

CME GROUP INC.  
Form 10-Q  
August 05, 2011  
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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, 2011

- 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)

Delaware  
(State or other jurisdiction of

36-4459170  
(I.R.S. Employer

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incorporation or organization)

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 20, 2011 was as follows: 66,862,797 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 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 Quarterly Report on Form 10-Q.

#### **Information about Trading Volume and Average Rate per Contract**

Disclosed amounts of trading volume and average rate per contract exclude our TRAKRS, credit default swaps and interest rate swaps.

#### **Trademark Information**

CME Group is a trademark of CME Group Inc. The Globe logo, CME, Chicago Mercantile Exchange, 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. Dow Jones and Dow Jones Indexes are service marks of Dow Jones Trademark Holdings, LLC, and have been licensed to CME Index Services LLC. All other trademarks are the property of their respective owners.

#### **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, implementation and maintenance 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, including our ability to provide effective services to the over-the-counter market;

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

our ability to generate revenues from our processing services;

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

our ability to expand and offer our products outside the United States;

changes in domestic and non-U.S. regulations;

changes in government policy, including policies relating to common or directed clearing and changes as a result of legislation stemming from the implementation of the Dodd-Frank Act;

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;

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, including our ability to prevent errors and misconduct;

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

economic, political and market conditions, including the volatility of the capital and credit markets and the impact of economic conditions on the trading activity of our current and potential customers stemming from the financial crisis that began in 2008 and any other future crises;

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

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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 or user fee on futures and options on futures transactions and/or repeal of the 60/40 tax treatment of such transactions;

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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 our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 28, 2011 and Item 1A of this Report.



**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)

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 693.6	\$ 855.2
Marketable securities	55.0	50.2
Accounts receivable, net of allowance of \$1.3 and \$1.6	385.8	297.5
Other current assets (includes \$40.0 and \$0 in restricted cash)	178.9	146.1
Cash performance bonds and guaranty fund contributions	4,241.8	4,038.5
<b>Total current assets</b>	<b>5,555.1</b>	<b>5,387.5</b>
Property, net of accumulated depreciation and amortization of \$556.5 and \$512.9	812.8	786.8
Intangible assets trading products	17,040.5	17,040.5
Intangible assets other, net	3,379.1	3,453.3
Goodwill	7,985.4	7,983.6
Other assets (includes \$20.0 and \$0 in restricted cash)	816.3	394.4
<b>Total Assets</b>	<b>\$ 35,589.2</b>	<b>\$ 35,046.1</b>
<b>Liabilities and Shareholders Equity</b>		
Current Liabilities:		
Accounts payable	\$ 39.7	\$ 51.8
Short-term debt		420.5
Other current liabilities	241.2	270.4
Cash performance bonds and guaranty fund contributions	4,241.8	4,038.5
<b>Total current liabilities</b>	<b>4,522.7</b>	<b>4,781.2</b>
Long-term debt	2,105.8	2,104.8
Deferred tax liabilities, net	7,786.5	7,840.4
Other liabilities	201.1	191.5
<b>Total Liabilities</b>	<b>14,616.1</b>	<b>14,917.9</b>
Redeemable non-controlling interest	70.6	68.1
<b>Shareholders Equity:</b>		
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, 66,667 and 66,847 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively	0.7	0.7
Class B common stock, \$0.01 par value, 3 shares authorized, issued and outstanding		
Additional paid-in capital	17,244.9	17,277.7
Retained earnings	3,448.6	2,885.8
Accumulated other comprehensive income (loss)	208.3	(104.1)

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Total Shareholders' Equity	20,902.5	20,060.1
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 35,589.2</b>	<b>\$ 35,046.1</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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Revenues</b>				
Clearing and transaction fees	\$ 687.8	\$ 684.2	\$ 1,379.1	\$ 1,262.2
Market data and information services	107.9	102.0	214.9	189.6
Access and communication fees	11.3	11.2	22.8	22.1
Other	31.3	16.5	53.1	33.2
<b>Total Revenues</b>	<b>838.3</b>	<b>813.9</b>	<b>1,669.9</b>	<b>1,507.1</b>
<b>Expenses</b>				
Compensation and benefits	117.5	103.1	239.8	201.9
Communications	10.8	10.9	20.7	21.0
Technology support services	13.4	12.7	25.4	24.9
Professional fees and outside services	30.7	25.2	61.4	56.4
Amortization of purchased intangibles	33.0	32.3	66.2	63.1
Depreciation and amortization	31.7	32.8	62.7	65.0
Occupancy and building operations	19.0	20.2	38.4	40.7
Licensing and other fee agreements	18.6	21.2	42.1	42.3
Other	29.1	40.4	54.6	62.0
<b>Total Expenses</b>	<b>303.8</b>	<b>298.8</b>	<b>611.3</b>	<b>577.3</b>
<b>Operating Income</b>	<b>534.5</b>	<b>515.1</b>	<b>1,058.6</b>	<b>929.8</b>
<b>Non-Operating Income (Expense)</b>				
Investment income	4.6	4.4	23.4	15.5
Gains (losses) on derivative investments			(0.1)	6.0
Interest and other borrowing costs	(28.7)	(37.9)	(58.8)	(69.3)
Equity in net losses of unconsolidated subsidiaries	(1.1)	(1.5)	(2.2)	(3.0)
<b>Total Non-Operating</b>	<b>(25.2)</b>	<b>(35.0)</b>	<b>(37.7)</b>	<b>(50.8)</b>
<b>Income before Income Taxes</b>	<b>509.3</b>	<b>480.1</b>	<b>1,020.9</b>	<b>879.0</b>
Income tax provision	213.7	208.9	268.2	367.6
<b>Net Income</b>	<b>295.6</b>	<b>271.2</b>	<b>752.7</b>	<b>511.4</b>
Less: net income attributable to redeemable non-controlling Interest	1.9	0.5	2.4	0.5
<b>Net Income Attributable to CME Group</b>	<b>\$ 293.7</b>	<b>\$ 270.7</b>	<b>\$ 750.3</b>	<b>\$ 510.9</b>

**Earnings per Common Share Attributable to CME Group:**

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Basic	\$ 4.40	\$ 4.13	\$ 11.23	\$ 7.75
Diluted	4.38	4.11	11.20	7.73
<b>Weighted Average Number of Common Shares:</b>				
Basic	66,759	65,582	66,808	65,906
Diluted	66,974	65,784	67,018	66,104

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)

	<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, 2010	66,847	3	\$ 17,278.4	\$ 2,885.8	\$ (104.1)	\$ 20,060.1
Comprehensive income attributable to CME Group:						
Net income attributable to CME Group				750.3		750.3
Change in net unrealized gain on securities, net of tax of \$82.6					228.0	228.0
Change in net actuarial loss on defined benefit plans, net of tax of \$1.0					(1.6)	(1.6)
Net change in derivative instruments, net of tax of \$0.2					0.4	0.4
Change in foreign currency translation adjustment, net of tax of \$14.3					85.6	85.6
Total comprehensive income attributable to CME Group						1,062.7
Dividends on common stock of \$2.80 per share				(187.5)		(187.5)
Repurchase of Class A common stock	(220)		(65.3)			(65.3)
Exercise of stock options	25		4.5			4.5
Excess tax benefits from option exercises and restricted stock vesting			0.5			0.5
Vesting of issued restricted class A common stock	4		(0.3)			(0.3)
Shares issued to Board of Directors	8		2.3			2.3
Shares issued under Employee Stock Purchase Plan	3		0.8			0.8
Stock-based compensation			24.7			24.7
<b>Balance at June 30, 2011</b>	<b>66,667</b>	<b>3</b>	<b>\$ 17,245.6</b>	<b>\$ 3,448.6</b>	<b>\$ 208.3</b>	<b>\$ 20,902.5</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, 2009	66,511	3	\$ 17,187.3	\$ 2,239.9	\$ (126.2)	\$ 19,301.0
Comprehensive income attributable to CME Group:						
Net income attributable to CME Group				510.9		510.9
Change in net unrealized gain on securities, net of tax \$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
Net change in derivative instruments, 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
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 CASH FLOWS**

(in millions)

(unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 752.7	\$ 511.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	24.7	18.9
Amortization of purchased intangibles	66.2	63.1
Depreciation and amortization	62.7	65.0
Credit Market Analysis Limited impairment		20.5
Net accretion of discounts and amortization of debt financing costs	3.0	2.4
Gain on sale of Index Services assets	(9.8)	
Equity in net losses of unconsolidated subsidiaries	2.2	3.0
Deferred income taxes	(151.7)	(17.8)
Change in assets and liabilities:		
Accounts receivable	(88.0)	(65.0)
Other current assets	(28.5)	16.8
Other assets	(20.5)	(13.9)
Accounts payable	(12.4)	(8.2)
Income tax payable	(6.9)	15.2
Other current liabilities	(24.1)	32.2
Other liabilities	6.8	7.2
Other	(0.3)	(1.7)
<b>Net Cash Provided by Operating Activities</b>	<b>576.1</b>	<b>649.1</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from maturities of available-for-sale marketable securities	5.8	6.1
Purchases of available-for-sale marketable securities	(5.1)	(5.1)
Purchases of property, net	(88.4)	(53.8)
Cash acquired from Index Services		5.4
Proceeds from sale of Index Services assets	18.0	
Proceeds from Chicago Board Options Exchange exercise right privileges		39.7
Other	(0.5)	
<b>Net Cash Used in Investing Activities</b>	<b>(70.2)</b>	<b>(7.7)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds (repayments) of commercial paper, net		(99.9)
Proceeds from other borrowings, net of issuance costs		608.0
Repayment of other borrowings	(420.5)	
Cash dividends	(187.5)	(151.5)
Repurchase of Class A common stock, including costs	(65.3)	(296.2)
Proceeds from exercise of stock options	4.5	4.9
Distribution paid to non-controlling interest		(607.5)
	0.5	3.1

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Excess tax benefits related to employee option exercises and restricted stock vesting		
Other	0.8	0.7
<b>Net Cash Used in Financing Activities</b>	<b>(667.5)</b>	<b>(538.4)</b>

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</b>	
	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
Net change in cash and cash equivalents	(161.6)	103.0
Cash and cash equivalents, beginning of period	855.2	260.6
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 693.6</b>	<b>\$ 363.6</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Income taxes paid	\$ 411.1	\$ 351.9
Interest paid	56.6	46.1
<b>Non-cash investing activities:</b>		
Change in net unrealized securities gains (losses)	310.6	15.1
Change in net unrealized derivatives gains (losses)	0.6	4.0
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 Holdings LLC, which owns 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, 2011 and December 31, 2010 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, 2010, filed with the Securities and Exchange Commission (SEC) on February 28, 2011. Certain reclassifications have been made to the 2010 financial statements to conform to the presentation in 2011.

**2. Intangible Assets and Goodwill**

Intangible assets consisted of the following at June 30, 2011 and December 31, 2010:

<i>(in millions)</i>	June 30, 2011			December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
<b>Amortizable Intangible Assets:</b>						
Clearing firm, market data and other customer relationships <sup>(1)</sup>	\$ 3,071.9	\$ (346.2)	\$ 2,725.7	\$ 3,081.0	\$ (292.3)	\$ 2,788.7
Lease-related intangibles	83.2	(39.4)	43.8	83.2	(33.5)	49.7
Technology-related intellectual property	56.2	(23.0)	33.2	51.3	(17.8)	33.5
Other <sup>(2)</sup>	11.6	(9.7)	1.9	15.1	(11.8)	3.3
	3,222.9	(418.3)	2,804.6	3,230.6	(355.4)	2,875.2
Foreign currency translation adjustments	(7.6)	4.5	(3.1)	(8.7)	4.3	(4.4)
Total amortizable intangible assets	\$ 3,215.3	\$ (413.8)	2,801.5	\$ 3,221.9	\$ (351.1)	2,870.8
<b>Indefinite-Lived Intangible Assets:</b>						
Trade names			578.0			582.9
Foreign currency translation adjustments			(0.4)			(0.4)
Total intangible assets other, net			\$ 3,379.1			\$ 3,453.3
Trading products <sup>(3)</sup>			\$ 17,040.5			\$ 17,040.5

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- (1) In the second quarter of 2011, the company sold its rights in certain Index Services customer relationships. The net book value of these assets at the time of the sale was \$8.2 million.
- (2) At June 30, 2011 and December 31, 2010, other amortizable intangible assets consisted of service and market maker agreements and a definite-lived trade name.
- (3) Trading products represent futures and options products acquired in our business combinations with CBOT Holdings and NYMEX Holdings. Clearing and transaction fees revenues are generated through the trading of these products. These trading products, most of which have traded for decades, require authorization from the Commodity and Futures Trading Commission (CFTC). Product authorizations from the CFTC have no term limits.

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Total amortization expense for intangible assets was \$33.0 million and \$32.3 million for the quarters ended June 30, 2011 and 2010, respectively. Total amortization expense for intangible assets was \$66.2 million and \$63.1 million for the first six months of 2011 and 2010, respectively. As of June 30, 2011, the future estimated amortization expense related to amortizable intangible assets is expected to be:

(in millions)

Remainder of 2011	\$ 65.8
2012	126.4
2013	120.3
2014	118.6
2015	114.7
2016	109.3
Thereafter	2,146.4

Goodwill activity consisted of the following for the six months ended June 30, 2011 and the year ended December 31, 2010:

(in millions)	Balance at December 31, 2010	Business Combinations	Impairment Adjustment	Other Activity <sup>(4)</sup>	Balance at June 30, 2011
CBOT Holdings, Inc.	\$ 5,035.7	\$	\$	\$	\$ 5,035.7
NYMEX Holdings, Inc.	2,462.3			(0.1)	2,462.2
Index Services	435.6			(0.5)	435.1
Other	50.0			2.4	52.4
<b>Total Goodwill</b>	<b>\$ 7,983.6</b>	<b>\$</b>	<b>\$</b>	<b>\$ 1.8</b>	<b>\$ 7,985.4</b>

(in millions)	Balance at December 31, 2009	Business Combinations	Impairment Adjustment	Other Activity <sup>(4)</sup>	Balance at December 31, 2010
CBOT Holdings, Inc.	\$ 5,035.7	\$	\$	\$	\$ 5,035.7
NYMEX Holdings, Inc.	2,463.1			(0.8)	2,462.3
Index Services		435.6			435.6
Other	50.4	21.1	(19.8)	(1.7)	50.0
<b>Total Goodwill</b>	<b>\$ 7,549.2</b>	<b>\$ 456.7</b>	<b>\$ (19.8)</b>	<b>\$ (2.5)</b>	<b>\$ 7,983.6</b>

(4) Other activity includes adjustments to restructuring costs and tax contingencies for NYMEX Holdings, Inc. and the recognition of excess tax benefits upon exercise of stock options assumed for NYMEX Holdings, Inc. It also includes adjustments to the preliminary purchase price allocation for Index Services and foreign currency translation adjustments. The company conducts impairment testing of goodwill and indefinite-lived intangible assets at least annually.

During the second quarter of 2010, the company recorded a \$19.8 million impairment charge to reduce the carrying amount of Credit Market Analysis, Ltd. (CMA) goodwill to its estimated fair value.

**3. Debt**

Short-term debt consisted of the following at June 30, 2011 and December 31, 2010:

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<i>(in millions)</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Term loan due 2011, interest equal to 3-month LIBOR plus 1.00%, reset quarterly <sup>(1)</sup>	\$	\$ 420.5
Total short-term debt	\$	\$ 420.5

(1) 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. This interest rate swap agreement was terminated in January 2011 when the term loan was repaid.

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Long-term debt consisted of the following at June 30, 2011 and December 31, 2010:

<i>(in millions)</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
\$750.0 million fixed rate notes due August 2013, interest equal to 5.40%	\$ 748.9	\$ 748.6
\$750.0 million fixed rate notes due February 2014, interest equal to 5.75%	747.6	747.1
\$612.5 million fixed rate notes due March 2018, interest equal to 4.40% <sup>(2)</sup>	609.3	609.1
Total long-term debt	\$ 2,105.8	\$ 2,104.8

(2) 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.

Commercial paper notes with an aggregate par value of \$1.0 billion and maturities ranging from 1 to 33 days were issued during the first six months of 2011. There was no commercial paper outstanding at December 31, 2010 or June 30, 2011. During the first six months of 2011 and 2010, the weighted average balance, at par value, of commercial paper outstanding was \$61.8 million and \$168.2 million, respectively. In the first six months of 2011, the maximum month-end balance for commercial paper was \$200.0 million in January. In the first six months of 2010, the maximum month-end balance was \$300.0 million in February and March.

Long-term debt maturities, at par value, were as follows as of June 30, 2011:

<i>(in millions)</i>	
2012	\$
2013	750.0
2014	750.0
2015	
2016	
Thereafter	612.5

The fair values of the fixed rate notes due 2013 and 2014 were 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, 2011, the fair values of the fixed rate notes by maturity date were as follows.

<i>(in millions)</i>	<b>Fair Value</b>
\$750.0 million fixed rate notes due August 2013	\$ 817.3
\$750.0 million fixed rate notes due February 2014	833.0
\$612.5 million fixed rate notes due March 2018	634.2

**4. Income Taxes**

The company's effective tax rate decreased to 26.3% in the first six months of 2011 from 41.8% in the first six months of 2010. The effective tax rate decreased by 11.6% due to a tax benefit of \$118.1 million resulting from a change in state tax apportionment in the first quarter of 2011. This change resulted in a reduction in the income tax provision primarily due to a revaluation of existing deferred tax liabilities. The effective tax rate also decreased by 4.8% due to a \$48.8 million reduction in valuation allowances on unrealized capital losses previously reserved. The company began marking-to-market its investment in BM&FBOVESPA S.A. (BM&FBOVESPA) in the first quarter of 2011 which resulted in

the reversal of these unrelated valuation allowances.

Also, the company reversed a valuation allowance of \$64.3 million related to its investment in BM&FBOVESPA, which increased accumulated other comprehensive income (loss) in the first quarter of 2011. The valuation allowance was reversed because the company began marking-to-market its investment in BM&FBOVEPA in the first quarter of 2011.

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*Legal Matters.* In 2008, Fifth Market filed a complaint against CME Group and CME seeking a permanent injunction against CME's Globex system and unquantified enhanced damages for what the plaintiff alleges is willful infringement of two U.S. patents, in addition to costs, expenses and attorneys' fees. The matter has been stayed pending the outcome of a reexamination of one of the patents at issue by the U.S. Patent and Trademark Office (USPTO). 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 2009, CME and CBOT filed a complaint against Howard Garber seeking a declaratory judgment that neither CME nor CBOT infringed Mr. Garber's patent and that his patent is invalid and unenforceable. In 2009, Technology Research Group LLC, the current owner of the patent at issue, filed counterclaims alleging that CME and CBOT willingly infringe or induce or contribute to the infringement of its patent. Technology Research is seeking damages in the amount no less than a reasonable royalty. Trial was originally set for June 2011. The matter has been dismissed without prejudice with right to reinstate pending reexamination of the patent at issue by the USPTO and all settlement possibilities are evaluated. 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 2009, Realtime Data LLC filed a complaint against CME Group and other exchanges alleging willful infringement of four patents which, was later amended to add CBOT and NYMEX as defendants. Subsequently, two additional lawsuits have been filed each adding a claim for the infringement of an additional patent. Both of these lawsuits have been consolidated with the original action. Realtime Data is seeking a permanent injunction, unquantified enhanced damages, attorneys' fees and costs. Discovery in this matter is in the early stages. The Court of Appeals for the Federal Circuit has ordered that the case be transferred to the Southern District of New York. Realtime has requested reconsideration of the transfer. The case is currently stayed pending the Federal Circuit's decision on the request for reconsideration. 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.

The foregoing legal matters involve alleged infringements of intellectual property, which due to their nature involve potential liability that is uncertain, difficult to quantify and involve a wide range of potential outcomes. The company believes that the matters are without merit and intends to defend itself vigorously against the claims. We expect the reexaminations by the USPTO in the Fifth Market and Garber matters to result in a determination of the validity of the patents at issue which we expect will have an impact on the merits of the matters. Given the uncertainty of the potential outcome of the reexaminations, at this time the company is unable to estimate the reasonably possible loss or range of reasonably possible loss in the unlikely event it were found to be liable at trial in these matters. In the Realtime matter, no estimate of our reasonably possible loss or range of reasonably possible loss may be made at this time because the damages sought in the proceeding have not been quantified or substantiated and the discovery phase of the matter is in the early stages.

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 on an individual basis or in the aggregate will not have a material impact on its consolidated financial position or results of operations.

*Regulatory Matters.* In the normal course of business, the company discusses matters with its regulators raised during regulatory examinations or otherwise subject to their inquiry and oversight. These matters could result in censures, fines, penalties or other sanctions. Management believes the outcome of any resulting actions will not have a material impact on its consolidated financial position or results of operations. However, the company is unable to predict the outcome or the timing of the ultimate resolution of these matters, or the potential fines, penalties or injunctive or other equitable relief, if any, that may result from these matters.

*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 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.



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### **6. Guarantees**

*CME Clearing Contract Settlement.* CME marks-to-market open positions for most products 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. For select cleared-only markets, positions are marked-to-market once 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 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 guaranty fund balances as well as other available resources. During the first six months of 2011, CME transferred an average of approximately \$2.8 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 guaranty fund contributions. The company believes that its guarantee liability is immaterial and therefore has not recorded any liability at June 30, 2011.

*Mutual Offset Agreement.* CME and Singapore Exchange Limited (SGX) have a mutual offset agreement with a current term through October 2011. 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, 2011, 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 guaranty fund contributions of the defaulting clearing firm.

*Cross-Margin Agreements.* CME and The 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 FICC. Additionally, 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 house to the extent that it has a remaining liquidating deficit. Any remaining surplus funds would be passed to the bankruptcy trustee.

*GFX Corporation Letter of Credit.* CME guarantees a \$15.0 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. Based on exchange requirements, GFX is required to place performance bond deposits with its clearing firm. The letter of credit, utilized as a 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.

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

Total expense for stock-based payments, including shares issued to the board of directors, was \$25.6 million and \$20.1 million for the six months ended June 30, 2011 and 2010, respectively. The total income tax benefit recognized in the consolidated statements of income for stock-based payment arrangements was \$10.1 million and \$8.0 million for the six months ended June 30, 2011 and 2010, respectively.

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In the first six months of 2011, the company granted employees stock options totaling 6,172 shares under the CME Group Omnibus Stock Plan. The options have a ten-year term with exercise prices ranging from \$271 to \$286 per share, the closing market price on the dates of grant. The fair value of these options totaled \$0.6 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 of four years. The Black-Scholes fair values of the option grants were calculated using the following assumptions: dividend yields ranging from 2.0% to 2.1%; expected volatility ranging from 41% to 42%; risk-free interest rates ranging from 2.0% to 2.4% and an expected life of 6.3 years. The grant date weighted average fair value of options granted during the first six months of 2011 was \$100 per share.

In the first six months of 2011, the company granted 8,521 shares of restricted Class A common stock which generally have a vesting period of two to four years. The fair value of these grants was \$2.4 million, which is recognized as compensation expense on an accelerated basis over the vesting period. In the first six months of 2011, the company granted 5,542 performance shares. The vesting of these shares is contingent on meeting stated goals over a performance period, beginning in June 2011 and ending in December 2014.

**8. Accumulated Other Comprehensive Income (Loss)**

In December 2008, an unrealized loss of \$81.7 million, net of tax, resulting from changes in foreign currency exchange rates, was recorded in accumulated other comprehensive income (loss) upon recognizing impairment on the company's investment in BM&FBOVESPA. Prior to February 2011, this investment was recorded at cost due to restrictions on the sale of the stock. The company began marking-to-market its investment in BM&FBOVESPA in February 2011 because these restrictions will lapse in February 2012, with changes in unrealized gains (losses) recorded in accumulated other comprehensive income (loss). During the first six months, the company recognized an unrealized gain on securities of \$227.3 million, net of tax, and reversed the unrealized loss of \$81.7 million, net of tax, attributable to currency translation adjustments recorded in December 2008.

**9. Fair Value Measurements**

The company uses a three-level classification hierarchy 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. The level 2 marketable securities were measured at fair value based on matrix pricing using prices of similar securities with similar inputs such as maturity dates, interest rates and credit ratings. There were no level 3 assets that were valued on a recurring basis as of June 30, 2011. In addition, there were no liabilities valued at fair value on a recurring basis.

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Financial assets recorded in the consolidated balance sheet as of June 30, 2011 were classified in their entirety based on the lowest level of input that was significant to each asset's fair value measurement.

**Financial Instruments Measured at Fair Value on a Recurring Basis:**

**At June 30, 2011**