

CME GROUP INC.  
Form 10-Q  
August 06, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2010

- 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 001-31553

**CME GROUP INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**36-4459170**  
(I.R.S. Employer

Identification Number)

**20 South Wacker Drive, Chicago, Illinois**  
(Address of principal executive offices)

**60606**  
(Zip Code)

**(312) 930-1000**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares outstanding of each of the registrant's classes of common stock as of July 21, 2010 was as follows: 67,214,733 shares of Class A common stock, \$0.01 par value; 625 shares of Class B common stock, Class B-1, \$0.01 par value; 813 shares of Class B common stock, Class B-2, \$0.01 par value; 1,287 shares of Class B common stock, Class B-3, \$0.01 par value; and 413 shares of Class B common stock, Class B-4, \$0.01 par value.

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**CME GROUP INC.**

**FORM 10-Q**

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**PART I: FINANCIAL INFORMATION**

**Certain Terms**

All references to options or options contracts in the text of this document refer to options on futures contracts.

Unless otherwise indicated, references to CME Group Inc. (CME Group) products include references to exchange-traded products on one of its regulated exchanges: Chicago Mercantile Exchange Inc. (CME), Board of Trade of the City of Chicago, Inc. (CBOT), New York Mercantile Exchange, Inc. (NYMEX) and Commodity Exchange, Inc. (COMEX). Products listed on these exchanges are subject to the rules and regulations of the particular exchange and the applicable rulebook should be consulted. Unless otherwise indicated, references to NYMEX include its subsidiary, COMEX.

Further information about CME Group and its products can be found at <http://www.cmegroup.com>. Information made available on our Web site does not constitute a part of this Report.

**Trademark Information**

The Globe logo, CME, Chicago Mercantile Exchange, CME Group, Globex and E-mini, are trademarks of Chicago Mercantile Exchange Inc. CBOT and Chicago Board of Trade are trademarks of Board of Trade of the City of Chicago, Inc. NYMEX, New York Mercantile Exchange and ClearPort are trademarks of New York Mercantile Exchange, Inc. All other trademarks are the property of their respective owners.

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**FORWARD-LOOKING STATEMENTS**

From time to time, in this Quarterly Report on Form 10-Q as well as in other written reports and verbal statements, we discuss our expectations regarding future performance. These forward-looking statements are identified by their use of terms and phrases such as believe, anticipate, could, estimate, intend, may, plan, expect and similar expressions, including references to assumptions. These forward-looking statements are based on currently available competitive, financial and economic data, current expectations, estimates, forecasts and projections about the industries in which we operate and management's beliefs and assumptions. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or implied in any forward-looking statements. We want to caution you not to place undue reliance on any forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Among the factors that might affect our performance are:

increasing competition by foreign and domestic entities, including increased competition from new entrants into our markets and consolidation of existing entities;

our ability to keep pace with rapid technological developments, including our ability to complete the development and implementation of the enhanced functionality required by our customers;

our ability to continue introducing competitive new products and services on a timely, cost-effective basis, including through our electronic trading capabilities, and our ability to maintain the competitiveness of our existing products and services;

our ability to adjust our fixed costs and expenses if our revenues decline;

our ability to generate revenues from our processing services;

our ability to maintain existing customers, develop strategic relationships and attract new customers;

our ability to expand and offer our products in foreign jurisdictions;

changes in domestic and foreign regulations;

changes in government policy, including policies relating to common or directed clearing, and changes resulting from the adoption and implementation of the Dodd-Frank Act and any changes in the regulation of our industry with respect to speculative trading in commodity interests and derivative contracts;

the costs associated with protecting our intellectual property rights and our ability to operate our business without violating the intellectual property rights of others;

our ability to generate revenue from our market data that may be reduced or eliminated by the growth of electronic trading, the state of the overall economy or declines in subscriptions;

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changes in our rate per contract due to shifts in the mix of the products traded, the trading venue and the mix of customers (whether the customer receives member or non-member fees or participates in one of our various incentive programs) and the impact of our tiered pricing structure;

the ability of our financial safeguards package to adequately protect us from the credit risks of clearing members;

the ability of our compliance and risk management methods to effectively monitor and manage our risks;

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changes in price levels and volatility in the derivatives markets and in underlying fixed income, equity, foreign exchange and commodities markets;

economic, political and market conditions, including the recent volatility of the capital and credit markets and the impact of recent economic conditions on the trading activity of our current and potential customers;

our ability to accommodate increases in trading volume and order transaction traffic without failure or degradation of the performance of our systems;

our ability to execute our growth strategy and maintain our growth effectively;

our ability to manage the risks and control the costs associated with our acquisition, investment and alliance strategy;

our ability to continue to generate funds and/or manage our indebtedness to allow us to continue to invest in our business;

industry and customer consolidation;

decreases in trading and clearing activity;

the imposition of a transaction tax on futures and options on futures transactions and/or repeal of the 60/40 tax treatment of such transactions;

the unfavorable resolution of material legal proceedings; and

the seasonality of the futures business.

For a detailed discussion of these and other factors that might affect our performance, see Item 1A. of this Report and Item 1A. of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 26, 2010.

**Table of Contents****ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(dollars in millions, except per share data; shares in thousands)

(unaudited)

	June 30, 2010	December 31, 2009
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 363.6	\$ 260.6
Marketable securities	45.0	42.6
Accounts receivable, net of allowance of \$1.4 and \$1.9	330.8	248.3
Other current assets	103.8	165.6
Cash performance bonds and security deposits	3,758.8	5,981.9
<b>Total current assets</b>	<b>4,602.0</b>	<b>6,699.0</b>
Property, net of accumulated depreciation and amortization of \$546.0 and \$546.1	729.5	738.5
Intangible assets trading products	17,038.0	16,982.0
Intangible assets other, net	3,502.0	3,246.5
Goodwill	7,962.8	7,549.2
Other assets	424.6	435.8
<b>Total Assets</b>	<b>\$ 34,258.9</b>	<b>\$ 35,651.0</b>
<b>Liabilities and Shareholders Equity</b>		
Current Liabilities:		
Accounts payable	\$ 37.6	\$ 46.7
Short-term debt	300.0	299.8
Other current liabilities	237.9	195.2
Cash performance bonds and security deposits	3,758.8	5,981.9
<b>Total current liabilities</b>	<b>4,334.3</b>	<b>6,523.6</b>
Long-term debt	2,524.4	2,014.7
Deferred tax liabilities, net	7,775.9	7,645.9
Other liabilities	172.9	165.8
<b>Total Liabilities</b>	<b>14,807.5</b>	<b>16,350.0</b>
Redeemable non-controlling interest	67.9	
Shareholders Equity:		
Preferred stock, \$0.01 par value, 9,860 shares authorized, none issued or outstanding		
Series A junior participating preferred stock, \$0.01 par value, 140 shares authorized, none issued or outstanding		
Class A common stock, \$0.01 par value, 1,000,000 shares authorized, 65,585 and 66,511 shares issued and outstanding as of June 30, 2010 and December 31, 2009	0.7	0.7
Class B common stock, \$0.01 par value, 3 shares authorized, issued and outstanding		
Additional paid-in capital	16,920.3	17,186.6
Retained earnings	2,599.3	2,239.9

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Accumulated other comprehensive income (loss)	(136.8)	(126.2)
<b>Total Shareholders' Equity</b>	<b>19,383.5</b>	<b>19,301.0</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 34,258.9</b>	<b>\$ 35,651.0</b>

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(dollars in millions, except per share data; shares in thousands)

(unaudited)

	Quarter Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2010	2009	2010	2009
<b>Revenues</b>				
Clearing and transaction fees	\$ 684.2	\$ 536.8	\$ 1,262.2	\$ 1,064.6
Market data and information services	102.0	82.1	189.6	167.6
Access and communication fees	11.2	11.5	22.1	23.1
Other	16.5	17.4	33.2	39.6
<b>Total Revenues</b>	813.9	647.8	1,507.1	1,294.9
<b>Expenses</b>				
Compensation and benefits	103.1	88.0	201.9	174.7
Communications	10.9	11.6	21.0	24.0
Technology support services	12.7	11.6	24.9	23.4
Professional fees and outside services	25.2	22.4	56.4	44.0
Amortization of purchased intangibles	32.3	30.5	63.1	63.8
Depreciation and amortization	32.8	30.1	65.0	61.1
Occupancy and building operations	20.2	18.1	40.7	38.2
Licensing and other fee agreements	21.2	21.7	42.3	46.3
Restructuring	(0.2)	1.4	(0.5)	4.6
Other	40.6	13.6	62.5	29.6
<b>Total Expenses</b>	298.8	249.0	577.3	509.7
<b>Operating Income</b>	515.1	398.8	929.8	785.2
<b>Non-Operating Income (Expense)</b>				
Investment income	4.4	10.1	15.5	11.9
Gains (losses) on derivative investments			6.0	
Securities lending interest income		0.4		2.8
Securities lending interest and other costs		0.3		(0.1)
Interest and other borrowing costs	(37.9)	(32.6)	(69.3)	(71.1)
Equity in losses of unconsolidated subsidiaries	(1.5)	(1.7)	(3.0)	(2.9)
Other income (expense)		(0.4)		(0.4)
<b>Total Non-Operating</b>	(35.0)	(23.9)	(50.8)	(59.8)
<b>Income before Income Taxes</b>	480.1	374.9	879.0	725.4
Income tax provision	208.9	153.1	367.6	304.5
<b>Net Income</b>	271.2	221.8	511.4	420.9
Less: net income attributable to redeemable non-controlling interest	0.5		0.5	

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<b>Net Income Attributable to CME Group</b>	\$ 270.7	\$ 221.8	\$ 510.9	\$ 420.9
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**Earnings per Common Share Attributable to CME Group:**

Basic	\$ 4.13	3.34	\$ 7.75	\$ 6.35
Diluted	4.11	3.33	7.73	6.33

**Weighted Average Number of Common Shares:**

Basic	65,582	66,329	65,906	66,316
Diluted	65,784	66,526	66,104	66,470

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(dollars in millions, except per share data; shares in thousands)

(unaudited)

	Class A Common Stock (Shares)	Class B Common Stock (Shares)	Common Stock and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance at December 31, 2009	66,511	3	\$ 17,187.3	\$ 2,239.9	\$ (126.2)	\$ 19,301.0
Comprehensive income:						
Net income attributable to CME Group				510.9		510.9
Change in net unrealized loss on securities, net of tax of \$4.1					(11.0)	(11.0)
Change in net actuarial loss on defined benefit plans, net of tax of \$0.8					1.2	1.2
Change in net unrealized loss on derivatives, net of tax of \$1.6					2.4	2.4
Change in foreign currency translation adjustment, net of tax of \$2.2					(3.2)	(3.2)
Total comprehensive income attributable to CME Group						500.3
Cash dividends on common stock of \$2.30 per share				(151.5)		(151.5)
Repurchase of Class A common stock	(982)		(296.2)			(296.2)
Exercise of stock options	43		4.9			4.9
Excess tax benefits from option exercises and restricted stock vesting			3.1			3.1
Vesting of issued restricted Class A Common stock	3					
Shares issued to Board of Directors	8		2.3			2.3
Shares issued under Employee Stock Purchase Plan	2		0.7			0.7
Stock-based compensation			18.9			18.9
<b>Balance at June 30, 2010</b>	<b>65,585</b>	<b>3</b>	<b>\$ 16,921.0</b>	<b>\$ 2,599.3</b>	<b>\$ (136.8)</b>	<b>\$ 19,383.5</b>

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (continued)**

(dollars in millions, except per share data; shares in thousands)

(unaudited)

	<b>Class A Common Stock (Shares)</b>	<b>Class B Common Stock (Shares)</b>	<b>Common Stock and Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Shareholders Equity</b>
Balance at December 31, 2008	66,417	3	\$ 17,129.2	\$ 1,719.7	\$ (160.3)	\$ 18,688.6
Comprehensive income:						
Net income attributable to CME Group				420.9		420.9
Change in net unrealized loss on securities, net of tax of \$6.0					9.2	9.2
Change in net actuarial loss on defined benefit plans, net of tax of \$0.9					(1.3)	(1.3)
Change in net unrealized loss on derivatives, net of tax of \$2.8					4.4	4.4
Change in foreign currency translation adjustment, net of tax of \$2.6					4.1	4.1
Total comprehensive income attributable to CME Group						437.3
Cash dividends on common stock of \$2.30 per share				(152.6)		(152.6)
Repurchase of Class A common stock	(139)		(27.0)			(27.0)
Exercise of stock options	74		13.7			13.7
Excess tax benefits from option exercises and restricted stock vesting			1.3			1.3
Vesting of issued restricted Class A common stock	4					
Shares issued to Board of Directors	12		2.4			2.4
Shares issued under Employee Stock Purchase Plan	2		0.7			0.7
Stock-based compensation			16.9			16.9
<b>Balance at June 30, 2009</b>	<b>66,370</b>	<b>3</b>	<b>\$ 17,137.2</b>	<b>\$ 1,988.0</b>	<b>\$ (143.9)</b>	<b>\$ 18,981.3</b>

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions)

(unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 511.4	\$ 420.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	18.9	16.9
Amortization of purchased intangibles	63.1	63.8
Depreciation and amortization	65.0	61.1
Credit Market Analysis Limited impairment	20.5	
Net accretion of discounts and amortization of debt financing costs	2.4	10.4
Equity in losses of unconsolidated subsidiaries	3.0	2.9
Deferred income taxes	(17.8)	(13.0)
Change in assets and liabilities:		
Accounts receivable	(65.0)	(48.3)
Other current assets	16.8	(9.6)
Other assets	(13.9)	(12.0)
Accounts payable	(8.2)	(32.5)
Income taxes payable	15.2	1.4
Other current liabilities	32.2	(44.2)
Other liabilities	7.2	22.0
Other	(1.7)	(1.4)
<b>Net Cash Provided by Operating Activities</b>	<b>649.1</b>	<b>438.4</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from maturities of available-for-sale marketable securities	6.1	368.7
Purchases of available-for-sale marketable securities	(5.1)	(154.8)
Net change in NYMEX securities lending program investments		425.9
Purchases of property, net	(53.8)	(79.0)
Cash acquired from Index Services	5.4	
Proceeds from Chicago Board Options Exchange exercise right privileges	39.7	
Capital contributions to FXMarketSpace Limited		(2.9)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(7.7)</b>	<b>557.9</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds (repayments) of commercial paper, net	(99.9)	(968.9)
Proceeds from other borrowings, net of issuance costs	608.0	743.8
Net change in NYMEX securities lending program liabilities		(456.8)
Cash dividends	(151.5)	(152.6)
Repurchase of Class A common stock, including costs	(296.2)	(27.0)
Proceeds from exercise of stock options	4.9	13.7
Distribution paid to non-controlling interest	(607.5)	
Excess tax benefits related to employee option exercises and restricted stock vesting	3.1	1.6

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Proceeds from Employee Stock Purchase Plan	0.7	0.7
<b>Net Cash Used in Financing Activities</b>	(538.4)	(845.5)

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

(in millions)

(unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Net change in cash and cash equivalents	\$ 103.0	\$ 150.8
Cash and cash equivalents, beginning of period	260.6	297.9
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 363.6</b>	<b>\$ 448.7</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Income taxes paid	\$ 351.9	\$ 329.6
Interest paid (excluding securities lending program)	46.1	41.0
Non-cash investing activities:		
Change in net unrealized securities gains (losses)	15.1	15.2
Change in net unrealized derivatives gains (losses)	4.0	7.2
See accompanying notes to unaudited consolidated financial statements.		

**Table of Contents****CME GROUP INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****1. Basis of Presentation**

The consolidated financial statements consist of CME Group Inc. (CME Group) and its subsidiaries (collectively, the company), including Chicago Mercantile Exchange Inc. (CME), the Board of Trade of the City of Chicago, Inc. (CBOT), New York Mercantile Exchange, Inc. (NYMEX) and their respective subsidiaries (collectively, the exchange). On March 18, 2010, CBOT acquired a 90% ownership interest in CME Group Index Services LLC (Index Services), a joint venture with Dow Jones & Company (Dow Jones). The financial statements and accompanying notes presented in this report include the financial results of Index Services beginning on March 19, 2010.

The accompanying interim consolidated financial statements have been prepared by CME Group without audit. Certain notes and other information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, the accompanying consolidated financial statements include all normal recurring adjustments considered necessary to present fairly the financial position of the company at June 30, 2010 and December 31, 2009 and the results of operations and cash flows for the periods indicated. Quarterly results are not necessarily indicative of results for any subsequent period.

The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in CME Group's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission (SEC) on February 26, 2010. Certain reclassifications have been made to the 2009 financial statements to conform to the presentation in 2010.

**2. Business Combinations**

On March 18, 2010, CBOT and Dow Jones entered into an agreement to form Index Services. Index Services was formed through the contribution of CBOT's market data business and Dow Jones' index business. Based on the preliminary fair value of assets contributed, the company has allocated \$436.5 million to goodwill and \$376.4 million to identifiable intangible assets. Intangible assets consist primarily of \$232.8 million of customer relationships and \$126.6 million of trade names.

In conjunction with its formation, Index Services issued \$612.5 million of 4.40% fixed rate notes due 2018, which are guaranteed by CME Group, in an unregistered offering. Proceeds of \$607.5 million were distributed to Dow Jones thereby reducing its interest in Index Services to 10%. Dow Jones retains the right to redeem its remaining interest at fair value on or after March 18, 2016. In addition, CBOT retains a right to call Dow Jones' remaining interest at fair value on or after March 18, 2017. In accordance with current accounting guidance, Dow Jones' interest has been classified as a redeemable non-controlling interest in the company's consolidated financial statements.

The following summarizes the changes in redeemable non-controlling interest during the first six months of 2010:

(in millions)	
Balance at December 31, 2009	\$
Contribution by Dow Jones	675.0
Distribution to Dow Jones	(607.5)
Total comprehensive income attributable to redeemable non-controlling interest	0.4
Balance at June 30, 2010	\$ 67.9

The following summarizes total comprehensive income attributable to redeemable non-controlling interest:

(in millions)	Quarter Ended June 30, 2010	Six Months Ended June 30, 2010
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Net income for the period	\$	0.5	\$	0.5
Net unrealized loss on derivative related to 4.40% fixed rate notes				(0.1)
Total comprehensive income attributable to redeemable non-controlling interest	\$	0.5	\$	0.4

**Table of Contents****3. Intangible Assets and Goodwill**

Intangible assets consisted of the following at June 30, 2010 and December 31, 2009:

(in millions)	Cost	June 30, 2010 Accumulated Amortization	Net Book Value	Cost	December 31, 2009 Accumulated Amortization	Net Book Value
<b>Amortizable Intangible Assets:</b>						
Clearing firm, market data and other customer relationships	\$ 3,075.3	\$ (238.2)	\$ 2,837.1	\$ 2,842.5	\$ (186.8)	\$ 2,655.7
Lease-related intangibles	83.2	(27.6)	55.6	83.2	(21.7)	61.5
Dow Jones trading products (a)				74.0	(16.6)	57.4
Technology-related intellectual property	38.9	(13.9)	25.0	28.4	(10.3)	18.1
Open interest				12.3	(12.3)	
Other (b)	14.9	(10.0)	4.9	13.3	(8.5)	4.8
	3,212.3	(289.7)	2,922.6	3,053.7	(256.2)	2,797.5
Foreign currency translation adjustments	(9.5)	3.9	(5.6)	(7.8)	2.5	(5.3)
Total Amortizable Intangible Assets	\$ 3,202.8	\$ (285.8)	2,917.0	\$ 3,045.9	\$ (253.7)	2,792.2
<b>Indefinite-Lived Intangible Assets:</b>						
Trade names (c)			582.9			452.1
Other (d)			2.6			2.6
Foreign currency translation adjustments			(0.5)			(0.4)
Total intangible assets other, net			\$ 3,502.0			\$ 3,246.5
Indefinite-lived trading products (a)			\$ 17,038.0			\$ 16,982.0

- (a) In connection with CBOT's acquisition of 90% ownership in Index Services, the company now considers Dow Jones trading products to be indefinite-lived.
- (b) At June 30, 2010 and December 31, 2009, other amortizable intangible assets consisted of non-compete, service and market maker agreements.
- (c) In the second quarter of 2010, the company recorded a \$0.7 million impairment charge to Credit Market Analysis Limited (CMA) trade name as a result of its annual impairment testing.
- (d) At June 30, 2010 and December 31, 2009, other indefinite-lived intangible assets consisted of products in development.

Total amortization expense for intangible assets was \$32.3 million and \$30.5 million for the quarters ended June 30, 2010 and 2009, respectively. Total amortization expense for intangible assets was \$63.1 million and \$63.8 million for the first six months of 2010 and 2009, respectively. As of June 30, 2010, the future estimated amortization expense related to amortizable intangible assets is expected to be:

(in millions)	
Remainder of 2010	\$ 64.7
2011	129.2
2012	123.9
2013	117.9
2014	116.2

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2015	111.0
Thereafter	2,254.1

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Goodwill activity consisted of the following for the six months ended June 30, 2010 and the year ended December 31, 2009:

(in millions)	Balance at December 31, 2009	Business Combination	Impairment Adjustment	Other Activity (e)	Balance at June 30, 2010
CBOT Holdings, Inc.	\$ 5,035.7	\$	\$	\$	\$ 5,035.7
NYMEX Holdings, Inc.	2,463.1			(0.8)	2,462.3
CMA	50.4		(19.8)	(2.3)	28.3
Index Services		436.5			436.5
<b>Total Goodwill</b>	<b>\$ 7,549.2</b>	<b>\$ 436.5</b>	<b>\$ (19.8)</b>	<b>\$ (3.1)</b>	<b>\$ 7,962.8</b>

(in millions)	Balance at December 31, 2008	Business Combination	Impairment Adjustment	Other Activity (e)	Balance at December 31, 2009
CBOT Holdings, Inc.	\$ 5,036.1	\$	\$	\$ (0.4)	\$ 5,035.7
NYMEX Holdings, Inc.	2,436.7			26.4	2,463.1
CMA	46.4			4.0	50.4
<b>Total Goodwill</b>	<b>\$ 7,519.2</b>	<b>\$</b>	<b>\$</b>	<b>\$ 30.0</b>	<b>\$ 7,549.2</b>

- (e) Other activity consisted primarily of adjustments to restructuring costs and tax contingencies for CBOT Holdings, Inc. (CBOT Holdings) and NYMEX Holdings, Inc. (NYMEX Holdings,) the recognition of excess tax benefits upon exercise of stock options assumed for CBOT Holdings and NYMEX Holdings, and foreign currency translation adjustments for CMA.

The company conducts impairment testing of goodwill and indefinite-lived intangible assets at least annually. The company is required to consider a market participant's perspective when developing the assumptions used to estimate fair value for its impairment tests. During the second quarter of 2010, the company recorded a \$19.8 million impairment charge to reduce the carrying amount of CMA goodwill to its estimated fair value.

**Table of Contents****4. Debt**

On March 18, 2010, Index Services completed an offering of \$612.5 million of 4.40% fixed rate notes due 2018. Proceeds of \$607.5 million were distributed to Dow Jones in conjunction with its investment in Index Services.

Debt consisted of the following:

(in millions)	June 30, 2010	December 31, 2009
Short-term debt:		
\$300.0 million floating rate notes due August 2010, interest equal to 3-month LIBOR plus 0.65%, reset quarterly <sup>(a)</sup>	\$ 300.0	\$ 299.8
<b>Total short-term debt</b>	<b>\$ 300.0</b>	<b>\$ 299.8</b>
Long-term debt:		
Term loan due 2011, interest equal to 3-month LIBOR plus 1.00%, reset quarterly <sup>(b)</sup>	420.5	420.5
\$750.0 million fixed rate notes due August 2013, interest equal to 5.40%	748.3	748.0
\$750.0 million fixed rate notes due February 2014, interest equal to 5.75%	746.7	746.2
\$612.5 million fixed rate notes due March 2018, interest equal to 4.40% <sup>(c)</sup>	608.9	
Commercial paper <sup>(d)</sup>		100.0
<b>Total long-term debt</b>	<b>\$ 2,524.4</b>	<b>\$ 2,014.7</b>

- (a) In September 2008, the company entered into an interest-rate swap agreement that modified the variable interest obligation associated with these notes so that the interest payable on the notes effectively became fixed at a rate of 3.92% beginning with the interest accrued after November 6, 2008.
- (b) In September 2008, the company entered into an interest-rate swap agreement that modified the variable interest obligation associated with this facility so that the interest payable effectively became fixed at a rate of 4.72% beginning with the interest accrued after October 22, 2008.
- (c) In February 2010, the company entered into a forward-starting interest-rate swap agreement that modified the interest obligation associated with these notes so that the interest payable on the notes effectively became fixed at a rate of 4.46% at issuance on March 18, 2010.
- (d) At December 31, 2009, this represented commercial paper backed by a three-year senior credit facility.

Commercial paper notes with an aggregate par value of \$1.3 billion and maturities ranging from 2 to 61 days were issued during the six months ended June 30, 2010. The weighted average discount rate for commercial paper outstanding at December 31, 2009 was 0.24%. There was no commercial paper outstanding at June 30, 2010. During the first six months of 2010 and 2009, the weighted average balance, at par value, of commercial paper outstanding was \$168.2 million and \$807.5 million, respectively.

Long-term debt maturities, at par value, were as follows as of June 30, 2010:

(in millions)	
2011	\$ 420.5
2012	
2013	750.0
2014	750.0
2015	
Thereafter	612.5



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The fair value of the fixed rate notes due 2013 and 2014 was estimated using quoted market prices. The fair value of the fixed rate notes due 2018 was derived using a standard valuation model with market-based observable inputs including U.S. Treasury yields and interest rate spreads. At June 30, 2010, the fair values of the fixed rate notes by maturity date were as follows.

(in millions)	Fair Value
\$750.0 million fixed rate notes due August 2013	\$ 827.5
\$750.0 million fixed rate notes due February 2014	832.6
\$612.5 million fixed rate notes due March 2018	640.4

**5. Contingencies**

*Legal Matters.* In October 2003, the U.S. Futures Exchange, L.L.C. (Eurex U.S.) and U.S. Exchange Holdings, Inc. filed suit against CBOT and CME in the United States District Court for the District of Columbia. The suit alleges that CBOT and CME violated the antitrust laws and tortiously interfered with the business relationship and contract between Eurex U.S. and The Clearing Corporation. Eurex U.S. and U.S. Exchange Holdings, Inc. are seeking treble damages. In December 2003, CBOT and CME filed separate motions to dismiss or, in the event the motion to dismiss is denied, to move the venue to the United States District Court for the Northern District of Illinois. In September 2004, the judge granted CBOT's and CME's motion to transfer venue to the Northern District of Illinois. In light of that decision, the judge did not rule on the motions to dismiss. In March 2005, Eurex U.S. filed a second amended complaint in the United States District Court for the Northern District of Illinois. In June 2005, CME and CBOT filed a motion to dismiss the complaint which was denied in August 2005. In April 2007, CME and CBOT filed two joint motions for summary judgment. In July 2010, the judge partially granted the company's motion for summary judgment on the predatory pricing claims, finding no factual basis for such claims. The company anticipates receiving a ruling on the remaining claims in the near future. Based on its investigation to date and advice from legal counsel, the company believes this suit is without merit and intends to defend itself vigorously against these charges.

In August 2008, Fifth Market filed a complaint against CME Group and CME seeking a permanent injunction against CME's Globex system and enhanced damages for what the plaintiff alleges is willful infringement, in addition to costs, expenses and attorneys' fees. The suit alleges that CME infringes two U.S. patents. Based on its investigation to date and advice from legal counsel, the company believes this suit is without merit and intends to defend itself vigorously against these charges.

In June 2009, CME and CBOT filed a complaint against Howard Garber seeking a declaratory judgment that neither CME nor CBOT was infringing certain of Mr. Garber's patents and that one of his patents is invalid and unenforceable. In September 2009, Technology Research Group LLC, the current owner of one of the patents at issue, filed counterclaims alleging that CME and CBOT infringe, induce or contribute to the infringement and willfully infringe its patent. Technology Research is seeking an injunction and damages no less than a reasonable royalty. Based on its investigation to date and advice from legal counsel, the company believes this suit is without merit and intends to defend itself vigorously against these charges.

In July 2009, Realtime Data LLC filed a complaint against CME Group and other exchanges seeking a permanent injunction and damages no less than a reasonable royalty. In July 2009, Realtime filed an amended complaint and added CBOT and NYMEX along with other related companies of the other defendants. The complaint alleges that CME Group, CBOT and NYMEX infringe directly and/or indirectly four patents and further that the infringement is willful. Based on its investigation to date and advice from legal counsel, the company believes this suit is without merit and intends to defend itself vigorously against these charges.

In addition, the company is a defendant in, and has potential for, various other legal proceedings arising from its regular business activities. While the ultimate results of such proceedings against the company cannot be predicted with certainty, the company believes that the resolution of any of these matters will not have a material adverse affect on its consolidated financial position or results of operations.

*Intellectual Property Indemnifications.* Certain agreements with customers and other third parties related to accessing the CME Globex platform, the CME ClearPort platform, and/or the Clearing 21 platform; utilizing market data services; licensing CME SPAN software; and calculating indexes as a service provider and licensing indexes as the basis of financial

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products may contain indemnifications from intellectual property claims that may be made against them as a result of their use of the applicable products and/or services. The potential future claims relating to these indemnifications cannot be estimated and, therefore, no liability has been recorded.

**6. Guarantees**

*CME Clearing Contract Settlement.* CME accounts for its guarantee of settlement of contracts in accordance with current accounting guidance on guarantees. CME marks-to-market all open positions at least twice a day, and requires payment from clearing firms whose positions have lost value and makes payments to clearing firms whose positions have gained value. In select circumstances where CME has introduced clearing services to newer markets, positions are marked-to-market daily, with the capability to mark-to-market more frequently as market conditions warrant. Under the extremely unlikely scenario of simultaneous default by every clearing firm who has open positions with unrealized losses, the maximum exposure related to CME's guarantee would be equal to one half day of changes in fair value of all open positions, before considering CME's ability to access defaulting clearing firms' performance bond and security deposit balances as well as other available resources. During the first six months of 2010, CME transferred an average of approximately \$2.2 billion a day through its clearing system for settlement from clearing firms whose positions had lost value to clearing firms whose positions had gained value. CME reduces its guarantee exposure through initial and maintenance performance bond requirements and mandatory security deposits. The company believes that the guarantee liability in accordance with the accounting guidance is immaterial and therefore has not recorded any liability at June 30, 2010.

*Mutual Offset Agreement.* CME and Singapore Exchange Limited (SGX) have a mutual offset agreement with a current term through October 2010. The term of the agreement will automatically renew for a one-year period unless either party provides advance notice of their intent to terminate. CME can maintain collateral in the form of U.S. Treasury securities or irrevocable letters of credit. At June 30, 2010, CME was contingently liable to SGX on irrevocable letters of credit totaling \$83.0 million. Regardless of the collateral, CME guarantees all cleared transactions submitted through SGX and would initiate procedures designed to satisfy these financial obligations in the event of a default, such as the use of performance bonds and security deposits of the defaulting clearing firm.

*Cross-Margin Agreements.* CME and Options Clearing Corporation (OCC) have a cross-margin arrangement, whereby a common clearing firm may maintain a cross-margin account in which the clearing firm's positions in certain CME futures and options on futures contracts are combined with certain positions cleared by OCC for purposes of calculating performance bond requirements. The performance bond deposits are held jointly by CME and OCC. If a participating firm defaults, the gain or loss on the liquidation of the firm's open position and the proceeds from the liquidation of the cross-margin account would be allocated 50% each to CME and OCC.

Cross-margin agreements exist with CME and Fixed Income Clearing Corp (FICC) whereby the clearing firms' offsetting positions with CME are subject to reduced margin requirements. Clearing firms maintain separate performance bond deposits with each clearing house, but depending on the net offsetting positions between CME and FICC, each clearing house may reduce the firm's performance bond requirement. In the event of a firm default, the total liquidation net gain or loss on the firm's offsetting open positions and the proceeds from the liquidation of the performance bond collateral held by each clearing house's supporting offsetting positions would be divided evenly between CME and the applicable clearing house.

Additionally, for the FICC cross-margin agreements, if, after liquidation of all the positions and collateral of the defaulting firm at each respective clearing organization, and taking into account any cross-margining loss sharing payments, any of the participating clearing organizations has a remaining liquidating surplus, and any other participating clearing organization has a remaining liquidating deficit, any additional surplus from the liquidation would be shared with the other clearing houses to the extent that they have a remaining liquidating deficit. Any remaining surplus funds would be passed to the bankruptcy trustee.

*GFX Corporation Letter of Credit.* CME guarantees a \$5.0 million standby letter of credit for GFX Corporation (GFX). The beneficiary of the letter of credit is the clearing firm that is used by GFX to execute and maintain its futures positions. Per exchange requirements, GFX is required to place performance bond deposits with its clearing firm. The letter of credit, utilized as performance bond, would be drawn on in the event that GFX defaults in meeting requirements to its clearing firm. In the unlikely event of a payment default by GFX, if GFX's performance bond is not sufficient to cover the deficit, CME would guarantee the remaining deficit, if any.

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### **7. Stock-Based Payments**

Total expense for stock-based payments, including shares issued to the board of directors, converted CBOT Holdings options and converted NYMEX Holdings options, was \$20.1 million and \$18.2 million for the six months ended June 30, 2010 and 2009, respectively. The total income tax benefit recognized in the consolidated statements of income for stock-based payment arrangements was \$8.0 million and \$7.3 million for the six months ended June 30, 2010 and 2009, respectively.

In the first six months of 2010, the company granted employees stock options totaling 7,508 shares under the CME Group Omnibus Stock Plan. The options have a ten-year term with exercise prices ranging from \$310 to \$314 per share, the closing market price on the dates of grant. The fair value of these options totaled \$0.9 million, measured at the grant dates using the Black-Scholes valuation model, which is recognized as compensation expense on an accelerated basis over the vesting period. The Black-Scholes fair values of the option grants were calculated using the following assumptions: dividend yield of 1.5%; expected volatility of 44%; risk-free interest rates ranging from 2.6% to 2.9% and an expected life of 6.2 years. The grant date weighted average fair value of options granted during the first six months of 2010 was \$126 per share.

In the first six months of 2010, the company granted 6,711 shares of restricted Class A common stock which generally have a vesting period of two to five years. The fair value of these grant were \$2.1 million, which is recognized as compensation expense on an accelerated basis over the vesting period.

### **8. Fair Value Measurements**

Accounting guidance on fair value measurements and related disclosures provides direction for using fair value to measure assets and liabilities by defining fair value and establishing a framework for measuring fair value. The guidance creates a three-level hierarchy that establishes classification of fair value measurements for disclosure purposes.

Level 1 inputs, which are considered the most reliable evidence of fair value, consist of quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs consist of observable market data, other than level 1 inputs, such as quoted prices for similar assets and liabilities in active markets or inputs other than quoted prices that are directly observable.

Level 3 inputs consist of unobservable inputs which are derived and cannot be corroborated by market data or other entity-specific inputs.

In general, the company uses quoted prices in active markets for identical assets to determine the fair value of marketable securities and equity investments. Level 1 assets generally include U.S. Treasury securities, exchange-traded mutual funds and publicly-traded equity securities. If quoted prices are not available to determine fair value, the company uses other inputs that are observable either directly or indirectly. Assets included in level 2 generally consist of U.S. Government agency securities, municipal bonds, asset-backed securities and certain corporate bonds. There were no level 3 assets that were valued on a recurring basis as of June 30, 2010.

The company determined the fair value of its interest rate swap contracts, considered level 2 assets, using standard valuation models with market-based observable inputs including forward and spot exchange rates and interest rate curves. The level 2 marketable securities are measured at fair value based on matrix pricing based on prices of similar securities with similar inputs such as maturity dates, interest rates and credit ratings.

Financial assets and liabilities recorded in the consolidated balance sheet as of June 30, 2010 were classified in their entirety based on the lowest level of input that was significant to each asset or liability's fair value measurement.

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(in millions)	As of June 30, 2010			Total
	Level 1	Level 2	Level 3	
Assets at Fair Value:				
Marketable securities:				
U.S. Treasury securities	\$ 5.1	\$	\$	\$ 5.1
Mutual funds	23.4			23.4
Corporate bonds		0.1		0.1
Municipal bonds		4.6		