Q309 Earnings Call Prepared Remarks

John

Thank you for joining us. Craig Donohue, our CEO, and Jamie Parisi, our CFO, will spend a few minutes outlining the highlights of the third quarter, and then we will open up the call for your questions. Also joining us for participation in the Q&A session are Terry Duffy, our Executive Chairman, Rick Redding, our head of products and services, Kim Taylor, President of our clearing house, and Phupinder Gill, our President.

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 GAAP and non-GAAP pro forma results. A reconciliation is available in our press release, and there is an accompanying file on the investor relations portion of our Web site that provides detailed quarterly information on a GAAP and pro forma basis.

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

Craig

- Thank you for joining us today.

- During the third quarter, we saw increasing stability in the macroeconomic climate as evidenced by multiple factors. The LIBOR-OIS spread has further tightened to its lowest level in almost two years, indicating a lower risk premium on credit due to greater economic stability. Long term fund flows continue to move into mutual funds, primarily fixed income products. Hedge fund assets under management rose for the second consecutive quarter, and hedge funds' net asset flow was positive for the first quarter this year. Finally, after extremely reduced activity in the third and fourth quarters of 2008, mortgage originations have shown sharp upturns in every quarter this year. While many of these metrics are below historical highs, the sustained nature of the trends as well as the indication that market participants are seeking higher risk and return, are promising for the overall economy and for CME Group's business.

- CME Group's volume also demonstrates areas of stability and improvement. Third quarter overall average daily volume was 10.1M contracts and, exploring the details by product area, there are some promising trends. Additionally, October average daily volume of approximately 10.7M contracts will be the best non-roll month volume of the year, and Open Interest is currently up 18% from year-end 2008 in the combined CME, CBOT and NYMEX product lines.

- The Interest Rate complex posted its highest quarterly volume since Q308, with average daily volume of 4.4M contracts. Within Interest Rates, Eurodollars continue to see growing activity in contracts in the second and third year of the yield curve. In the third quarter, these contracts contributed 53% of overall Eurodollar futures volume, versus 44% for the same quarter a year ago.

- Changing expectations around interest rates are a key driver of CME Group's interest rate volumes, and this shift in Eurodollar activity indicates that market participants see more likelihood for changing interest rates further out on the calendar than in the near term, which is in line with the current Federal Reserve policy and with prevailing economists' views on the timing of potential Fed moves. While we certainly are not in the business of trying to predict interest rate moves, we highlight this volume trend as one example of how interest rate expectations affect CME Group's volumes.

- Another metric impacting interest rates that we closely follow is cash market penetration of Treasury futures. Our Treasury complex has shown growing cash market penetration, or Treasury futures activity as a percent of cash Treasury trading activity, over the course of 2009, ending the quarter at 56%, up from 53% at the end of the second quarter and from 46% at the end of December. Increased cash market penetration at a time of heightened Treasury issuance positions CME Group well to capture hedging activity when interest rate expectations start to shift.

- Energy volume in the third quarter was in line with year-to-date average daily volume of 1.5M contracts; however, on a revenue basis, the energy complex generated $161M, which is up 11% from the prior quarter and is a record for quarterly revenue. Both crude oil and natural gas revenues were up from recent quarters.

- FX also had its highest quarterly volume of the year, trading 660,000 contracts per day, and October volume is also strong at 700,000 contracts per day.

- The equities complex traded 2.7M contracts per day in the third quarter, down 11% from the prior quarter. This shift is primarily due to cyclical impacts from decreased volatility in this asset class, which are affecting other equity index futures and options globally.

- We are pleased to see ongoing results from globalization efforts. One measurable example of these efforts is our international incentive program or "IIP", a program that provides fee incentives for higher volume participation by international customers. NYMEX energy products were added to the program in April. Since then, we have seen average daily volume in energy products traded through the IIP increase from 9,000 in April to 42,000 in September. This activity highlights the success of our globalization efforts, and we look forward to continuing to build on the strong performance to date, especially with the addition of COMEX metals products to the program in the first half of 2010.

- Looking beyond product performance to our customer segmentation, we saw numbers for the third quarter largely in line with the August and September detail provided at our recent Investor Day. Proprietary buy side traders contributed 43% of overall volume. Hedge funds accounted for 7% of volume, showing a slight increase in contribution for the second quarter in a row. Bank proprietary trading accounted for 14% of volume, other member activity, 20%, and non-member activity, 16%. This segmentation is for legacy CME/CBOT products only.

- Overall, though volumes continue to be challenged, we are pleased with the volume activity in relation to macroeconomic conditions and we believe that the ongoing signs of economic recovery will continue to exert potential positive influences on CME Group's volume.

- I'd now like to discuss CME Group's strategic accomplishments in the quarter.

- NYMEX integration continues to progress on schedule, with the full clearing integration completed in early October. Equally important, the cultures, employees and strategic goals of the two firms are meshing well, and as a combined company, we are emerging from the integration and building phase with a highly talented, dedicated staff that is able to bring expertise, vision and scalability to all of our growth initiatives.

- Beyond the ongoing efforts to promote, expand and cross-sell our core exchange-traded business, a key focus for CME Group is our OTC efforts. We continue to make excellent progress on these, with a target date of year end for participants in the CDS buy side pilot program to begin clearing. Efforts in cleared interest rate swaps and FX also continue to advance.

- In September, we signed an agreement with Bursa Malaysia, under which we will provide Globex order routing and matching services for their derivatives business. Additionally, CME Group will get a license to use their settlement prices for the development of a CME-listed crude palm oil futures contract. This partnership, with others such as BM&F Bovespa in Brazil, will help further CME's strategic goals of increased global distribution and product expansion.

- Following the CFTC's approval of the IBovespa index for US-based trading accounts in late August, BM&F Bovespa North-to-South order routing saw 85,000 contract sides trade in September and 144,000 contract sides trade in October to date. On October 27th, volume reached an all time record of 219,000 contract sides. The percent of BM&F Bovespa's total volume coming from North-to-South order routing was nearly 3% in September and continues to grow in October.

- For BM&F Bovespa, this partnership is bringing in completely new, incremental volume from a previously unreached customer set, which is US-based algorithmic traders. Over and above charging for transaction processing, CME Group, as the single largest shareholder, benefits from the stock price increases seen year to date as BM&F Bovespa grows the liquidity of its markets through this new arrangement.

- In addition to all of this, we have been working diligently on the regulatory front, providing input and feedback as legislators and regulators work through various financial reform proposals. There has been a significant amount of recent advancement in these efforts, and on the whole, we believe these outcomes to date contain net positive impacts for CME Group.

- First, a key conclusion of the SEC-CFTC harmonization report is that the futures and cash equities markets are indeed distinct in both product concept and in market function, and one-size-fits-all regulation is neither desirable nor appropriate. The areas where recommendations were made are largely technical and relatively modest in nature and can be enacted with minimal disruptions to the markets.

- Secondly, the bills passed out of the House Agriculture and Finance

Committees reflect considerable feedback from market participants and, with their focus on using the advantages of central counterparty clearing to reduce systemic risk, acknowledge the value of CME Group's model in the overall markets.

- Finally, the discussion of position limits in energy is ongoing, and CME Group continues to take an active role here. On this topic, the language in Chairman Peterson's bill that prevents the CFTC from placing hard position limits on regulated exchanges until they are simultaneously placed on the OTC market and foreign boards of trade, and the call for a CFTC study on the impacts of position limits, reinforce the views expressed in our recent white paper regarding the potential for inappropriate position limits to have unintended consequences.

- While we have not seen convincing evidence that factors other than fundamental supply and demand influenced commodity pricing, and while we are not in favor of position limits as a tool to manage price volatility, we are working closely with market participants and regulators to ensure that any action taken does not negatively affect the liquidity and efficiency of US markets.

- There are several more steps involved before any regulatory or legislative changes are made to any of the previously described issues, and timeframes will remain beyond our control. As we have for many years, we will continue to leverage our experience and relationships in Washington DC to both educate and inform key policy makers on the critical factors affecting our markets.

- In summary, during the third quarter, CME Group's core business showed stability and improving open interest trends. Financial reform efforts advanced and currently show minimal potential for negative impacts to CME Group and, in fact, are likely to be positive influences if enacted. Finally, we continued to invest strategically in, and see results in, global expansion and cleared over-the-counter efforts. All of these factors position CME Group well as the economy finds its ground post-credit crisis.

- With that, let me turn the call over to Jamie.

Jamie

- Thank you Craig.

- CME Group turned in a solid third-quarter financial performance, despite what is normally a seasonally slower July and August.

- Our GAAP results are summarized in the press release. Today, I'm going to focus on the details for Q3 on a pro forma basis, as if we owned NYMEX for all periods considered. On an after tax basis, the pro-formas also exclude a $19 million impairment charge related to IMAREX, which is outlined in the press release, $2 million of CBOT and NYMEX merger-related items, as well as the impact of earnings on deferred compensation balances.

- During Q3, **average daily volume** was down 23% compared to an extremely active third-quarter 2008, as a result of the credit crisis. **Expenses** were down 10 percent compared to the same quarter last year, and up slightly from the prior quarter this year.

- The **overall pro forma rate per contract** for all CME Group volume increased 6 percent to 83.4 cents, compared with 79.0 cents in third quarter 2008, primarily due to our energy and metals increasing from 13% of total a year ago to 17% this quarter.

- Sequentially, the rate per contract increased 1.1 cents from 82.3 cents due mainly to an increase in our ClearPort and energy rates driven by a lower percentage of low priced, PJM electricity contracts, which accounted for 16% of ClearPort volume, down from 21% the prior quarter. We also saw a slight benefit from the pricing changes implemented during the third quarter, which lifted the RPC by 3 tenths of a cent and from a higher percentage of FX and energy contracts in the product mix. Partially offsetting these positive rate shifts was a 0.6% increase in the member mix.

- **Market data revenue** of $81 million for the quarter, decreased eleven percent versus last year and is down one percent sequentially. At the end of the third quarter, users subscribed to 400,000 base devices across CME, CBOT and NYMEX, down 2 percent or 7,000 versus Q2 of this year, reflecting the impacts of reduced staffing at the larger banks. During the third quarter, one-time vendor audit assessments were about $700,000 higher than Q2 which resulted in revenue dropping only 1 percent sequentially. We have announced a professional screen fee increase from $55 to $61 per month beginning in January of 2010.

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

- **Total pro forma operating expenses** were $244 million for Q3, up $1 million sequentially and down 10 percent versus Q3 last year. We continued our significant efforts to capture the NYMEX synergies and reduce discretionary expenses where possible.

- Starting with our largest expense, **compensation and benefits** was down $1 million sequentially to $84.5 million due primarily to lower stock based compensation. Our combined headcount at the end of Q3 stood at 2,250, basically flat with the prior quarter.

- Our third quarter **bonus expense** was $8.8 million, virtually flat relative to the second-quarter. **Stock based compensation** was $6.8 million in the third quarter, down $1.4 million from Q2 of this year. We moved our stock option grant date from mid-June to mid-September, and prior year grants rolled off in June resulting in lower Q3 expense. Based on our grant in September, we expect stock based compensation to increase by approximately $3 million to $10 million in the fourth quarter.

- **Non-compensation expenses** of $159 million were down $19 million versus last year and up $2 million sequentially. Comparing to the prior quarter, we had a decrease in our professional fees and outside services expense line which partially offset increases in Marketing and Other, along with several technology related lines, including depreciation, which increased following the startup of our new data center during the third quarter.

- We realized **NYMEX-related expense synergies** of $12.4 million in Q3 – or approximately $50 million annualized – and we are virtually complete in terms of the $60 million annual run-rate expense synergies we had identified at the time of the acquisition. We completed major milestones with the clearing integrations for metals in September and energy products in early October. We expect to be done with the NYMEX integration in the next few weeks.

- In terms of our **expectations for full year expenses**, based on volumes near current levels, we expect annual pro forma expenses to come in close to $1 billion, which is below the guidance we gave last quarter. Giving some further color on the fourth quarter, we expect compensation expense to jump due to the stock-based compensation increase I already mentioned. On **non-compensation expenses**, we expect an increase in technology lines based on the new data center, an increase in professional fees primarily due to the intensity of our OTC activity from a legal and consulting basis, and increases in marketing and other, with a significant amount of international travel and our ongoing efforts related to activity in Washington DC.

- Q3 pro forma **operating income** was $407 million, down 21 percent from the third-quarter last year and slightly higher than Q2. Our revenue was down 17 percent vs. the same quarter a year ago, while expenses dropped by 10 percent. As a result, we were able to maintain a very strong pro forma **operating margin** of 63 percent, down from Q3 of 08, and unchanged compared to last quarter.

- In the **non-operating income and expense category**, on the investment income line, we received a $4.8 million dividend from BM&F/Bovespa. They have recently updated their dividend policy, and going forward we expect them to pay a dividend each quarter, with the amount varying based on their performance.

- During the quarter, we paid down $450 million in **debt**. As of the end of the quarter, we had $2.5 billion of **debt**, and $300 million of cash and marketable securities.

- For the quarter, our pro forma **effective tax rate** was 41.4 percent –bringing us to 41.1 percent year to date.

- **Capital expenditures**, net of leasehold improvement allowances, totaled $28 million in the third quarter and $94 million year-to-date, driven primarily by data center, software, equipment, and facilities costs. We **expect full year 2009 Capex** to total approximately $140 million. This reflects a reduction from our previous guidance which is driven by a deferral of some data center spend and some office construction as well as lower capacity needs.

- So far in October, we are averaging 10.7 million contracts per day. This is higher than any first month of a quarter so far this year. Also, we expect to have positive growth versus October of last year in all of our commodity product lines, along with foreign exchange.

- In summary, as you can see from our results, we have been focused on expense discipline while continuing to invest in growth opportunities. Given the initiatives we are undertaking and the firming-up of the economic environment as highlighted by Craig, I am looking forward to a bright future for CME Group.

- As we reminded you last quarter, in order to get to everyone, we are limiting all of you to one question and one follow up, and then feel free to get back in the queue for an additional question if time permits. With this in mind, we'll now open up the call for your questions.

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: our ability to realize the benefits and control the costs of our merger with NYMEX Holdings, Inc. and our ability to successfully integrate the businesses of CME Group and NYMEX Holdings, including the fact that such integration may be more difficult, time consuming or costly than expected and revenues following the merger may be lower than expected and expected cost savings from the merger may not be fully realized within the expected time frames or at all; 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 continue 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, changes as a result of a harmonization of the regulation of the Securities and Exchange Commission and the U.S. Commodity Futures Trading Commission, or changes relating to the recently enacted or proposed legislation relating to the current economic crisis; 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 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; the unfavorable resolution of material legal proceedings, the seasonality of the futures business; and changes in the regulation of our industry with respect to speculative trading in commodity interests and derivatives contracts. 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.*