**Q210 Earnings Call Prepared Remarks**
**July 29 7:30am CT**

**<u>John</u>**

Thank you for joining us. Craig Donohue, our CEO, and Jamie Parisi, our CFO, will spend a few minutes outlining the highlights of the second quarter and then we will open up the call for your questions. Terry Duffy, our executive chairman, is here as well.

Before they begin, I'll read the safe harbor language. Statements made on this call, and in the accompanying slides on our Web site, that are not historical facts are forward-looking statements. 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. More detailed information about factors that may affect our performance may be found in our filings with the SEC, including our most recent Forms 10-K and 10-Q, which are available in the Investor Relations section of the CME Group Web site.

During this call, we will refer to a few non-GAAP figures. A reconciliation of both the non-GAAP EPS and non-GAAP effective tax rate to the respective GAAP figures is available in our press release at the end of the financial statements.

Now, I would like to turn the call over to Craig.

**Craig**

- Thank you for joining us.

- CME Group showed strong performance in the second quarter of 2010, with net income of $271 million, up 13 percent sequentially, on revenues of $814 million, up 17 percent sequentially.

- This strong performance, our best ever on a GAAP basis, was driven by positive volume trends across all asset classes, with overall average daily volume of 13.5 million contracts, up 31 percent from Q209 and up 17 percent from Q110. We had record revenue quarters in energy, foreign exchange, and agricultural products. Additionally, interest rate revenues were up 29 percent from the second quarter last year and up 19 percent sequentially, and equity and metals volume and revenue also were strong for the quarter.

- As we've moved into July, we have experienced normal seasonal patterns, although it is worth pointing out that July ADV of 10.7 million contracts is up 11 percent versus July of last year, and is 400,000 contracts per day higher than any quarterly ADV last year. Finally, volume across our 6 product areas is up for July compared to the same month last year.

- Looking at drivers of our performance, sovereign debt issues in Europe were obviously a catalyst for second quarter volumes. The stabilization we've seen since the peak of the crisis, as indicated by the plateauing of the LIBOR-OIS spread since May 25th, among other factors, reflects favorably on the market's ability to absorb shocks in the short term and on the ability of local industry participants and central banks to recognize and attempt to resolve critical issues.

- Partially related to the European crisis, the market shifted its Fed rate hike expectations. We have seen an associated shift in Eurodollar volumes, with those Eurodollar futures expiring twelve to eighteen months from now contributing approximately 13 percent of overall Eurodollar futures volume in July, up from 10 percent of the total in the first and second quarters.

    - We've highlighted before that Eurodollar products tend to be most heavily traded during periods with varying market expectations for rate changes. We expect Eurodollar volume to be challenged over the next few months in the current policy environment, though the markets continue to reflect positively in key measures of market health, including depth of book and bid-ask spreads, when compared to last year. In addition, our customer base remains strong and active in all of our markets.

- CME Group energy products had an exceptional quarter, with record revenue and volumes. With volatility increasing due to ongoing forecasts for strong crude oil demand, coupled with European instability, our WTI product suite was a strong driver of this performance, posting record volumes of 977,000, up 52 percent from Q209 and up 25 percent from a robust first quarter. Refined products, including heating oil and gasoline, also had record volumes for the quarter. Energy volumes in July have shown a typical seasonal slowdown, but we believe that our products in this area will continue to perform very well over the long term.

- I mentioned before that we had record revenues in our FX product line as well, and that was of course somewhat related to the European crisis. While cyclical factors may have impacted the second quarter volumes, we strongly believe there are many longer running, structural trends in those markets that have been, and continue to be, very positive for CME Group FX.

- Based on the available data, one of these trends is an ongoing shift from OTC markets to CME's exchange-traded products following the credit crisis. Our team has worked diligently to position CME Group to take advantage of such structural shifts in the FX marketplace, and the volume trends over the past year show our success. CME's April volume was up 87 percent compared to the prior year, while in the OTC markets, as measured by preliminary regional data submitted to BIS, FX trading in the UK was up 31 percent for the same time period, activity in Japan was up 16 percent and activity in the US was up 43 percent - clearly demonstrating that we are picking up share as we outpace the growth of the overall markets. As a side note, we're referencing April statistics there because that is the most recent data that is available on those global markets, but CME FX has had strong growth since then as well, with July up 37 percent from the prior July. We believe our FX team has built an exceptional platform for future growth opportunities.

- With that, I'll switch gears a little and talk about one of those future opportunities in FX, and that is a new product we worked with our colleagues at Dow Jones Indexes to launch. As planned, we've combined the Dow Jones indexing capability with the derivatives expertise and deep customer connections at CME Group.  One of the early results of these efforts is FX$Index Futures, a contract that will provide a tool for trading the relative value of the US Dollar against a basket of major currencies, weighted based on current Fed data. The weighting methodology is unique to CME, and we believe it creates a strong competitive differentiator. It provides our customers with an efficient means for using the deeply liquid component currency futures of the index to dynamically hedge against FX$Index futures, and with our Globex distribution to FX market participants, this will be available to a broad, international audience. The product launched on Monday, and we are actively working on promoting this to our customers.

- Additionally, our teams worked together to bring the Dow Jones Long-Term Inflation Index to market on July 15th, which uses the CME Ultra-Long Treasury Futures as an underlying component, along with long-term Treasury Inflation-Protected Securities.  Like many of our product ideas, this product was developed based on customer input, and given the strong uptake on the Ultra-Long Treasury Futures, we know that market interest in longer duration products is very high.

- We continue to explore other joint product development and global expansion opportunities, and we'll look forward to updating you in the future on our progress here.

- We did a fairly deep dive last quarter on our international growth strategy, and we feel very positive about the work we're currently doing to build the path for future success. As you can see in our slide, in our core business, Globex volumes during non-US hours saw strong growth, with volumes during European hours up 78 percent and volumes during Asian hours up 76 percent from Q2 2009. Volume from international telecommunications hubs grew 68 percent compared to the same quarter a year ago, and represented 13 percent of overall Globex volume, up from 11 percent a year ago.

- I also want to take some time today to discuss our views on capital structure. Over the last few years we have received valuable input from our shareholders on this important topic.

- We recently completed an internal assessment of our five-year strategy. We've successfully integrated the CBOT and NYMEX acquisitions and with those assets in place, we believe we have a solid foundation to drive continued organic growth. In the near term, we do not foresee the need for additional large-scale M&A transactions to drive growth. Based on our projections, we anticipate being very well positioned to return excess cash to shareholders as early as next year. In the past we've returned cash to our shareholders through regular quarterly dividends, special dividends, and share buybacks, all of which we will thoroughly analyze as options for future return of cash.

- One of the results from our plan has been the establishment of capital structure guiding principles, which you can see on the next slide. First, we intend to maintain a target level of cash to meet working capital requirements and our clearing house commitment. We anticipate a minimum cash level of approximately $500 million, and success in our OTC initiatives would cause this amount to scale. Second, as we've stated in the past, our intention is to target a high investment grade credit rating to demonstrate our solid financial position as a leader in the exchange and clearing industry. Third, we intend to pay a stable to growing dividend, and our board will assess that on an ongoing basis. Fourth, we have taken on debt, primarily related to the NYMEX transaction, and we intend to maintain a permanent, prudent level of debt. Lastly, we intend to return excess capital in the form of dividends and share repurchases, as I mentioned earlier.

- Finally, I would like to share a few thoughts with you on the regulatory environment. We know that a key focus for our investors has been the ongoing developments in financial regulation, and we are fully supportive of the efforts made by all involved to bolster the soundness of the financial system. The passage of the Dodd-Frank Act reinforces the critical underpinnings of CME Group's markets: transparency and security. We've spent a lot of time in Washington over the years highlighting the value of our markets, and we will continue our efforts with politicians, regulators and market participants as the rule making process ensues. Throughout the rule making process and in the time frame following the adoption of new rules, we will be focusing very intensely on ensuring smooth implementation and providing maximum support to our customers.

- In regards to direct, quantifiable impacts to CME Group, we believe it is directionally positive. We look forward to engaging with our customers and regulators during the rule making progress and in the long term, returning to what we do best: providing safe and secure, liquid and transparent markets for market participants.

- In conclusion, CME Group had strong results in the second quarter, and more importantly we have continued to build a very strong base for future growth of our business. We have gotten where we are because of our focus on serving our customers, whether during times of high market volatility or times of sweeping change. As global financial markets evolve in the coming future, we are well positioned to offer critical risk management products for our customers.

- With that, I'll turn the call over to Jamie.

**Jamie**

- Thank you Craig.

- Before I dive into the financials, I just wanted to note that the comments and comparisons I will be making today will exclude the impacts of the Credit Markets Analysis (CMA) impairment discussed in the press release.

- CME Group turned in a strong second quarter financial performance, with average daily volume of 13.5 million contracts per day, up 31 percent from Q2 last year, and revenue of $814 million, up 26 percent from last year. From a GAAP perspective, this is the highest level of quarterly revenue we have delivered, and only $3 million below Q1 of 08 assuming we had owned the NYMEX business at that point. We delivered $536 million of operating income and diluted earnings per share of $4.43, excluding CMA. From Q1 to Q2, our revenue grew $121 million, while our expenses grew only $10 million excluding the onetime Dow Jones transaction expense incurred in Q1.

- The overall rate per contract for all CME Group volume decreased 4 percent to 79.0 cents, compared with 82.3 cents in the second quarter 2009. So, average daily volume was up 31 percent, while the average rate was down 4 percent. The main driver of the year over year rate decrease was our member/non-member mix. Our lower fee member volume grew 35 percent, while non-member volume grew at 19 percent. Sequentially, the rate per contract also dropped 4 percent, primarily driven by a large increase in interest rate volumes, our lowest rate product, from 5.1 million contracts per day in Q1 to 6.1 million contracts per day in Q2.

- Market data revenue of $102 million for the quarter was up 17 percent compared to Q1. This increase is due to the inclusion of a full quarter of CME Group Index Services revenue. At the end of the second quarter, users of CME, CBOT and NYMEX data subscribed to 385,000 base devices. This count was down only 1,000 screens from the prior quarter, representing some stabilization relative to the trend we have seen since the credit crisis.

- I'll now take a few minutes to review expenses.

- Drilling into Q2 expenses, compensation and benefits was $103 million, up $4 million from the prior quarter. This increase was attributable to an increase in our bonus accrual due to strong cash earnings performance. Our combined headcount at the end of Q2 stood at 2,460, an increase of 50 people during the second quarter.

- We reiterate our full year expense guidance of $1.13 to $1.14 billion, excluding the CMA impairment, which implies second half expense of $573 to $583 million.

- Q2 operating income was $536 million, the high water mark since Q1 of 2008. For the second quarter, our operating margin was 66 percent.

- In the non-operating income and expense category, on the investment income line, we recorded $5.5 million in dividend, down $4 million versus Q1. Also, interest expense increased due to the full quarter impact of the $613 million of additional debt we incurred for the Dow Jones transaction. In the second quarter, we paid down $300 million of commercial paper, bringing our total debt to $2.8 billion. We will be paying down our next maturity in August, bringing our debt down to $2.5 billion and our debt to EBITDA ratio to approximately 1.3X. A detailed illustration of our debt structure is included in our earnings slides.

- During the second quarter, we repurchased 46,000 CME Group shares. In addition, during the month of July, we repurchased more than 1 million shares of CME Group stock totaling $279 million at an average price of $272 per share. As part of our announced transaction with BM&F/BOVESPA, we issued to them 2.2 million CME Group shares on July 16, and received $607 million. So, we have nearly offset the dilution associated with the share issuance. As Craig mentioned earlier, longer term, we plan to return excess capital to shareholders in an efficient way, beginning as early as next year.

- For the quarter, our effective tax rate was 41.7 percent, excluding the CMA impairment. For the full year 2010, we expect an effective rate of between 41 and 42 percent, on a GAAP basis.

- Capital expenditures, net of leasehold improvement allowances, totaled $28 million in the second quarter, driven primarily by hardware and software attributed to migration of trading systems to our new data center, as well as continued build out in our office facilities. Our full year guidance remains at $180 to $200 million, with data center and facility build out continuing in the second half of the year.

- Turning to recent volumes, so far in July, we are seeing normal summer trends as Craig mentioned, and our average daily volume is 10.7 million contracts per day, up 11 percent compared with the same timeframe last year, and still at least 400,000 contracts per day higher than any quarter in 2009.
- So, in summary, the second quarter was tremendous. We excelled on the top line and delivered virtually all of the incremental revenue to the bottom line. We look forward to leveraging our platform like this in the future and delivering profitable growth.

♦ We will now open up the call for your questions. In order to get to everyone, we are limiting all of you to one question and one follow up, and then please feel free to get back in the queue if time permits.

*Statements in this document that are not historical facts are forward-looking statements. 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. 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 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; 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; 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 current 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 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 the repeal of the 60/40 tax treatment of such transactions; the unfavorable resolution of material legal proceedings and the seasonality of the futures business. More detailed information about factors that may affect our performance may be found in our filings with the Securities and Exchange Commission, including our most recent periodic reports filed on Form 10-K and Form 10-Q, which are available in the Investor Relations section of the CME Group Web site. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.*