of intangible assets as of March 31, 2017 and December 31, 2016 (in millions):

	March 31, 2017					Weighted Average
		U.S.	European		Corporate Items	Amortization
	Options	Equities	Equities	Global FX	and Eliminations	Period (in years)
Trading registrations and licenses	$95.5	$572.7	$ 172.6	$ —	$ —	Indefinite
Customer relationships	37.9	222.9	160.7	140.0	3.0	20
Market data customer relationships	53.6	322.0	60.3	64.4	—	15
Technology	23.4	22.5	22.6	22.5	4.0	7
Trademarks and tradenames	1.4	6.0	1.8	1.2	1.0	2
Other	0.2	—	—	—	—	
Accumulated amortization	(2.1)	(7.4)	(2.3)	(2.8)	(1.6)	
	$209.9	$1,138.7	$ 415.7	$ 225.3	$ 6.4	

	December 31, 2016					Weighted Average
		U.S.	European		Corporate	Amortization
	Options	Equities	Equities	Global FX	and Other	Period (in years)
Trading registrations and licenses	$—	$ —	$ —	$ —	$ —	—
Customer relationships	0.9	—	—	—	3.0	9
Market data customer relationships	—	—	—	—	—	—
Technology	1.1	—	—	—	4.0	4
Trademarks and tradenames	0.4	—	—	—	1.0	6
Other	0.2	—	—	—	—	2
Accumulated amortization	(0.6)	—	—	—	(1.3)	
	$2.0	$ —	$ —	$ —	$ 6.7	

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following as of March 31, 2017 and December 31, 2016 (in millions):

	March 31, 2017	December 31, 2016
Compensation and benefit related liabilities	$7.7	$ 25.5
Termination benefits	11.7	—
Royalties	18.7	17.8
Accrued liabilities	51.2	25.4
Marketing fee payable	9.0	7.2
Accounts payable	51.4	6.5

$149.7	$ 82.4

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11. DEBT

The Company's long-term debt consisted of the following at March 31, 2017 and December 31, 2016 (in millions):

	March 31, 2017	December 31, 2016
Term Loan Agreement	$ 843.3	$ —
3.650% Senior Notes	643.4	—
Revolving credit agreement	—	—
Total long-term debt	$ 1,486.7	$ —

In connection with the Merger, on December 15, 2016, the Company entered into a $1.0 billion senior unsecured delayed draw term loan facility and on January 12, 2017, the Company issued $650 million aggregate principal amount of our 3.650% Senior Notes due 2027. The proceeds from this delayed draw term loan facility and issuance of our senior notes, in addition to using cash on hand at CBOE Holdings and Bats, were used to finance a portion of the cash component of the Merger consideration, to refinance existing indebtedness of Bats and its subsidiaries and to pay related fees and expenses. In addition, on December 15, 2016, the Company entered into a $150 million revolving credit facility to be used for working capital and other general corporate purposes.

Term Loan Agreement

On December 15, 2016, the Company, as borrower, entered into a Term Loan Credit Agreement (the "Term Loan Agreement") with Bank of America, N.A., as administrative agent, certain lenders named therein (the "Term Lenders"), Merrill Lynch, Pierce, Fenner & Smith Incorporated, as sole lead arranger and sole bookrunner, Morgan Stanley MUFG Loan Partners, LLC, as syndication agent, and Citibank, N.A., PNC Bank, National Association and JPMorgan Chase Bank, N.A., as co-documentation agents. The Term Loan Agreement provided for a senior unsecured delayed draw term loan facility (the "Term Loan Facility") in an aggregate principal amount of $1.0 billion.

Loans under the Term Loan Agreement bears interest, at our option, at either (i) the London Interbank Offered Rate ("LIBOR") periodically fixed for an interest period (as selected by us) of one, two, three or six months plus a margin (based on our public debt ratings) ranging from 1.00 percent per annum to 1.75 percent per annum or (ii) a daily floating rate based on the agent's prime rate (subject to certain minimums based upon the federal funds effective rate or LIBOR) plus a margin (based on our public debt ratings) ranging from zero percent per annum to 0.75 percent per annum. The Company was required to pay a ticking fee to the agent for the account of the Term Lenders which initially accrued at a rate (based on our public debt ratings) ranging from 0.10 percent per annum to 0.30 percent per annum multiplied by the undrawn aggregate commitments of the Term Lenders in respect of the Term Loan Facility, accruing during the period commencing on December 15, 2016 and ending on the earlier of the date on which the loans are drawn.

The Term Loan Agreement contains customary representations, warranties and affirmative and negative covenants for facilities of its type, including financial covenants, events of default and indemnification provisions in favor of the Term Lenders. The negative covenants include restrictions regarding the incurrence of liens, the incurrence of indebtedness by our subsidiaries and fundamental changes, subject to certain exceptions in each case. The financial covenants require us to meet a quarterly financial test with respect to a minimum consolidated interest coverage ratio of not less than 4.00 to 1.00 and a maximum consolidated leverage ratio of not greater than 3.50 to 1.00. At March 31, 2017, the Company was in compliance with these covenants.

On February 28, 2017, CBOE Holdings made a draw under the Term Loan Agreement in the amount of $1.0 billion. CBOE Holdings used the proceeds to finance a portion of the cash component of the aggregate consideration for the

Merger, repaid certain existing indebtedness of Bats, paid fees and expenses incurred in connection with the transactions contemplated by the Merger Agreement, funded working capital needs, and for other general corporate purposes.

3.650% Senior Notes due 2027

On January 12, 2017, the Company entered into an indenture (the “Indenture”), by and between the Company and Wells Fargo Bank, National Association, as trustee (the “Trustee”), in connection with the issuance of $650 million aggregate principal amount of the Company’s 3.650% Senior Notes due 2027 (the “Notes”). The form and terms of the Notes were established pursuant to an Officer’s Certificate, dated as of January 12, 2017 (the “Officer’s Certificate”), supplementing the Indenture.

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The Company used a portion of the net proceeds from the Notes to fund, in part, the Merger, including the payment of related fees and expenses and the repayment of Bats' existing indebtedness, and the remainder for general corporate purposes. The Notes mature on January 12, 2027 and bear interest at the rate of 3.650% per annum, payable semi-annually in arrears on January 12 and July 12 of each year, commencing July 12, 2017. The Notes are unsecured obligations of the Company and rank equally with all of the Company's other existing and future unsecured, senior indebtedness, but are effectively junior to the Company's secured indebtedness, to the extent of the value of the assets securing such indebtedness, and will not be the obligations of any of the Company's subsidiaries.

The indenture governing the Notes contains customary restrictions, including a limitation that restricts our ability and the ability of certain of our subsidiaries to create or incur secured debt. Such indenture also limits certain sale and leaseback transactions and contains customary events of default. At March 31, 2017, the Company was in compliance with these covenants.

The Company has the option to redeem some or all of the Notes, at any time in whole or from time to time in part, at the redemption prices set forth in the Officer's Certificate. The Company may also be required to offer to repurchase the Notes upon the occurrence of a Change of Control Triggering Event (as such term is defined in the Officer's Certificate) at a repurchase price equal to 101% of the aggregate principal amount of Notes to be repurchased.

Revolving Credit Agreement

On December 15, 2016, the Company, as borrower, entered into a Credit Agreement (the "Revolving Credit Agreement") with Bank of America, N.A., as administrative agent and as swing line lender, certain lenders named therein (the "Revolving Lenders"), Merrill Lynch, Pierce, Fenner & Smith Incorporated, as sole lead arranger and sole bookrunner, Morgan Stanley MUFG Loan Partners, LLC, as syndication agent, and Citibank, N.A., PNC Bank, National Association and JPMorgan Chase Bank, N.A., as co-documentation agents.

The Revolving Credit Agreement provides for a senior unsecured $150 million five-year revolving credit facility (the "Revolving Credit Facility") that includes a $25 million swing line sub-facility. The Company may also, subject to the agreement of the applicable lenders, increase the commitments under the Revolving Credit Facility by up to $100 million, for a total of $250 million. Subject to specified conditions, the Company may designate one or more of its subsidiaries as additional borrowers under the Revolving Credit Agreement provided that it guarantees all borrowings and other obligations of any such subsidiaries. As of March 31, 2017, no subsidiaries were designated as additional borrowers.

Funds borrowed under the Revolving Credit Agreement may be used to fund working capital and for other general corporate purposes. As of March 31, 2017, no borrowings were outstanding under the Revolving Credit Agreement. Accordingly, at March 31, 2017, $150 million of borrowing capacity was available for the purposes permitted by the Revolving Credit Agreement.

Loans under the Revolving Credit Agreement will bear interest, at our option, at either (i) LIBOR periodically fixed for an interest period (as selected by us) of one, two, three or six months plus a margin (based on our public debt ratings) ranging from 1.00 percent per annum to 1.75 percent per annum or (ii) a daily floating rate based on our prime rate (subject to certain minimums based upon the federal funds effective rate or LIBOR) plus a margin (based on our public debt ratings) ranging from zero percent per annum to 0.75 percent per annum.

Subject to certain conditions stated in the Revolving Credit Agreement, the Company may borrow, prepay and reborrow amounts under the Revolving Credit Facility at any time during the term of the Revolving Credit Agreement. The Revolving Credit Agreement will terminate and all amounts owing thereunder will be due and payable on December 15, 2021, unless the commitments are terminated earlier, either at our request or, if an event of default occurs, by the Revolving Lenders (or automatically in the case of certain bankruptcy-related events). The Revolving Credit Agreement contains customary representations, warranties and affirmative and negative covenants for facilities of its type, including financial covenants, events of default and indemnification provisions in favor of the Revolving Lenders. The negative covenants include restrictions regarding the incurrence of liens, the incurrence of indebtedness by our subsidiaries and fundamental changes, subject to certain exceptions in each case. The financial covenants require us to meet a quarterly financial test with respect to a minimum consolidated interest coverage ratio of not less than 4.00 to 1.00 and a maximum consolidated leverage ratio of not greater than 3.50 to 1.00. At March 31, 2017, the Company was in compliance with these covenants.

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Bridge Facility
In connection with entering into the Merger Agreement, the Company entered into a commitment letter with Bank of America, N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (or any of its designated affiliates) (Bank of America, N.A., and other such financial institutions that accede as lender to such debt commitment letter in accordance with its terms are referred to herein as the "Lenders"), which provides that, subject to the satisfaction and waiver of certain conditions which are usual and customary for financing of this type, the Lenders are committed to provide debt financing for the purposes of funding (i) the cash consideration to be paid in the transactions contemplated by the Merger Agreement, (ii) the refinancing of certain existing indebtedness of Bats and its subsidiaries and (iii) related fees and expenses, which debt financing consists of a senior unsecured 364-day bridge loan facility in an aggregate principal amount of up to $1.65 billion to the extent the Company fails to generate gross cash proceeds in an aggregate principal amount of up to $1.65 billion from permanent financing including in the form of a senior unsecured term loan facility and the issuance of senior unsecured notes on or prior to the consummation of the transaction contemplated by the Merger Agreement. The Company paid commitment and structuring fees of $6.0 million. Through March 31, 2017, the Company has amortized $6.0 million of these fees as a result of the Company entering into more permanent debt arrangements. The Company entered into a term loan agreement and completed a notes offering, as described below, securing $1.65 billion to finance the cash portion of its acquisition of Bats as well as the repayment of Bats' existing indebtedness. As a result of securing the financing discussed above the bridge facility was terminated.

Loan payments and Contractual Interest

The future expected loan repayments related to the Term Loan for the three months ended March 31, 2017 is as follows (in millions):

2017	$—
2018	—
2019	—
2020	100.0
2021	750.0
Thereafter	650.0
Principal amounts repayable	1,500
Debt issuance cost	(7.6)
Unamortized discount on Notes	(5.7)
Total debt outstanding	$1,486.7

Interest expense recognized on the Term Loan and the Notes is included in interest expense, net in the condensed consolidated statements of income, for the three months ended March 31, 2017 and 2016 is as follows (in millions):

	Three Months Ended March 31,	
	2017	2016
Components of interest expense:		
Contractual interest	$7.6	$—
Amortization of debt discount	—	—

Amortization of debt issuance cost	0.9	—
Interest expense	$8.5	$—
Interest income	(0.6)	(0.7)
Interest expense, net	$7.9	$(0.7)

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12. ACCUMULATED OTHER COMPREHENSIVE INCOME, NET

The following represents the changes in accumulated other comprehensive income by component, net of tax (in millions):

	Accumulated Other Comprehensive Income
Balance at December 31, 2016	$ (0.8)
Other comprehensive income, net of tax	2.9
Balance at March 31, 2017	$ 2.1

13. FAIR VALUE MEASURMENTS

Fair value is the price that would be received upon the sale of an asset or paid upon the 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 Company applied Financial Accounting Standards Board ("FASB") ASC 820, Fair Value Measurement and Disclosure, which provides guidance for using fair value to measure assets and liabilities by defining fair value and establishing the framework for measuring fair value. ASC 820 applies to financial and nonfinancial instruments that are measured and reported on a fair value basis. 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 that reflect management's best assumptions of what market participants would use in valuing the asset or liability.

The Company has included a tabular disclosure for financial assets and liabilities that are measured at fair value on a recurring basis in the condensed consolidated balance sheet as of March 31, 2017 and December 31, 2016.
Instruments Measured at Fair Value on a Recurring Basis

The following tables presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of March 31, 2017 and December 31, 2016 (in millions):

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	March 31, 2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities:				
U.S. Treasury securities	$40.8	$ 40.8	$ —	$ —
Trading securities:				
U.S. Treasury securities	0.5	0.5	—	—
Money market funds	46.5	46.5	—	—
Total assets	$87.8	$ 87.8	$ —	$ —
Liabilities:				
Contingent consideration liability	$55.7	$ —	$ —	$ 55.7
Total liabilities	$55.7	$ —	$ —	$ 55.7

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds	67.5	67.5	—	—
Total assets	$67.5	$ 67.5	$ —	$ —

The following is a description of the Company's valuation methodologies used for instruments measured at fair value on a recurring basis:

Available-for-sale and trading securities

Financial investments classified as trading and available for sale consist of highly liquid U.S. Treasury securities. These securities are valued by obtaining feeds from a number of live data sources, including active market makers and inter dealer brokers and therefore categorized as Level 1.

Contingent consideration liability

In connection with the acquisition of Bats, the Company acquired a contingent consideration arrangement with the former owners of Hotspot. The fair value of this liability at March 31, 2017 was $55.7 million. That value is based on estimates of discounted future cash payments, a significant unobservable input, and is considered a Level 3 measurement.

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Fair Value of Financial Instruments
The following table presents the Company's fair value hierarchy for those financial instruments held by the Company as of March 31, 2017 and December 31, 2016 (in millions):

	March 31, 2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$153.3	$153.3	$—	$ —
Trading investments	0.5	0.5	—	—
Available-for-sale investments	40.8	40.8	—	—
Accounts receivable	233.3	233.3	—	—
Income tax receivable	12.0	12.0	—	—
Total assets	$439.9	$439.9	$—	$ —
Liabilities:				
Accounts payable and accrued liabilities	$51.4	$—	$51.4	$ —
Section 31 fees payable	76.3	—	76.3	—
Contingent consideration liability	55.7	—	—	55.7
Long-term debt	1,486.7	—	1,486.7	—
Total liabilities	$1,670.1	$—	$1,614.4	$ 55.7

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$97.3	$97.3	$ —	$ —
Accounts receivable	76.7	76.7	—	—
Income tax receivable	53.7	53.7	—	—
Total assets	$227.7	$227.7	$ —	$ —
Liabilities:				
Accounts payable	$6.5	$—	$ 6.5	$ —
Total liabilities	$6.5	$—	$ 6.5	$ —

The carrying amounts of cash and cash equivalents, accounts receivable, income tax receivable, accounts payable and Section 31 fees payable approximate fair value due to their liquid or short-term nature.

Long-term debt

The carrying amount of long-term debt approximates its fair value based on quoted LIBOR at March 31, 2017 and is considered a Level 2 measurement.

Information on Level 3 Financial Liabilities

The following table sets forth a summary of changes in the fair value of the Company's Level 3 financial liabilities during the three months ended March 31, 2017.

	Level 3 Financial Liabilities for the Three Months Ended March 31, 2017	
		Settlements

	Balances at Beginning of Period	Acquired During Period	Balances at end of period
Liabilities			
Contingent consideration liability	$ —	$ 55.7	$ —	$ 55.7
Total Liabilities	$ —	$ 55.7	$ —	$ 55.7

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With the acquisition of Bats, the Company purchased a contingent consideration agreement with the former owners of Hotspot. The fair value of this liability at March 31, 2017 is $55.7 million. This value is based on estimates of discounted future cash payments under the contingent consideration agreement, a significant unobservable input, and is considered a Level 3 investment.

Allocation of goodwill and intangibles is considered Level 3 because of significant unobservable inputs.

14. REDEEMABLE NONCONTROLLING INTEREST

Redeemable noncontrolling interests are reported on the consolidated balance sheets in mezzanine equity in "Redeemable Noncontrolling Interests." The Company recognizes changes to the redemption value of redeemable noncontrolling interests as they occur and adjust the carrying value to equal the redemption value at the end of each reporting period. The resulting increases or decreases in the estimated redemption amount are affected by corresponding charges or credits against retained earnings, or in the absence of retained earnings, additional paid in capital. The redemption amounts have been estimated based on the fair value of the majority-owned subsidiary, determined based on a weighting of the discounted cash flow and other economic factors.

For the three months ended March 31, 2017, the following reflects changes in our redeemable noncontrolling interests (in millions):

	Redeemable Noncontrolling Interest
Balance as at December 31, 2016	$ 12.6
Net income attributable to redeemable noncontrolling interest	(0.3)
Redemption value adjustment	0.3
Balance as at March 31, 2017	$ 12.6

15. SEGMENT REPORTING

The Company previously operated as a single reportable business segment as of December 31, 2016. As a result of the Merger, as of March 31, 2017, the Company is reporting five segments: Options, U.S. Equities, Futures, European Equities, and Global FX, which is reflective of how the Company's chief operating decision-maker reviews and operates the business (Note 1). This change has been reflected in all periods presented. Segment performance is primarily based on operating income (loss). The Company's chief decision maker does not review total assets or inter-segment revenues by segment, therefore, such information is not presented. The Company has aggregated all of its corporate costs, acquisition-related costs, as well as other business ventures, within the Corporate Items and Eliminations unit based on the decision that those activities should not be used to evaluate the segment's operating performance; however, operating expenses that relate to activities of a specific segment have been allocated to that segment.

The Options segment includes our options exchange business, which lists for trading options on listed market indexes (index options), mostly on an exclusive basis, as well as on non-exclusive "multiply-listed" options, such as options on the stocks of individual corporations (equity options) and options on other exchange-traded products (ETP options), such as exchange-traded funds (ETF options) and exchange-traded notes (ETN options) that occur on CBOE, C2, BZX and EDGX. It also includes the listed equity options routed transaction services that occur on Trading.

The Futures segment includes the business of our futures exchange, CFE, which includes offering for trading futures on the VIX Index and other futures products.

The U.S. Equities segment includes listed cash equities and ETP transaction services that occur on BZX, BYX, EDGX and EDGA. It also includes market data fees generated from the U.S. tape plans as well as fees generated from the sale of proprietary market data of these exchanges. It also includes the listed cash equities and ETPs routed transaction services. In addition, it includes the listings business where ETPs and the Company are listed on BZX and includes the recently acquired ETF.com.

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The European Equities segment includes the pan European listed cash equities transaction services, ETPs, exchange traded commodities, and international depository receipts that occur on the RIE, operated by BTL. It also includes the listed cash equities and ETPs routed transaction services that occur on Chi-X Europe, as well as the listings business where ETPs can be listed on BTL.
The Global FX segment includes institutional FX services that occur on the Hotspot Platform.
Summarized financial data of reportable segments was as follows (in millions):

	Options	U.S. Equities	Futures	European Equities	Global FX	Corporate items and eliminations	Total
Three months ended March 31, 2017							
Revenues	$ 192.7	$ 120.2	$ 29.9	$ 9.3	4.0	$ 0.1	$ 356.2
Operating income (loss)	65.0	12.2	25.9	1.6	(1.2)	(77.4)	26.1
Three months ended March 31, 2016							
Revenues	$ 148.6	$ —	$ 21.9	$ —	—	$ —	$ 170.5
Operating income (loss)	65.0	—	17.5	—	—	(3.0)	79.5

16. EMPLOYEE BENEFITS

Legacy CBOE and new 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). In addition, eligible employees may participate in the Supplemental Employee Retirement Plan, Executive Retirement Plan and Deferred Compensation Plan. Each plan is a defined contribution plan that is non-qualified under Internal Revenue Code. The Company contributed $2.6 million and $1.3 million to the defined contribution plans for the three months ended March 31, 2017 and 2016, respectively. For the three months ended March 31, 2017, $1.2 million of this expense was related to the Bats Acquisition and is included in acquisition-related costs in the condensed consolidated statements of income. The remaining expense is included in compensation and benefits in the condensed consolidated statements of income.

Upon completion of the Merger, the Company assumed the BTL stakeholder contribution plan and the Bats' defined contribution plan that offers a 401(k) retirement plan eligible to all legacy Bats U.S. employees. Under the plan, the Company matches participating employee contributions dollar for dollar of up to five percent of salary. The Company's contribution amounted to $0.2 million for the one month ended March 31, 2017. This expense is included in compensation and benefits in the condensed consolidated statements of income.

BTL operates a stakeholder contribution plan and contributes to employee selected stakeholder contribution plans. The Company matches participating employee contributions of up to five percent of salary. All employees of BTL are eligible to participate. The Company's contribution amounted to $0.1 million for the three months ended March 31, 2017. This expense is included in compensation and benefits in the condensed consolidated statements of income.

17. REGULATORY CAPITAL

As a broker dealer registered with the SEC, Bats Trading, Inc. is subject to the SEC's Uniform Net Capital rule (Rule 15c3 1), which requires the maintenance of minimum net capital, as defined. The SEC's requirement also provides that equity capital may not be withdrawn or a cash dividend paid if certain minimum net capital requirements are not met. Trading computes the net capital requirements under the basic method provided for in Rule 15c3 1.

As of March 31, 2017, Trading is required to maintain net capital equal to the greater of 6.67% of aggregate indebtedness items, as defined, or $0.1 million. At March 31, 2017, Trading had net capital of $8.7 million, which was $8.3 million in excess of its required net capital of $0.4 million.

As entities regulated by the FCA, BTL is subject to the Financial Resource Requirement ("FRR") and Chi-X Europe is subject to the Capital Resources Requirement ("CRR"). As a RIE, BTL computes its FRR in accordance with its Financial Risk Assessment, as agreed by the FCA. This FRR was $16.3 million at March 31, 2017. At March 31, 2017 BTL had capital in excess of its required FRR of $15.6 million.

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As a Banks, Investment firms, PRUdential (BIPRU) 50k firm as defined by the Markets in Financial Instruments Directive of the FCA, Chi X Europe computes its CRR as the greater of the base requirement of $0.1 million at March 31, 2017, or the summation of the credit risk, market risk and fixed overheads requirements, as defined. At March 31, 2017, Chi X Europe had capital in excess of its required CRR of $0.4 million.

As a swap execution facility regulated by the CFTC, Bats Hotspot SEF, LLC is required to meet two capital adequacy tests: (i) its financial resources must be equal to at least twelve months of its projected operating costs and (ii) its unencumbered, liquid financial assets must be equal to at least six months of its projected operating costs. As of March 31, 2017, Bats Hotspot SEF, LLC had annual operating expenses of $0.5 million and had financial resources that exceeded this amount. Additionally, as of March 31, 2017, Bats Hotspot SEF, LLC, had projected operating expenses from six months of $0.6 million and had unencumbered, liquid financial assets that exceeded this amount.

As a designated contract market regulated by the CFTC, CFE is required to meet two capital adequacy tests: (i) its financial resources must be equal to at least twelve months of its projected operating costs and (ii) its unencumbered, liquid financial assets must be equal to at least six months of its projected operating costs. As of March 31, 2017, CFE had annual projected operating expenses of $19.2 million and had financial resources that exceeded this amount. Additionally, as of March 31, 2017, CFE had projected operating expenses for six months of $9.6 million and had unencumbered, liquid financial assets that exceeded this amount.

18. STOCK-BASED COMPENSATION

Stock-based compensation is based on the fair value of the award on the date of grant, which is recognized over the related service period, net of actual forfeitures. The service period is the period over which the related service is performed, which is generally the same as the vesting period. In the first quarter of 2017, the Company adopted ASU 2016-09, Compensation — Stock Compensation. This standard simplifies several aspects of the accounting for stock-based payment transactions (See Note 1).

On February 19, 2017, the Company granted 251,273 restricted stock units ("RSUs"), each of which entitles the holder to one share of common stock upon vesting, to certain officers and employees at a fair value of $80.40 per share. The RSUs vest ratably over three years, with one-third vesting on each anniversary of the grant date, and vesting accelerates upon the occurrence of a change in control. Unvested RSUs will be forfeited if the officer or employee leaves the Company prior to the applicable vesting date, except in limited circumstances. The RSUs have no voting rights but entitle the holder to receive dividend equivalents.

On February 28, 2017, the Company granted 68,254 RSUs, each of which entitles the holder to one share of common stock upon vesting, to certain officers and employees at a fair value of $78.05 per share. The RSUs vest ratably over three years, with one-third vesting on each anniversary of the grant date, and vesting accelerates upon the occurrence of a change in control. Unvested RSUs will be forfeited if the officer or employee leaves the Company prior to the applicable vesting date, except in limited circumstances. The RSUs have no voting rights but entitle the holder to receive dividend equivalents.

On February 28, 2017, the Company granted 49,703 RSUs, each of which entitles the holder to one share of common stock upon vesting, to certain officers and employees at a fair value of $78.05 per share. The RSUs vest on the third anniversary of the grant date, and vesting accelerates upon the occurrence of a change in control. Unvested RSUs will be forfeited if the officer or employee leaves the Company prior to the applicable vesting date, except in limited circumstances. The RSUs have no voting rights but entitle the holder to receive dividend equivalents.

The merger agreement provided that the number of shares of CBOE Holdings common stock into which each such award of CBOE Holdings Restricted Shares is converted will be equal to the number of shares of Bats common stock subject to the corresponding Bats Restricted Share award multiplied by the exchange ratio, which is the sum of (a) 0.3201 of a share of CBOE Holdings common stock and (b) the quotient obtained by dividing $10.00 by the volume-weighted average price, rounded to four decimal places, of shares of CBOE Holdings common stock on NASDAQ for the ten consecutive trading day period ending on the second full trading day prior to the effective time of the merger. The remaining service period will be completed post-merger and future vesting and expense will be recognized accordingly. Pursuant to the Merger Agreement, each award of restricted Bats common stock (“Bats restricted shares”) granted under any of the Bats Plans that was unvested immediately prior to the Effective Time was assumed by the Registrant and converted into awards of restricted shares totaling 622,527 of Common Stock at a fair value of $78.05 per share.

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In addition, on February 19, 2017 and February 28, 2017, the Company granted 41,481 and 19,255 RSUs, respectively, contingent on the achievement of performance conditions at a fair value of $111.00 and $102.00, respectively, per RSU, related to total shareholder return during the performance period. The Company used the Monte Carlo valuation model method to estimate the fair value of the total shareholder return RSUs which incorporated the following assumptions: risk-free interest rate (0.90)%, three-year volatility (21.1)% and three year correlation with S&P 500 Index (0.41). Each of these performance shares has a performance condition under which the number of units ultimately awarded will vary from 0% to 200% of the original grant, with each unit representing the contingent right to receive one share of our common stock. The vesting period for the RSUs contingent on the achievement of performance is three years. For each of the performance awards, the RSUs will be settled in shares of our common stock following vesting of the RSU assuming that the participant has been continuously employed during the vesting period, subject to acceleration in the event of a change in control of the Company or in the event of a participant's earlier death or disability. Participants have no voting rights with respect to RSUs until the issuance of the shares of stock. Dividends are accrued by the Company and will be paid once the RSUs contingent on the achievement of performance conditions vest.

For the three months ended March 31, 2017 and 2016, the Company recognized $20.9 million and $3.4 million, respectively, of stock-based compensation expense related to equity awards. For the three months March 31, 2017, the Company recorded $9.1 million of accelerated stock-based compensation expense, respectively, for certain officers and employees as a result of attaining certain age and service based requirements in our long-term incentive plan and award agreements. Stock-based compensation expense is included in compensation and benefits in the condensed consolidated statements of income.

As of March 31, 2017, the Company had unrecognized stock-based compensation expense of $71.1 million. The remaining unrecognized stock-based compensation is expected to be recognized over a weighted average period of 2.7 years.

Pursuant to the Merger Agreement, each outstanding option to purchase Bats common stock (each, a "Bats stock option") granted under any of the Bats Global Markets, Inc. 2009 Stock Option Plan, the Bats Global Markets, Inc. Third Amended and Restated 2012 Equity Incentive Plan and the Bats Global Markets, Inc. 2016 Omnibus Incentive Plan (collectively, the "Bats Plans") that was outstanding immediately prior to the effective time of the Merger (the "Effective Time") was converted into an option to purchase Common Stock, on the same terms and conditions (including vesting schedule) as were applicable to such Bats stock option (but taking into account any changes, including any acceleration of vesting of such Bats stock option occurring by reason of the transactions contemplated by the Merger Agreement). The number of shares of Common Stock subject to each such converted stock option equals the number of shares of Bats common stock subject to the corresponding Bats stock option immediately prior to the Effective Time, multiplied by the exchange ratio (as defined below) (subject to certain adjustments and rounding). The exercise price per share for each such converted stock option equals the per share exercise price specified in the corresponding Bats stock option divided by the exchange ratio (rounded up to the nearest cent). The "exchange ratio" is equal to 0.4452, which equals the sum of 0.3201 plus the fraction obtained by dividing $10.00 by the volume-weighted average price, rounded to four decimal points, of a share of Common Stock on the NASDAQ Stock Market LLC for the ten consecutive trading days ended February 24, 2017.

Pursuant to the Merger Agreement, each award of restricted Bats common stock ("Bats restricted shares") granted under any of the Bats Plans that was unvested immediately prior to the Effective Time was assumed by the Registrant and converted into an award of restricted shares of Common Stock, subject to the same terms and conditions (including vesting schedule) that applied to the applicable Bats restricted shares immediately prior to the Effective Time (but taking into account any changes, including any acceleration of vesting of such Bats restricted shares, occurring by reason provided for in the Merger Agreement). The number of shares of Common Stock subject to each such converted award of Bats restricted shares equals the number of shares of Bats common stock subject to the corresponding Bats restricted share award multiplied by the exchange ratio (as defined above).

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The activity in the Company's stock options, restricted stock and restricted stock units for the three months ended March 31, 2017 was as follows:
Stock Options

Summary stock option activity is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding, December 31, 2016	—	—	—	—
Granted	683,390	$ 22.45	4.8 years	$ 40.1
Outstanding at March 31, 2017	683,390	$ 22.45	4.8 years	$ 40.1
Exercisable at March 31, 2017	602,322	$ 19.12	3.8 years	$ 37.3
Vested or expected to vest	683,390	$ 22.45	4.8 years	$ 40.1

The Company estimated the grant date fair value of options awarded during 2017 using the Black-Scholes valuation model with the following assumptions:

	2017
Expected term (in years)	4.2
Expected volatility	19.8%
Expected dividend yield	1.3%
Risk-free rate	1.78%
Forfeiture rate	—%

Summary of the status of nonvested options is presented below:

Nonvested Options	Options	Weighted Average Grant-Date Fair Value
January 1, 2017 - Nonvested	—	$ —
Vested	—	$ —
Granted	81,068	$ 49.17
Forfeited	—	$ —
March 31, 2017 - Nonvested	81,068	$ 49.17

As of March 31, 2017, there were $3.3 million in total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 1.7 years as the stock options vest.

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Restricted Stock and Restricted Stock Units
Summary restricted stock activity is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested stock at December 31, 2016	480,595	$ 63.44
Granted	1,052,493	80.48
Vested	(269,427)	64.86
Forfeited	(1,479)	70.36
Nonvested stock at March 31, 2017	1,262,182	$ 77.34

In the three months ended March 31, 2017, to satisfy employees' tax obligations upon the vesting of restricted stock, the Company purchased 98,208 shares totaling $7.9 million as the result of the vesting of 269,427 shares of restricted stock.

19. INCOME TAXES

The Company records income tax expense during interim periods based on the best estimate of the full year’s tax rate as adjusted for discrete items, if any, that are taken into account in the relevant interim period. Each quarter, the Company updates its estimate of the annual effective tax rate and any change in the estimated rate is recorded on a cumulative basis. The effective tax rate from continuing operations was 16.9% and 38.9% for the three months ended March 31, 2017 and 2016, respectively. The decrease in the effective tax rate for the three months ended March 31, 2017 against the comparable period in the prior year was due to discrete events during the quarter, mainly the re-measurement of tax reserves, which resulted in a favorable net tax benefit of $4.3 million.

20. NET INCOME PER COMMON SHARE

The computation of basic net income allocated to common stockholders is calculated by reducing net income for the period by dividends paid or declared and undistributed net income for the period that are allocated to participating securities to arrive at net income allocated to common stockholders. Net income allocated to common stockholders is divided by the weighted average number of common shares outstanding during the period to determine net income per share allocated to common stockholders.

The computation of diluted earnings per share is calculated by dividing net income allocated to common stockholders by the sum of the weighted average number of common shares outstanding plus all additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. The dilutive effect is calculated using the more dilutive of the two-class or treasury stock method.

Additionally, in accordance with accounting guidance, the change in the redemption value for the noncontrolling interest reduces net income allocated to common shareholders.

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The following table reconciles net income allocated to common stockholders and the number of shares used to calculate the basic and diluted net income per common share for the three ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
(in millions, except per share amounts)	2017	2016
Basic EPS Numerator:		
Net Income	$15.2	$49.2
Loss attributable to noncontrolling interests	0.3	0.2
Net Income Excluding Noncontrolling Interests	15.5	49.4
Change in redemption value of noncontrolling interest	(0.3)	—
Earnings allocated to participating securities	(0.1)	(0.2)
Net Income Allocated to Common Stockholders	$15.1	$49.2
Basic EPS Denominator:		
Weighted average shares outstanding	91.9	81.8
Basic Net Income Per Common Share	$0.16	$0.60
Diluted EPS Numerator:		
Net Income	$15.2	$49.2
Loss attributable to noncontrolling interests	0.3	0.2
Net Income Excluding Noncontrolling Interests	15.5	49.4
Change in redemption value of noncontrolling interest	(0.3)	—
Earnings allocated to participating securities	(0.1)	(0.2)
Net Income Allocated to Common Stockholders	$15.1	$49.2
Diluted EPS Denominator:		
Weighted average shares outstanding	91.9	81.8
Dilutive common shares issued under stock program	0.1	—
Total Dilutive Weighted Average Shares	92.0	81.8
Diluted Net Income Per Common Share	$0.16	$0.60

For the periods presented, the Company did not have shares of restricted stock and restricted stock units that would have an anti-dilutive effect on the computation of diluted net income per common share.

21. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

As of March 31, 2017, the Company was subject to the various legal proceedings and claims discussed below, as well as certain other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business.

The Company reviews its legal proceedings and claims, regulatory reviews and inspections and other legal proceedings on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. The Company establishes accruals for those contingencies where the incurrence of a loss is probable and can be reasonably estimated, and the Company discloses the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. The Company does not record liabilities when the likelihood that the liability has been incurred is probable, but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote. The Company's assessment of whether a loss is reasonably possible or probable is based on its assessment of the ultimate outcome of the matter following all appeals.

As of March 31, 2017, the Company does not believe that there is a reasonable possibility that any material loss exceeding the amounts already recognized for these reviews, inspections or other legal proceedings, if any, has been incurred. While the consequences of certain unresolved proceedings are not presently determinable, the outcome of any litigation is inherently uncertain and an adverse outcome from certain matters could have a material effect on our earnings in any given reporting

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period. However, in the opinion of management, the ultimate liability is not expected to have a material effect on our financial position, liquidity or capital resources.

The following information updates the legal proceedings disclosures in our Annual Report on Form 10-K for the year ended December 31, 2016.

Providence

On April 18, 2014, the City of Providence, Rhode Island filed a securities class action lawsuit in the Southern District of New York against Bats and Direct Edge Holdings LLC, as well as 14 other securities exchanges. The action purports to be brought on behalf of all public investors who purchased and/or sold shares of stock in the United States since April 18, 2009 on a registered public stock exchange ("Exchange Defendants") or a U.S.-based alternate trading venue and were injured as a result of the alleged misconduct detailed in the complaint, which includes allegations that the Exchange Defendants committed fraud through a variety of business practices associated with, among other things, what is commonly referred to as high frequency trading. On May 2, 2014 and May 20, 2014, American European Insurance Company and Harel Insurance Co., Ltd. each filed substantially similar class action lawsuits against the Exchange Defendants which were ultimately consolidated with the City of Providence, Rhode Island securities class action lawsuit. On June 18, 2015, the Southern District of New York (the "Court") held oral argument on the pending Motion to Dismiss and thereafter, on August 26, 2015, the Court issued an Opinion and Order granting Exchange Defendants' Motion to Dismiss, dismissing the complaint in full. Plaintiff filed a Notice of Appeal of the dismissal on September 24, 2015 and its appeal brief on January 7, 2016. Respondent's brief was filed on April 7, 2016 and oral argument was held on August 24, 2016. Following oral argument, the Court of Appeals issued an order requesting that the SEC submit an amicus brief on whether the Court had jurisdiction and whether the Exchange Defendants have immunity in the claims alleged. The SEC filed its amicus brief with the Court of Appeals on November 28, 2016 and Plaintiff and the Exchange Defendants filed their respective supplemental response briefs on December 12, 2016. Given the preliminary nature of the proceedings, the Company is unable to estimate what, if any, liability may result from this litigation. However, the Company believes that the claims are without merit and intend to litigate the matter vigorously.

SIFMA

Securities Industry Financial Markets Association ("SIFMA") has filed a number of denial of access applications with the SEC to set aside proposed rule changes to establish or modify fees for CBOE, C2, BZX, BYX, EDGX and EDGA market data products and related services. Each application is being held in abeyance pending a decision on a separate SIFMA denial of access application held before an SEC's administrative law judge ("ALJ") regarding fees proposed by NASDAQ and the NYSE for their respective market data products. On June 1, 2016, the ALJ issued a decision rejecting SIFMA's denial of access challenge to the NASDAQ and NYSE fees at issue. On July 19, 2016, SIFMA petitioned the SEC for review of the ALJ decision. An adverse ruling in that matter or a subsequent appeal could adversely affect exchange market data fees.

Other

As self-regulatory organizations under the jurisdiction of the SEC, CBOE, C2, BZX, BYX, EDGX and EDGA are subject to routine reviews and inspections by the SEC. As a designated contract market under the jurisdiction of the CFTC, CFE is subject to routine reviews and inspections by the CFTC. Bats Hotspot SEF LLC is a swap execution facility registered with the CFTC and subject to routine reviews and inspections by the CFTC. Bats Trading, Inc. is subject to reviews and inspections by FINRA. The Company has from time to time received inquiries and investigative requests from the SEC's Office of Compliance Inspections and Examinations as well as the Division of Enforcement seeking information about our compliance with our obligations as a self-regulatory organization, the federal securities laws as well as our members' compliance with the federal securities laws. In addition, while Bats

Trading Limited and Chi-X Europe have not been the subject of any material litigation or regulatory investigation in the past, there is always the possibility of such action in the future. As both companies are domiciled in the U.K., it is likely that any action would be taken in the U.K. courts in relation to litigation or by the FCA in relation to any regulatory enforcement action.

The Company is also currently a party to various other legal proceedings in addition to those already mentioned. Management does not believe that the outcome of any of these other reviews, inspections, investigations or other legal proceedings will have a material impact on our consolidated financial position, results of operations or cash flows.

Contractual obligations

The Company currently leases office space, data centers and remote network operations centers, with lease terms remaining from 3 months to 103 months as of March 31, 2017. Total rent expense related to these lease obligations, reflected in

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technology support services and facilities costs line items on the Consolidated Statements of Income, for the three months ended March 31, 2017 and 2016 were $1.7 million and $1.1 million, respectively. Future minimum payments for our operating leases, contractual obligations, long-term debt and other liabilities for the next five years and thereafter are as follows at March 31, 2017 (in millions):

Year	Operating Leases	Contractual Obligations	Long-term Debt	Other Liabilities	Total
2017	$ 3.3	$ 25.5	$ —	$ 0.7	$ 29.5
2018	3.9	31.1	—	49.0	84.0
2019	2.6	31.1	—	—	33.7
2020	2.2	22.8	100.0	—	125.0
2021	1.5	20.1	750.0	—	771.6
2022	0.3	5.0	—	—	5.3
Thereafter	9.2	55.9	650.0	—	715.1
Total	$ 23.0	$ 191.5	$ 1,500.0	$ 49.7	$ 1,764.2

22. SUBSEQUENT EVENTS

There have been no additional subsequent events that would require disclosure in, or adjustment to, the condensed consolidated financial statements as of and for the quarter ended March 31, 2017.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the notes thereto, included in Item 1 in this Quarterly Report on Form 10-Q, and the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, and as contained in that report, the information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." This discussion contains forward-looking information. Please see "Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions associated with these statements.

Overview

CBOE Holdings, Inc. (CBOE Holdings or the Company) is the owner of the Chicago Board Options Exchange, the Bats exchanges, CBOE Futures Exchange (CFE) and other subsidiaries, is one of the world's largest exchange holding companies and a leader in providing global investors cutting-edge trading and investment solutions.

The Company offers trading across a diverse range of products in multiple asset classes and geographies, including options, futures, U.S. and European equities, exchange-traded products (ETPs), and multi-asset volatility and global foreign exchange ("FX") products. CBOE Holdings' fourteen trading venues include the largest options exchange in the U.S. and the largest stock exchange in Europe, and the Company is the second-largest stock exchange operator in the U.S. and a leading market globally for exchange-traded fund (ETF) trading.

On February 28, 2017, pursuant to the Agreement and Plan of Merger, dated as of September 25, 2016, CBOE Holdings acquired Bats Global Markets, Inc. The three months ended March 31, 2017 included financial results for Bats for the period of March 1, 2017 through March 31, 2017.

Components of Revenues

Transaction Fees

Transaction fees represent fees charged by the Company for the performance obligation of executing a trade on its markets. These fees can be variable based on trade volume tiered discounts, however as all tiered discounts are calculated monthly, and the actual discount is recorded on a monthly basis. Transaction fees, as well as any tiered volume discounts, are calculated and billed monthly in accordance with the Company's published fee schedules. Transaction fees are recognized across all segments. The Company also pays liquidity payments to customers based on its published fee schedules. The Company uses these payments to improve the liquidity on its markets and therefore recognizes those payments as a cost of revenue.

Access Fees

Access fees represent fees assessed for the opportunity to trade, including fees for trading-related functionality across all segments. They are billed monthly in accordance with the Company's published fee schedules and recognized on a monthly basis when the performance obligation is met and there is no remaining performance obligation after revenue is recognized.

Exchange Services and Other Fees

To facilitate trading, the Company offers technology services, terminal and other equipment rights, maintenance services, trading floor space and telecommunications services. Trading floor and equipment rights 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. All fees associated with the trading floor are recognized in the Options segment.

Market Data Fees

Market data fees represent the fees charged by the Company from the U.S. tape plans and fees from customers for proprietary market data. Fees from the U.S. tape plans are collected monthly based on published fee schedules and distributed quarterly to the U.S. exchanges based on a known formula using trading and/or quoting activity. A contract around proprietary market data is entered into and charged on a monthly basis in accordance with the Company's published fee schedules as the service is provided. Both types of market data are satisfied over time, and revenue is recognized on a monthly basis as the customer receives and consumes the benefit as the Company provides the data. U.S. tape plan market data is recognized in the U.S. Equities and Options segments. Proprietary market data fees are recognized across all segments.

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Regulatory Fees

Regulatory fees primarily represent fees collected by the Company to cover the Section 31 fees charged to the exchanges by the SEC. Consistent with industry practice, the fees charged to customers are based on the fee set by the SEC per notional value of the transaction executed on the Company's markets and calculated and billed monthly. These fees are recognized in the U.S. Equities and Options segments and as the exchanges are responsible for the ultimate payment to the SEC, the exchanges are considered the principals in these transactions. Regulatory fees also include the options regulatory fee (ORF) which supports the Company's regulatory oversight function in the Options segment.

Other Revenue

Other revenue primarily includes among other items, revenue from various licensing agreements, all fees related to the trade reporting facility operated in the European Equities segment, and revenue associated with advertisements through the Company's website.

Components of Cost of Revenues

Liquidity Payments

Liquidity payments are directly correlated to the volume of securities traded on our markets. As mentioned above, we record the liquidity rebate paid to market participants providing liquidity, in the case of C2, BZX, EDGX and Bats Europe, as cost of revenue. BYX and EDGA offer a pricing model pursuant to which we rebate liquidity takers for executing against an order resting on our book, which is also recorded as a cost of revenue.

Section 31 Fees

Exchanges under the authority of the SEC (CBOE, C2, BZX, BYX, EDGX and EDGA) are assessed fees pursuant to the Exchange Act designed to recover the costs to the U.S. government of supervision and regulation of securities markets and securities professionals. We treat these fees as a pass-through charge to customers executing eligible listed cash equities and listed equity options trades. Accordingly, we recognize the amount that we are charged under Section 31 as a cost of revenues and the corresponding amount that we charge our customers as regulatory transaction fees revenue. Since the regulatory transaction fees recorded in revenues are equal to the Section 31 fees recorded in cost of revenues, there is no impact on our operating income. CFE, BTL and Hotspot are not U.S. national securities exchanges, and accordingly do not pay Section 31 fees.

Royalty Fees

Royalty fees primarily consist of license fees paid by us for the use of underlying indexes in our proprietary products usually based on contracts traded. The Company has licenses with the owners of the S&P 500 Index, S&P 100 Index and certain other S&P indexes, the DJIA, MSCI, FTSE Russell indexes and certain other index products. This category also includes fees related to the dissemination of market data related to S&P indexes.

Routing and clearing

Order routing consists of market linkage expenses incurred to send certain orders to other exchanges. In our Options and U.S. Equities business, if a competing exchange quotes a better price, we route the customer's order to that exchange and pay certain of the associated costs. Regardless of whether the transaction is traded on our exchanges, the order flow potential enhances our overall market position and participation and provides cost savings to customers.

Components of Operating Expenses

Compensation and Benefits

Compensation and benefits are our most significant expenses and include salaries and benefits, stock-based compensation, incentive compensation, severance and employer taxes. 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. Stock-based compensation is a non-cash expense related to equity awards. Stock-based compensation can vary depending on the quantity and fair value of the award on the date of grant and the related service period.

Depreciation and Amortization

Depreciation and amortization expense results from the depreciation of long-lived assets purchased and the amortization of purchased and internally developed software, as well as amortization of intangible assets.

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Technology Support Services
Technology support services expense consists primarily of costs related to the maintenance of computer equipment supporting our system architecture, circuits supporting our wide area network, support for production software, fees paid to information vendors for displaying data and off-site system hosting fees.
Professional Fees and Outside Services
Professional fees and outside services consist primarily of consulting services, which include: the supplementation of staff for activities primarily related to systems development and maintenance, legal, regulatory and audit, and tax advisory services.
Acquisition-Related Costs
Acquisition-related and integration costs relate to acquisitions and other strategic opportunities. The acquisition-related transaction costs include fees for investment banking advisors, lawyers, accountants, tax advisors, public relations firms, severance, write-offs of obsolete systems and other external costs directly related to the mergers and acquisitions.
Travel and Promotional Expenses
Travel and promotional expenses primarily consist of advertising, costs for special events, sponsorship of industry conferences, options education seminars and travel-related expenses.
Facilities Costs
Facilities costs primarily consist of expenses related to owned and leased properties including rent, maintenance, utilities, real estate taxes and telecommunications costs.
Other Expenses
Other expenses represent costs necessary to support our operations that are not already included in the above categories.
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 interest earned on the investing of excess cash, interest expense related to outstanding debt facilities, dividend income and equity earnings or losses from our investments in other business ventures.
Business Segments
The Company previously operated as a single reportable business segment as of December 31, 2016. As a result of the Merger, as of March 31, 2017, the Company is reporting five segments: Options, U.S. Equities, Futures, European Equities, and Global FX. Segment performance is primarily based on operating income (loss). The Company has aggregated all of its corporate costs and eliminations, as well as other business ventures, within Corporate Items and Eliminations; however, operating expenses that relate to activities of a specific segment have been allocated to that segment. Our management allocates resources, assesses performance and manages our business according to these segments:
Options. Our Options segment includes listed market indexes (index options), mostly on an exclusive basis, as well as on non-exclusive "multiply-listed" options, such as options on the stocks of individual corporations (equity options) and options on other exchange-traded products (ETP options), such as exchange-traded funds (ETF options) and exchange-traded notes (ETN options) that occur on CBOE, C2, BZX and EDGX. It also includes the listed equity and ETP options routed transaction services that occur on Trading.

U.S. Equities. Our U.S. Equities segment includes listed cash equities and ETP transaction services that occur on BZX, BYX, EDGX and EDGA. It also includes the listings business where ETPs and the Company are listed on BZX and the recently acquired ETF.com.

Futures. Our Futures segment includes trading of futures on the VIX Index and other products that occur on CFE, our all-electronic futures exchange.

European Equities. Our European Equities segment includes pan European listed equities transaction services, ETPs, exchange traded commodities, and international depository receipts that occur on our MTF, and a listing and trading venue on our RM, which together we refer to as Bats Europe. It also includes the listed cash equities and exchange-traded products routed transaction services that occur on Chi-X Europe, as well as the listings business where ETPs can be listed on BTL.

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Global FX. Our Global FX segment includes institutional FX services that occur on the Hotspot platform.

General Factors Affecting Results of Operations

In broad terms, our business performance is impacted by a number of drivers, including macroeconomic events affecting the risk and return of financial assets, investor sentiment, the regulatory environment for capital markets, geopolitical events, central bank policies and changing technology, particularly in the financial services industry. Our future revenues and net income will continue to be influenced by a number of domestic and international economic trends, including:

- trading volumes on our proprietary products such as the VIX options and futures and SPX options;
- trading volumes in listed cash equity securities and ETPs in both the U.S. and Europe, volumes in listed equity options and volumes in institutional FX trading, which are driven primarily by overall macroeconomic conditions;
- the demand for the U.S. tape plan market data distributed by the Securities Information Processors (SIPs), which determines the pool size of the industry market data revenue we receive based on our market share;
- the demand for information about, or access to, our markets, which is dependent on the products we trade, our importance as a liquidity center and the quality and pricing of our data and access services;
- continuing pressure in transaction fee pricing due to intense competition in the United States and Europe; and
- regulatory changes relating to market structure or affecting certain types of instruments, transactions, pricing structures, capital market participants or reporting or compliance requirements, including any changes resulting from Brexit.

A number of significant structural, political and monetary issues continue to confront the global economy, and instability could return at any time, resulting in an increased level of market volatility, increased trading volumes and a return of uncertainty. In contrast, many of the largest customers of our transactional businesses continue to adapt their business models as they address the implementation of regulatory changes initiated following the global financial crisis.

Financial Summary

The comparability of our results of operations between reported periods is impacted by the acquisition of Bats on February 28, 2017. Operating results and other financial metrics for U.S. Equities, European Equities and Global FX represent activity for the one month ended March 31, 2017. The following summarizes changes in financial performance for the three months ended March 31, 2017 and 2016.

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Increase/ (Decrease)	Percent Change
	(in millions, except trading days, percentages and as noted below)			
Total revenues	$356.2	$170.5	$185.7	108.9 %
Total cost of revenues	162.8	27.4	135.4	494.2 %
Revenues less cost of revenues	193.4	143.1	50.3	35.2 %
Total operating expenses	167.3	63.6	103.8	163.1 %
Operating income	26.1	79.5	(53.5)	(67.2)%
Income before income tax provision	18.3	80.5	(62.2)	(77.3)%
Income tax provision	3.1	31.3	(28.2)	(90.1)%
Net income	15.2	49.2	(34.0)	(69.1)%
Net income allocated to common stockholders	$15.1	$49.2	$(34.1)	(69.3)%
Basic earnings per share	$0.16	$0.60	$(0.44)	(72.5)%
Diluted earnings per share	0.16	0.60	(0.44)	(72.5)%
Organic net revenue (1)	154.2	143.1	11.1	7.8 %
EBITDA(2)	51.2	91.7	(40.4)	(44.1)%
EBITDA margin(3)	26.5 %	64.1 %	(37.6)%	*
Adjusted EBITDA(2)	$125.7	$92.6	$33.2	35.9 %

Adjusted EBITDA margin(4)	65.0	%	64.7	%	0.3	%	*	
Adjusted earnings(5)	$72.2		$49.9		$22.3		44.8	%
Diluted weighted average shares outstanding	92.0		81.8		10.2		44.7	%

Diluted adjusted earnings per share	$0.78	$0.61	$0.17	27.9 %
Options:				
Average Daily Volume (ADV):				
Matched contracts	5.6	4.6	1.0	21.7 %
Routed contracts	—	—	—	*
Total touched contracts	5.6	4.6	1.0	21.7 %
Market ADV	16.6	17.1	(0.5)	(2.9)%
Index contract ADV	1.9	1.8	0.1	5.6 %
Trading days	62	61	1	1.6 %
U.S. Equities:				
ADV:				
Matched shares ADV (in billions)	1.3	—	1.3	*
Routed shares ADV (in billions)	0.1	—	0.1	*
Total touched shares ADV (in billions)	1.4	—	1.4	*
Market ADV (in billions)	6.9	—	6.9	*
Trading days	23	—	23	*
U.S. ETPs: launches (number of launches)	15	—	15	*
U.S. ETPs: listings (number of listings)	159	—	159	*
Futures:				
ADV (in thousands)	255.2	216.4	38.8	17.9 %
Trading days	62	61	1	1.6 %
European Equities:				
Average Daily Notional Value (ADNV):				
Matched and touched ADNV (in billions)	€10.2	€—	€10.2	*
Market ADNV (in billions)	€47.4	€—	€47.4	*
Trading days	23	—	23	*
Average Euro/British pound exchange rate	£0.866	£—	£0.866	*
Global FX:				
ADNV (in billions)	$29.7	$—	$29.7	*
Trading days	23	—	23	*
Market share:				
Options	33.7 %	26.6 %	7.1 %	*
U.S. Equities	19.2 %	— %	19.2 %	*
ETPs	21.7 %	— %	21.7 %	*
ETPs: launches	32.6 %	— %	32.6 %	*
ETPs: listings	8.0 %	—	8.0 %	*
European Equities	21.4 %	—	21.4 %	*
Net capture:				
Total Options (revenue per contract)(6)	$0.287	$0.346	$0.022	8.3 %
Multiply Listed Options	0.068	0.100	(0.013)	(16.0)%
Index Options	0.708	0.720	(0.012)	(1.7)%
U.S. Equities (net capture per one hundred touched shares)(7)	0.024	—	0.024	*
Futures	1.814	1.643	0.171	10.4 %
European Equities (net capture per matched notional value in basis points)(8)	0.161	—	0.161	*
Global FX (net capture per one million dollars traded)(9)	$2.61	$—	$2.61	*
Average British pound/U.S. dollar exchange rate	$1.234	$1.432	$(0.198)	*

* Not meaningful

(1) Organic net revenue is defined as revenues less cost of revenues excluding revenues less cost of revenues of any acquisition for the quarter the business was acquired. Organic net revenue does not represent, and should not be

considered as, an alternative to revenues less cost of revenues, or net revenue, as determined in accordance with GAAP. We have presented organic net revenue because we consider it an important supplemental measure of our performance and we use it as the basis for monitoring our operating financial performance before the effects of acquisitions. We also believe that it is

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frequently used by analysts, investors and other interested parties in the evaluation of companies. We believe that investors may find this non-GAAP measure useful in evaluating our performance compared to that of peer companies in our industry. Other companies may calculate organic net revenue differently than we do. Organic net revenue has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP.

The following is a reconciliation of revenues less cost of revenues to organic net revenue (in millions):

	Three Months Ended March 31	
	2017	2016
Revenues less cost of revenues	$193.4	$143.1
Recent acquisitions:		
Bats revenues less cost of revenues (for the one month ended March 31, 2017)	(39.2)	—
Organic net revenue	$154.2	$143.1

(2) EBITDA is defined as income before interest, income taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA before acquisition-related costs and accelerated stock-based compensation. EBITDA and adjusted EBITDA do not represent, and should not be considered as, alternatives to net income or cash flows from operations, each as determined in accordance with GAAP. We have presented EBITDA and adjusted EBITDA because we consider them important supplemental measures of our performance and believe that they are frequently used by analysts, investors and other interested parties in the evaluation of companies. In addition, we use adjusted EBITDA as a measure of operating performance for preparation of our forecasts, evaluating our leverage ratio for the debt to earnings covenant included in our outstanding credit facility. Other companies may calculate EBITDA and adjusted EBITDA differently than we do. EBITDA and adjusted EBITDA have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP.

The following tables are reconciliations of net income to EBITDA and adjusted EBITDA (in millions):

	Three Months Ended March 31, 2017						
	Options	U.S. Equities	Futures	European Equities	Global FX	Corporate Items and Eliminations	Total
Net income (loss)	$62.8	$ 11.9	$ 25.9	$ 1.0	$(1.1)	$ (85.4)	$15.1
Interest	—	—	—	—	—	7.9	7.9
Income tax provision	2.1	0.3	—	0.7	—	—	3.1
Depreciation and amortization	10.9	8.1	0.3	2.5	3.0	0.3	25.1
EBITDA	75.8	20.3	26.2	4.2	1.9	(77.2)	51.2
Acquisition-related costs	—	—	—	—	0.2	65.2	65.4
Accelerated stock-based compensation	—	—	—	—	—	9.1	9.1
Adjusted EBITDA	$75.8	$ 20.3	$ 26.2	$ 4.2	$2.1	$ (2.9)	$125.7

	Three Months Ended March 31, 2016						
	Options	U.S. Equities	Futures	European Equities	Global FX	Corporate Items and Eliminations	Total
Net income (loss)	$34.7	$ —	$ 17.5	$ —	$ —	$ (3.0)	$49.2
Interest	(0.7)	—	—	—	—	—	(0.7)
Income tax provision	31.3	—	—	—	—	—	31.3
Depreciation and amortization	10.7	—	0.9	—	—	0.3	11.9
EBITDA	76.0	—	18.4	—	—	(2.7)	91.7
Acquisition-related costs	—			—	—	0.4	0.4
Assessment of computer-based lease taxes	—	—	—	—	—	0.3	0.3

Compensation and benefits	—	—	—	—	—	0.2		0.2
Adjusted EBITDA	$76.0	$ —	$ 18.4	$ —	$ —	$ (1.8	)	$92.6

(3) EBITDA margin represents EBITDA divided by revenues less cost of revenues.

(4) Adjusted EBITDA margin represents adjusted EBITDA divided by revenues less cost of revenues.

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(5) Adjusted earnings is defined as net income adjusted for amortization of purchased intangibles, acquisition-related costs and accelerated stock-based compensation, net of the income tax effects of these adjustments. Adjusted earnings does not represent, and should not be considered as, an alternative to net income, as determined in accordance with GAAP. We have presented adjusted earnings because we consider it an important supplemental measure of our performance and we use it as the basis for monitoring our own core operating financial performance relative to other operators of electronic exchanges. We also believe that it is frequently used by analysts, investors and other interested parties in the evaluation of companies. We believe that investors may find this non-GAAP measure useful in evaluating our performance compared to that of peer companies in our industry. Other companies may calculate adjusted earnings differently than we do. Adjusted earnings has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP.

The following is a reconciliation of net income to adjusted earnings (in millions):

	Three Months Ended March 31	
	2017	2016
Net income	$15.1	$49.2
Amortization	14.4	0.2
Acquisition-related costs	65.4	0.4
Acceleration of stock based compensation	9.1	0.2
Interest expenses on bridge financing	4.3	—
Assessment of computer-based lease taxes	—	0.3
Change in redemption value of noncontrolling interest	0.3	—
Tax effects of adjustments	(36.0)	(0.4)
Net income allocated to participating securities	(0.4)	—
Adjusted earnings	$72.2	$49.9

(6) Revenue per contract represents transaction fees less liquidity payments and routing and clearing costs divided by total touched contracts.

(7) Net capture per one hundred touched shares refers to transaction fees less liquidity payments and routing and clearing costs divided by the product of one-hundredth ADV of touched shares on BZX, BYX, EDGX and EDGA and the number of trading days for the period.

(8) Net capture per matched notional value refers to transaction fees less liquidity payments in British pounds divided by the product of ADNV in British pounds of shares matched on Bats Europe and the number of trading days for the period.

(9) Net capture per one million dollars traded refers to transaction fees less liquidity payments, if any, divided by the product of one-thousandth of ADNV traded on the Hotspot FX market and the number of trading days, divided by two, which represents the buyer and seller that are both charged on the transaction for the period.

Revenues

Total revenues increased in the three months ended March 31, 2017, primarily as a result of our acquisition of Bats. The following summarizes changes in revenues for the three months ended March 31, 2017, compared to the three months ended March 31, 2016:

Three Months Ended March 31		Increase/ (Decrease)	Percent Change
2017	2016		

	(in millions, except percentages)			
Transaction fees	$256.4	$126.2	$ 130.2	103.2 %
Access fees	17.8	13.2	4.6	34.8 %
Exchange services and other fees	15.4	11.4	4.0	35.1 %
Market data fees	22.5	8.0	14.5	181.3 %
Regulatory fees	38.3	9.1	29.2	320.9 %
Other revenue	5.8	2.6	3.2	123.1 %
Total revenues	$356.2	$170.5	$ 185.7	108.9 %