SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2003

OR

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

Commission File Number 001-31553

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	**36-4459170** **(IRS Employer Identification No.)**
20 South Wacker Drive, Chicago, Illinois **(Address of Principal Executive Offices)**	**60606** **(Zip Code)**

Registrant's telephone number, including area code: (312) 930-1000

Securities registered pursuant to Section 12(b) of the Act:

Title Of Each Class	**Name Of Each Exchange On Which Registered**
Class A Common Stock, Class A, $0.01 par value (including rights to acquire Series A Junior Participating Preferred Stock pursuant to our rights plan)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Class A common stock, Class A-1, $0.01 par value; Class A common stock, Class A-2, $0.01 par value; Class A common stock, Class A-3, $0.01 par value; Class A common stock, Class A-4, $0.01 par value; Class B common stock, Class B-1, $0.01 par value; Class B common stock, Class B-2, $0.01 par value; Class B common stock, Class B-3, $0.01 par value; and Class B common stock, Class B-4, $0.01 par value (in each case, including rights to acquire Series A Junior Participating Preferred Stock pursuant to our rights plan).

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2003 was approximately $2.2 billion (based on the closing price per share of Chicago Mercantile Exchange Holdings Inc. Class A common stock on the New York Stock Exchange on such date). The number of shares outstanding of each of the registrant's classes of common stock as of March 5, 2004 was as follows: 9,066,934 shares of Class A common stock, $0.01 par value; 5,859,639 shares of Class A common stock, Class A-1, $0.01 par value; 5,474,822 shares of Class A common stock, Class A-2, $0.01 par value; 6,434,907 shares of Class A common stock, Class A-3, $0.01 par value; 6,153,583 of Class A common stock, Class A-4, $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.

DOCUMENTS INCORPORATED BY REFERENCE:

Documents	Form 10-K Reference
Portions of the Company's Annual Report to Shareholders for the year ended December 31, 2003	Part II
Portions of the Company's Proxy Statement, dated March 11, 2004	Part III

PART I

In this Annual Report on Form 10-K, we refer to Chicago Mercantile Exchange Holdings Inc. as “CME Holdings” and to Chicago Mercantile Exchange Inc. as “CME.” The terms “we,” “us” and “our” refer to CME Holdings and CME.

From time to time, in written reports and oral statements, we discuss our expectations regarding future performance. For example, these “forward-looking statements” are included in this Annual Report on Form 10-K in “Item 1. Business,” among other places. 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 to not 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:

- economic, political and market conditions;
- changes in the level of trading activity, price levels and volatility in the derivatives markets and in underlying fixed income, equity, foreign exchange and commodities markets;
- changes in domestic and foreign regulations;
- changes in government policy, including interest rate policy and policies relating to common or directed clearing;
- industry and customer consolidation;
- seasonality of the futures business;
- our ability to adjust our fixed costs and expenses if our revenues decline;
- our ability to efficiently and simultaneously operate both open outcry trading and electronic trade execution facilities;
- our ability to keep pace with rapid technological developments;
- our ability to accommodate increases in trading volume without failure or degradation of performance of our trading systems;
- increasing competition by foreign and domestic competitors, including new entrants into our markets;
- our ability to successfully implement our competitive initiatives;
- 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;
- decreases in member trading and clearing activity;
- our ability to manage the risks and control the costs associated with our acquisition, investment and alliance strategy;
- the ability of our joint venture, OneChicago, LLC, to obtain market acceptance of its products and achieve sufficient trading volume to operate profitably;

- the costs associated with protecting our intellectual property rights and our ability to operate our business without violating the intellectual property rights of others; and
- the continued availability of financial resources in the amounts and on the terms required to support our future business.

For a detailed discussion of these and other factors that might affect our performance, see the section of this Annual Report on Form 10-K entitled "Item 1. Business—Certain Factors that May Affect Our Business."

Chicago Mercantile Exchange, our globe logo, CME®, GLOBEX®, International Monetary Market®, IEF®, IOM®, IMM®, Growth and Emerging Markets®, GEM® and SPAN® are our registered trademarks. CME$INDEX™, Eagle-i℠, E-px℠, E-quivalents℠, GLOBEX Trader℠, CME E-quotes™ and E-mini™ are our service marks. CLEARING 21® is a registered trademark, and e-miNY℠ is a service mark, of CME and New York Mercantile Exchange, Inc., or NYMEX, pursuant to agreement.

E-mini S&P 500®, S&P®, S&P 500®, Standard & Poor's 500, S&P/BARRA Growth™, S&P/BARRA Value™, S&P MidCap 400™, S&P SmallCap 600™, S&P/TOPIX 150™, Nasdaq®, NASDAQ-100®, NASDAQ-100 Index®, NASDAQ Composite®, NASDAQ Composite Index®, Russell 1000®, Russell 2000®, Russell 3000®, LMC TRAKRS®, Select-50 TRAKRS℠, TRAKRS℠, Total Return Asset Contracts℠ and other trade names, service marks, trademarks and registered trademarks that are not proprietary to us, are the property of their respective owners and are used herein under license.

ITEM 1. BUSINESS

General

We are the largest futures exchange in the United States for the trading of futures and options on futures, as measured by 2003 annual trading volume. In 2003, our customers, which include our members, traded futures and options on futures contracts with a notional dollar value of $333.7 trillion, making us the world's largest exchange by this measure. We also have the largest futures and options on futures open interest of any exchange in the world. As of December 31, 2003, our open interest record was 35.4 million contracts, set on December 11, 2003, not including the 2.8 million contracts that we managed for CBOT on that day. Open interest is a widely recognized indicator of the level of customer interest in an exchange's products.

We bring together buyers and sellers of derivatives products on our open outcry trading floors, on the GLOBEX electronic trading platform and through privately negotiated transactions that we clear. We offer market participants the opportunity to trade futures contracts and options on futures contracts on interest rates, equity, foreign exchange and commodities. Our key products include Eurodollar contracts and contracts based on major U.S. stock indexes, including the S&P 500 and the NASDAQ-100. We also offer contracts for the principal foreign currencies and for a number of commodity products, including cattle, hogs and dairy. We believe several of our key products serve as global financial benchmarks. Our Eurodollar contract provides a benchmark for measuring the relative value of U.S. dollar-denominated, short-term fixed-income securities. Similarly, our S&P 500 Index and NASDAQ-100 Index contracts are closely linked to the benchmark indexes for U.S. equity performance.

Our products provide a means for hedging, speculation and asset allocation relating to the risks associated with interest rate sensitive instruments, equity ownership, changes in the value of foreign currency and changes in the prices of commodity products. Our customer base includes professional traders, financial institutions, institutional and individual investors, major corporations, manufacturers, producers, supranational entities and governments.

We own our clearing house, which is the largest derivatives clearing entity in the world, and guarantee, clear and settle every contract traded through our exchange. During 2003, we processed an average of approximately 531,000 trade transactions per day. We currently have the capacity to clear more than 2.5 million transactions per day. Our systems are scalable and give us the ability to increase our capacity with little lead time. As of December 31, 2003, we acted as custodian for approximately $37.0 billion in collateral. In 2003, we moved an average of $1.4 billion of settlement funds through our clearing system each day. In addition, 46 exchanges and clearing organizations worldwide have adopted our SPAN risk evaluation system, which is used to determine the appropriate performance bond requirements for trading portfolios. NYMEX and Clearnet-LCH also use CLEARING 21, our state-of-the-art clearing system jointly developed with NYMEX. We, however, do not generate material revenue from the adoption of these systems by other exchanges.

We have a history of innovation in our industry. In the 1960s, we introduced the first livestock futures contract that resulted in the physical delivery of live cattle. In 1972, we introduced the world's first financial futures contracts when we launched seven foreign exchange futures contracts. That innovation fundamentally changed the nature and scope of futures markets, transforming them from agricultural hedging mechanisms to hedging and risk management markets for financial instruments and financial risks. We also developed the first cash-settled futures in 1981 with the introduction of Eurodollar futures, which is one of the world's most actively traded futures contract. Cash settlement also enabled us to introduce in 1982 the first successful stock index futures contract, the S&P 500 futures. In 1987, we pioneered the concept of global electronic trading of derivatives contracts, and we subsequently launched the GLOBEX platform in 1992. Today, most of our products trade electronically in addition to on our open outcry trading floors. In 1997, we introduced the first of our E-mini stock index products, which are smaller-sized electronically traded versions of our successful benchmark stock index futures contracts. In April 2003, we entered into an agreement with the Chicago Board of Trade, or CBOT, for us to provide clearing and related services for CBOT futures and options on futures contracts.

CME was founded in 1898 as a not-for-profit corporation. In November 2000, we became the first U.S. financial exchange to demutualize and become a shareholder-owned corporation. As a consequence, we have adopted a for-profit approach to our business, including strategic initiatives aimed at optimizing volume, efficiency and liquidity. We posted record trading volume of 640.2 million contracts in 2003, an increase of 14.6% over 2002, which was previously our busiest year.

We devote substantial resources to introducing new products based on new markets or securities. For example, in 2001, we formed OneChicago, LLC, our joint venture with Chicago Board Options Exchange, or CBOE, and CBOT, to trade single stock futures and futures on narrow-based stock indexes. OneChicago commenced its trading operations in November 2002. In 2003, we added three additional TRAKRS products, which are private label index products developed with Merrill Lynch & Co., Inc. TRAKRS, which stands for Total Return Asset Contracts, are a series of non-traditional futures contracts licensed exclusively for us for North America and are the first broad-based index products traded on a U.S. futures exchange that can be sold by securities brokers. In addition, in 2003, we announced plans to list electronically traded futures contracts on the U.S. Consumer Price Index, or CPI. These new contracts began trading on February 8, 2004. In 2003, we also began listing weather products on five European cities and expanded the number of U.S. cities covered by our weather products from five to 15.

Throughout our history, our members have conducted their trading through our open outcry trading facilities. The roots of our open outcry trading began in the late 1800s when our predecessor, the Chicago Butter and Egg Board, established official quotations in butter, eggs, poultry and other farm products. Membership gave the right to participate in the markets, in what was to become open outcry trading, and was expanded over the decades to accommodate new traders in new commodities and financial products. For the year ended December 31, 2003, open outcry represented approximately 54% of our trading volume.

Trading on our open outcry trading floors is conducted exclusively by our members. Our members are individual traders, as well as most of the world's largest banks, brokerages and investment houses. Prior to the introduction of our electronic trading platform, our members traded only on our open outcry trading floors. Today, our members are able to conduct trading on our open outcry trading floors, electronically through the GLOBEX platform and through privately negotiated transactions that we clear. Members who broker trades executed on our open outcry trading floors generally do not play a role in facilitating the execution of transactions on behalf of customers on GLOBEX.

Prior to our demutualization, direct access to our markets, whether on our open outcry trading floors or through the GLOBEX platform, was limited to members and those with an exchange permit who met specified qualifications. In connection with our demutualization, we opened access to our markets by allowing unlimited, direct access to the GLOBEX platform for all market participants. Today, any individual or institutional customer guaranteed by a clearing firm is able to obtain direct access to the GLOBEX platform. We have further opened access to our markets by expanding the range of member and non-member customer choices for alternative execution procedures, such as block trading and privately negotiated exchange-for-physical, or EFP, transactions. While our members benefit from market information advantages that may accrue from their proximity to activity on the trading floors, as a result of the increased access to our markets, all market participants now have the ability to view bids and offers in the market. Generally, member customers are charged lower fees than our non-member customers. In 2003, our members were responsible for nearly 80% of our total trading volume.

As a result of our conversion into a for-profit corporation in the fall of 2000, individuals and entities who, at the time, were members and owned trading rights on our exchange became the owners of all our outstanding equity. These individuals and entities continued to own substantially all of our outstanding equity following our reorganization into a holding company structure in December 2001 and our initial public offering in December 2002. As of December 31, 2003, owners of trading rights on our exchange owned, of record, approximately 69% of our Class A common stock.

Our principal executive offices are located at 20 South Wacker Drive, Chicago, Illinois 60606, and our telephone number is 312-930-1000.

Competitive Strengths

We have established ourselves as a premier global marketplace for financial risk management. We believe our principal competitive strengths are:

- highly liquid markets;
- global benchmark products;
- diverse portfolio of products and services;
- wholly owned clearing house;
- proven and scalable technology; and
- global reach.

Highly Liquid Markets. The liquidity in our markets is a key factor in attracting and retaining customers. We have the largest open interest of any exchange in the world of futures and options on futures contracts. As of December 31, 2003, our open interest record was 35.4 million contracts, set on December 11, 2003, not including the 2.8 million contracts that we managed for CBOT on that day. Before 2003, our open interest record was 24.8 million contacts set in 2002. During 2003, we posted record trading volume of 640.2 million contracts, an increase of 14.6% over 2002, making us the most active exchange in the United States and the second most active in the world for the trading of futures and options on futures contracts during that period. By notional value, we are the largest futures exchange in the world, with $333.7 trillion traded in 2003. Our deep and liquid markets tend to attract additional customers, which in turn further enhance our liquidity.

Global Benchmark Products. We believe our key products serve as global benchmarks for valuing and managing risk. Our Eurodollar contract serves as a global benchmark for measuring the relative value of U.S. dollar-denominated short-term fixed-income securities. Similarly, the S&P 500 and NASDAQ-100 indexes are considered primary tools for benchmarking investment performance against U.S. equity market exposure. Our S&P 500 Index and NASDAQ-100 Index contracts, which are based on these benchmarks, are recognized by our customers as efficient tools for managing and hedging their equity market risks.

Diverse Portfolio of Products and Services. We differentiate ourselves from our competitors by developing and offering to our customers a diverse array of products, as well as a broad range of trade execution and clearing services. We have a long history of developing innovative interest rate, equity, foreign exchange and commodity products designed to appeal to institutional and individual customers. We offer both open outcry auction trading and electronic order-matching services, and we provide facilities to clear privately negotiated transactions. Our markets provide important risk management tools to our customers, which include leading global and financial institutions. We work closely with our customers to create markets and products that meet their needs. These relationships help us to anticipate and lead industry changes.

Wholly Owned Clearing House. We own our clearing house, which guarantees, clears and settles every contract traded through our exchange and futures and options on futures contracts traded through CBOT. During 2003, we processed an average of approximately 531,000 trade transactions per day. We currently have the capacity to clear more than 2.5 million transactions per day, and our scalable systems give us the ability to further increase our capacity, with little lead time. In April 2003, we entered into an agreement with CBOT for us to provide clearing and related services for CBOT futures and options on futures contracts. Pursuant to this agreement, we began providing clearing services on November 24, 2003 for some CBOT products and, as of January 2, 2004, we began clearing all of CBOT's products. As of December 31, 2003, we acted as custodian for approximately $37.0 billion in performance bond collateral and, in 2003, moved an average of $1.4 billion of settlement funds through our clearing system each day. We believe our performance guarantee is a major attraction of our markets, particularly compared to the over-the-counter, or OTC, markets, because it substantially reduces counterparty risk. Our clearing system permits more efficient use of capital for our customers by allowing netting of long and short positions in a single type of contract and providing risk offset and cross-margining arrangements with several other leading clearing houses. In addition, ownership of our clearing house enables us to more quickly and efficiently bring new products to market through coordination of our clearing functions with our product development, technology, market regulation and other risk management activities. Our current capacity ensures that we are able to service peak volumes, provide clearing services to CBOT, introduce new products with high volume potential and provide clearing services to other exchanges in the future.

Proven and Scalable Technology. We believe our ability to use technology effectively has been a key factor in the successful development of our business. As a result of significant investments in our technology asset base, we possess fast, reliable and fully integrated trading and clearing systems. Our highly scalable systems are designed to accommodate additional products with relatively limited modifications and low incremental costs. The core components of our system infrastructure for trading, clearing and risk management are becoming widely adopted throughout the futures industry, resulting in common interfaces and efficiencies for intermediaries and customers. For example, our SPAN risk evaluation system has been adopted by 46 exchanges and clearing organizations worldwide. In addition, CLEARING 21, our state-of-the-art clearing system jointly developed with NYMEX, is being used by NYMEX and Clearnet-LCH.

Global Reach. Globalization of financial markets is expanding the customer base for futures products beyond traditional boundaries. Our electronic trading services, which are available more than 23 hours a day and five days per week, position us to take advantage of this development. We have established strategic relationships with other exchanges and clearing houses around the world to enable our customers to gain further capital and execution efficiencies. These relationships are intended to extend the market reach of our global derivatives business. We received $7.1 million in clearing and transaction fees from our strategic relationships during the year ended December 31, 2003. To further our global strategy, in early 2002, we installed a local telecommunications hub in London. We plan to further expand our global reach by installing similar hubs in Amsterdam, Dublin, Frankfort, Gibraltar, Milan and Paris in 2004. These hubs will further reduce connectivity costs and will house direct electronic connections between Europe and our GLOBEX electronic trading platform. As part of our strategy, in November 2003 we also introduced a pricing incentive program that significantly reduces the total transaction fees on all GLOBEX products for proprietary trading groups and trading arcades located in Europe. Additionally, in September 2003, we entered into an agreement with Bloomberg L.P to expand the global distribution of our electronically traded contracts by allowing all Bloomberg terminals worldwide access to our products on GLOBEX.

Growth Strategy

Globalization, deregulation and advances in technology offer significant opportunities for expanding futures markets, and exchange markets generally. We intend to increase our trading volumes, revenues and profitability by capitalizing on these opportunities through implementation of the following four strategies:

- expand our current core business;
- add new products;
- provide transaction processing services and other business services to third parties; and
- pursue select alliances and acquisitions.

Expand Our Current Core Business. We intend to advance our position as a leader in the futures industry by expanding customer access to our markets and services, offering additional trade execution choices and enhancing our market data and information products.

- *Expand Customer Access.* We continue to expand our customer base and trading volume by broadening the access, order routing, trading and clearing solutions we offer to existing and prospective customers. We were the first U.S. exchange to allow all customers to view the book of prices, where they can minimally see at least the five best bids and offers in the central limit order book and directly execute transactions in our electronically traded products. This expanded access further increases the transparency of our markets by giving our customers valuable trading information. We provide our customers with flexibility to access our markets in the most cost-effective manner for them. For example, we have established a telecommunications hub in London and intend to add six more European hubs in 2004 to reduce connectivity costs. Our customers can use their own proprietary trading software or third party software connected to our trading environment through a suite of application programming interfaces that we have developed. We also provide front-end trading terminal software solutions for a fee, including a cost-efficient Web-based virtual private network solution for our lower volume customers, which we call GLOBEX Trader-Internet. In addition to our standard marketing activities, we are seeking to increase the number of independent software vendors that offer interfaces to our systems. Increasing the number of these vendor relationships will enable us to access a broader network of customers.
- *Expand Electronic and Other Trade Execution Choices.* Our strategy is to offer our customers a broad range of trade execution choices, including increased electronic trading, enhanced facilities for privately negotiated transactions and new links with exchanges around the world. We believe offering multiple execution alternatives will enable us to attract new customers and increase our overall volume. We offer daytime electronic trading in most of our major product lines. We traded approximately 282.4 million contracts electronically in 2003, an increase of 42.6% over the total electronic trading volume in 2002 of approximately 198.0 million contracts. We introduced daytime electronic trading in our Eurodollar contracts on a limited basis during 1999. We continue to develop and implement new electronic functionality to accommodate complex trading strategies that are utilized in trading Eurodollar contracts to facilitate the expanded use of this market. In 2003, we launched our Eagle (Electronic Arbitrage GLOBEX Liquidity Enhancer) Project, which enables customers to replicate electronically some of the trading strategies used by open outcry Eurodollar traders. This enhanced functionality contributed to a 45% increase in electronic trading of our Eurodollar futures contracts during 2003. In January 2004, to further provide market users with innovative technology solutions to support their electronic trading needs, we acquired the technology-related assets and intellectual property of Liquidity Direct Technology, LLC, or Liquidity Direct, to incorporate its options and spread trading technology into our GLOBEX electronic trading platform. Liquidity Direct has developed an innovative patent-pending technology to facilitate trading of the complex combinations and spreads typically used with options products in a fully transparent and competitive execution environment.

- *Enhance Our Market Data and Information Products.* Our markets generate valuable information regarding prices and trading activity in our products. We intend to leverage the value of our market data and information capabilities by developing enhancements to our existing information products and creating new products. Revenues from the sale of our market data were $53.2 million and $48.7 million during 2003 and 2002, respectively. We sell our market data, which includes information about bids, offers and trade size, to resellers of our market data, as well as banks, broker-dealers, pension funds, investment companies, mutual funds, insurance companies, other financial services companies and individual investors. We believe we can enhance our market data and information product offerings by packaging the basic data we have traditionally offered with advanced, analytical data and information, and developing partnerships with other content and service providers to create information products with value-added services.

Add New Products. We develop new products and product line extensions based on research and development in collaboration with our customers and financial services firms. We have created modified versions of some of our existing products in order to attract new types of customers. For example, in 1997 and 1999, respectively, we introduced E-mini versions of our larger open outcry-traded S&P 500 and NASDAQ-100 futures contracts. By creating smaller-sized products and offering electronic trading services in them, we have successfully expanded our customer base and overall volume. We introduced E-mini Russell 2000 futures contracts in October 2001, and in January 2002, we initiated trading in E-mini S&P MidCap 400 futures contracts, another smaller scale version of one of our larger contracts that offers exposure to small- and medium-sized capitalization company stocks. We also seek to introduce new contracts that complement our existing product line. In April 2003, we launched Russell 1000 futures contracts. In combination with our other products, the new contract offers exposure to the Russell 3000 universe of stocks, representing 98% of the investable U.S. equity market, based on total market capitalization. In October 2003, we launched our E-mini NASDAQ Composite Index, which we believe is a broad, well diversified real-time representation of the performance of NASDAQ-listed companies.

In July 2002, we launched TRAKRS. TRAKRS are designed to enable customers to track an index of stocks, bonds, currencies or other financial instruments. Long-Short Technology TRAKRS were the first in this new product line. We subsequently introduced in 2002, Select 50 TRAKRS contracts and LMC TRAKRS, which identify value and growth stocks of lower market capitalization companies. In 2003, Commodity TRAKRS, Euro Currency TRAKRS and Gold TRAKRS were launched. TRAKRS differ from traditional futures contracts in that most non-institutional customers who purchase these contracts are required to post 100% of the TRAKRS market value at the time of the purchase. As a result, these customers will not be subject to margin calls or any requirement to make any additional payments throughout the life of their TRAKRS positions.

In September 2002, we began to introduce futures contracts based on industry sectors within the S&P 500 Index. We also intend to continue expanding our derivatives product lines by introducing contracts based on new markets or securities, such as single stock futures and futures on narrow-based stock indexes. OneChicago, our joint venture with CBOE and CBOT, initiated trading of 21 single stock futures on November 8, 2002, and, as of December 31, 2003, listed 107 single stock, narrow-based index and exchange-traded fund futures. In addition, we intend to continue working with emerging cash market trading platforms to jointly develop innovative futures products.

In March 2003, we launched futures and options on futures based on a new dollar index, the CME$INDEX, a geometric index of seven foreign currencies that is weighted to reflect the relative competitiveness of U.S. goods in foreign markets. The CME$INDEX provides investors with a new instrument for euro currency speculation and risk management. The seven currencies included in the CME$INDEX index are the European Union euro, Japanese yen, British pound, Swiss franc, Australian dollar, Canadian dollar and Swedish krona.

On February 8, 2004, we launched new electronically traded futures contracts on the CPI. These new CPI contracts are the first product we have listed on a major economic indicator.

Provide Transaction Processing Services and Other Business Services to Third Parties. We intend to leverage our existing capacity, scalable technology and business processes to provide a broad range of services to other exchanges, clearing organizations and e-marketplaces. We intend to offer services, including clearing and settlement processing and risk management, market structuring, product structuring and trade execution platforms. We believe we can differentiate ourselves from our competitors by offering some or all of these services on a cost-effective basis in combination with the potential to access our broad distribution, customer base and experienced liquidity providers. Users of our clearing services also have the potential to gain substantial capital and collateral efficiencies for their clearing firms. For example, in April 2003, we entered into an agreement with CBOT for us to provide clearing and related services for CBOT futures and options on futures contracts. Pursuant to this agreement, we began providing clearing services for CBOT on November 24, 2003 and, as of January 2, 2004, we began clearing all of CBOT's products. The arrangement provides clearing firms and customers with the potential to gain operational, performance bond and capital efficiencies, as well as a combined risk capital pool and other expected cost savings. As a result of our agreement with CBOT, our clearing house is the largest derivatives clearing organization for futures and options on futures in the world. We cleared 9.5 million contracts for CBOT in 2003. Open interest for CBOT contracts cleared by us was 2.7 million contracts at December 31, 2003.

Pursue Select Alliances and Acquisitions. We plan to supplement our internal growth through the formation of joint ventures or alliances and select acquisitions of businesses or technologies. We will seek alliances and acquisitions that help us to enter new markets, provide services that we currently do not offer, open access to our markets or advance our technology. For example, in November 2003, we extended our mutual offset agreement, or MOS agreement, with the Singapore Derivatives Exchange Ltd. and added the yen-based Nikkei 225 futures contract to the agreement in January 2004. We also acquired the technology-related assets and intellectual property of Liquidity Direct in January 2004 to facilitate the trading of our options on futures contracts. In 2002, we entered into an agreement with NYMEX to introduce smaller-sized versions of key NYMEX energy futures contracts for trading on our GLOBEX electronic trading platform. The products, based on our successful E-mini stock index contracts, are called e-miNY energy futures and clear at the NYMEX clearing house. On June 17, 2002, e-miNY crude oil and natural gas futures contracts began trading.

Products

Our broad range of products includes futures contracts and options on futures contracts based on interest rates, equity, foreign exchange and commodities. Our products are traded through our open outcry auction markets, through the GLOBEX electronic trading platform or in privately negotiated transactions that we clear. For the year ended December 31, 2003, we derived $430.6 million, or 80.0% of our net revenues, from fees associated with trading and clearing products on or through our exchange. These fees include per contract charges for trade execution, clearing and GLOBEX fees. Fees are charged at various rates based on the product traded, the method of trade and the exchange trading privileges of the customer making the trade. Generally, members are charged lower fees than non-members. Certain of our customers benefit from volume discounts and limits on fees as part of our effort to encourage increased liquidity in our markets. Our markets also generate valuable data and information regarding pricing and trading activity in our products. Revenues from market data products totaled $53.2 million, or 9.9% of our net revenues, in 2003.

We identify new products by monitoring economic trends and their impact on the risk management and speculative needs of our existing and prospective customers. Historically, we have successfully introduced a variety of new futures products. We pioneered the trading of foreign exchange futures in 1972 and Eurodollar futures, the first cash-settled futures contracts listed for trading, in 1981. In 1982, we were the first to introduce a successful stock index futures contract, the S&P 500 Index futures contract, and in 1996 we introduced the NASDAQ-100 Index futures contract. We believe the S&P 500 Index and the NASDAQ-100 Index are the global benchmarks for managing exposure to the U.S. stock markets, and our futures contracts based on them are among the most successful products in our industry. The smaller, electronically traded versions of these contracts, the E-mini S&P 500 Index futures and the E-mini NASDAQ-100 Index futures, were introduced in 1997 and 1999, respectively.

The following table shows the total notional value and average daily volume of contracts traded in our four principal product groups for the years ended December 31, 2003, 2002 and 2001.

		Total Notional Value			Average Daily Contract Volume		
Product Sector	**Principal Underlying Instruments**	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**
			(in billions)			(in thousands)	
Interest Rate	Eurodollar, LIBOR, Euroyen	$ 313,225	$ 311,200	$ 279,100	1,234	1,227	1,092
Equity	S&P 500, NASDAQ-100, S&P MidCap 400, S&P 500/BARRA Growth and Value Indexes, Nikkei Stock Average, Russell 2000	$ 16,509	$ 14,800	$ 12,600	1,136	863	425
Foreign Exchange	Euro, Japanese yen, British pound, Swiss franc, Canadian dollar	$ 3,683	$ 2,400	$ 2,000	135	96	89
Commodity	Cattle, hogs, pork bellies, lumber, dairy, weather	$ 281	$ 200	$ 200	36	30	34

Interest Rate Products. Our interest rate products include our global benchmark Eurodollar futures contracts. Eurodollars are U.S. dollar bank deposits outside the United States. Eurodollar futures contracts are short-term interest rate products and constitute one of the most successful products in our industry and one of the most actively traded futures contracts in the world. Open interest on Eurodollar futures and options on futures contracts traded on our exchange was approximately 13.7 million contracts on December 31, 2003, representing a notional value of approximately $31.6 trillion. We also trade contracts based on other short-term interest rates, such as one-month LIBOR, which stands for the London Interbank Offered Rate, and Euroyen. Interest rate products represented 48.6% of our trading volume during 2003, an average of approximately 1.2 million contracts per day.

The growth of our Eurodollar futures market has been driven by the general acceptance of the U.S. dollar as the principal reserve currency for financial institutions throughout the world. As a result, Eurodollar deposits have significance in the international capital markets. Participants in our Eurodollar futures market are generally major domestic and international banks and other financial institutions that face interest rate risks from their lending and borrowing activities, their activities as dealers in OTC interest rate swaps and structured derivatives products and their proprietary trading activities. Many of these participants use our Eurodollar and other interest rate contracts to hedge or arbitrage their money market swaps or convert their interest rate exposure from a fixed rate to a floating rate or a floating rate to a fixed rate. Asset managers also use our interest rate products to lengthen the effective maturity of short-term investment assets by buying futures contracts, or shorten the effective maturity by selling futures. Our contracts are an attractive alternative when physical restructuring of a portfolio is not possible or when futures transaction costs are lower than the cash market transaction costs. In 1999, we initiated simultaneous, side-by-side electronic trading in our Eurodollar contracts. Trading in our Eurodollar contracts often involves complex trading strategies that we believe cannot be fully accommodated by existing electronic trading platforms. Accordingly, electronic trading in our Eurodollar contracts initially achieved only limited market acceptance. We continue to develop and implement new electronic functionality to accommodate trading strategies required for electronic trading of Eurodollar contracts. In 2003, we launched our Eagle Project, which enables customers to execute trades electronically in the first eight quarterly expirations and 22 corresponding calendar spreads in Eurodollar futures. The introduction of this enhanced functionality contributed to a 45% increase in electronic trading of our Eurodollar futures contracts during 2003. This technology closely replicates Eurodollar trading conventions employed in open outcry and is designed to help maintain our leadership in Eurodollar futures. In January 2004, to further provide market users with innovative technology solutions to support their electronic trading needs, we acquired the technology-related assets and intellectual property of Liquidity Direct to incorporate its options and spread trading technology into our GLOBEX electronic trading platform. Liquidity Direct has developed an innovative patent-pending technology to effectively facilitate trading of the complex combinations and spreads typically used with options products in a fully transparent and competitive execution environment. We intend to introduce more functionality that will accommodate other complex trading strategies electronically.

Our interest rate product trading volume grew significantly from 1998 to 2002. The increase was due primarily to the volatility of short-term interest rates, monetary policy of the U.S. Federal Reserve Board and a decline in the issuance of U.S. Treasury securities. With less availability of U.S. Treasury securities, swap dealers, who represent a significant group of our customers, turned to our Eurodollar contract as a benchmark for valuing fixed-income obligations and as a tool for managing dollar-denominated interest rate exposure. In 2003, we experienced modest growth of our interest rate product trading volume, with total 2003 trading volume up 0.6% over 2002.

We intend to increase our revenues from our interest rate product sector by optimizing pricing of existing products and introducing new products to increase our trading volume. We have been active in adopting new policies and practices that are closely aligned with customer demand and designed to promote enhanced market penetration.

Equity Products. We have been a leader in stock index futures since we began offering these products in 1982 and remain the largest exchange in the world for trading stock index futures. Stock index futures products permit investors to obtain exposure, for hedging or speculative purposes, to a change in the weighting of one or more equity market sectors more efficiently than by buying or selling the underlying securities. We offer trading in futures contracts based upon the S&P 500 Index and NASDAQ-100 Index, other small-, medium- and large-capitalization domestic indexes and indexes on foreign equity markets. As of December 31, 2003, our market share in all U.S. listed stock index futures was approximately 95%, based on the number of contracts traded.

Our total trading volume for stock index products rose 31.6% in 2003, to 286.2 million contracts, from 217.5 million contracts in 2002. Trading in stock index futures products represented 44.7% of our total trading volume during 2003, an average of more than 1.1 million contracts per day. In 2003, 90.4% of our stock index product trading volume was based on the S&P 500 Index and the NASDAQ-100 Index. The total notional value of S&P 500 futures and options on futures contracts traded on our exchange was approximately $13.8 trillion during 2003, compared to the approximately $9.4 trillion value of stock traded on the New York Stock Exchange. In addition, the notional value of our stock index futures contracts is significantly larger than the comparable exchange-traded fund, which is a basket of securities designed to track an index but trades on a securities exchange or electronic communications network like a single stock. In 2003, the total notional value of our S&P 500 futures contracts was more than $12.6 trillion, compared with approximately $1.0 trillion for S&P 500 Depositary Receipts. In 2003, the total notional value of our NASDAQ-100 futures contracts was approximately $2.2 trillion, compared to approximately $0.6 trillion for the QQQs, which is the NASDAQ-100 Index tracking stock.

Standard & Poor’s Corporation designed and maintains the S&P 500 Index to be a proxy for a diversified equity portfolio representing a broad cross-section of the U.S. equity markets. The Index is based on the stock prices of 500 large-capitalization companies. We have an exclusive license with Standard & Poor’s until 2008. The NASDAQ-100 Index is based on the 100 largest non-financial stocks listed on the NASDAQ National Market. We have a license with Nasdaq that allows us to offer the NASDAQ-100 Index and NASDAQ Composite contracts exclusively until October 2011. For a more detailed discussion of these license agreements, see the section of this Annual Report on Form 10-K entitled “Item 1. Business—Licensing Agreements.” Our standard S&P and NASDAQ products are traded through our open outcry facilities during regular trading hours and on GLOBEX after the close of open outcry trading.

We also offer futures and, in some cases, options on futures contracts, on the S&P MidCap 400, the S&P SmallCap 600, the S&P/BARRA Growth and Value indexes, which are based on data compiled by S&P and BARRA, Inc., the Nikkei Stock Average, the S&P/TOPIX 150, the Russell 1000 Stock Price Index, the Russell 2000 Stock Price Index and the Goldman Sachs Commodity Index. In July 2002, we launched TRAKRS, a private label index product developed with Merrill Lynch & Co., Inc. TRAKRS are a series of non-traditional futures contracts licensed exclusively to us for North America, and are the first broad-based index products traded on a U.S. futures exchange that can be sold by securities brokers.

TRAKRS are designed to enable customers to track an index of stocks, bonds, currencies or other financial instruments. Long-Short Technology TRAKRS were the first in this product line. We subsequently introduced Select 50 TRAKRS and LMC TRAKRS in 2002. Trading in Commodity TRAKRS commenced in July 2003. EuroCurrency TRAKRS began trading in August 2003 and Gold TRAKRS in December 2003. We also launched our second round of our Long-Short Technology TRAKRS in January 2004. TRAKRS differ from traditional futures contracts in that most non-institutional customers who purchase these contracts are required to post 100% of the TRAKRS market value at the time of purchase. As a result, these customers will not be subject to margin calls or any requirement to make any additional payments throughout the life of their TRAKRS positions. In September 2002, we introduced SPCTR futures contracts based on subsets of the S&P 500 Index: Technology and Financial. Each contract is sized at $125 times the respective index price, making the contract size comparable to the E-mini stock index contracts.

We believe the variety of our stock index futures products appeals to a broad group of equity investors. These investors include public and private pension funds, investment companies, mutual funds, insurance companies and other financial services companies that benchmark their investment performance to different segments of the equity markets.

In 1997, we launched our E-mini S&P 500 futures contracts. We followed this highly successful new product offering with the introduction of E-mini NASDAQ-100 futures contracts in 1999. E-mini contracts are traded exclusively on our electronic GLOBEX platform and are one-fifth the size of their standard counterparts. These products are designed to address the growing demand for stock index derivatives and electronically traded products from individual traders and small institutions. Trading volumes in these products have grown rapidly**,** achieving new volume and open interest records on a regular basis during 2002 and 2003. This growth is attributable to the benefits of stock index futures, electronic market access and, prior to 2003, significant volatility in the U.S. equity markets. In October 2001, we also introduced E-mini Russell 2000 Index futures. In January 2002, we introduced an E-mini version of our S&P MidCap 400 futures contract. In October 2003, we launched our E-mini futures contracts on the NASDAQ Composite Index. This contract provides a product that tracks the entire NASDAQ Stock Market in contrast to the NASDAQ-100 Index which includes only the top 100 non-financial stocks listed on the NASDAQ Stock Market.

We believe our leading market position in equity products is a result of the liquidity of our markets, the status of the S&P 500 Index and the NASDAQ-100 Index as two of the principal U.S. financial standards for benchmarking stock market returns and the appeal to investors and traders of our E-mini products and GLOBEX. We believe future growth in our stock index products will come from expanding customer access to our electronic markets, as well as further educating the marketplace on the benefits of these products.

Other equity product growth opportunities are expected to come from the introduction of single stock futures and futures on narrow-based stock indexes. Industry deregulation permits futures and securities exchanges to offer single stock futures and futures contracts on narrow-based stock indexes. Single stock futures allow investors to obtain exposure, for hedging or speculative purposes, that is economically equivalent to owning or shorting an individual stock without actually buying or selling the stock. They are designed to offer leverage, ease of trading and less expensive, more customized risk management strategies than equity options, equity swaps and stock lending transactions. In November 2002, OneChicago, our joint venture with CBOE and CBOT, commenced its trading operations to trade single stock futures contracts on stocks trading worldwide as well as futures on narrow-based stock indexes. Under the terms of our operating agreement, we own approximately a 40% interest in OneChicago, CBOE owns approximately a 40% interest and CBOT and management each own a minority interest. Under the terms of our operating agreement, until May 31, 2005 we are restricted from in any way, directly or indirectly, engaging in the business of trading, marketing, regulating, selling, purchasing, clearing or settling transactions in single stock futures other than in conjunction with the joint venture. This restriction on our ability to compete applies whether or not we remain part of the joint venture, but it does not apply to futures based on narrow-based stock indexes.

Foreign Exchange Products. We became the first exchange to introduce financial futures when we launched foreign exchange futures in 1972. Since that time we have built a strong presence in foreign exchange futures. Institutions such as banks, hedge funds, commodity trading advisors, corporations and individuals use these products to manage their risks associated with, or speculate on, fluctuations in foreign exchange rates. Foreign exchange products represented 5.3% of our trading volume in 2003, an average of approximately 135,000 contracts per day. We offer futures and options on futures contracts on 30 currencies, including the European Union euro, Japanese yen, British pound, Swiss franc, Canadian dollar, Mexican peso, Australian dollar, Brazilian real, New Zealand dollar and South African rand.

Our total foreign exchange trading volume increased 40.2% during 2003 from 2002. Previously, our volume was impacted by the introduction of the euro and subsequent phasing out of many of the major European currencies, the continuing consolidation in the financial institutions sector, increased use of internal netting mechanisms by our customers and wide use of electronic trading for foreign exchange transactions by competing markets. We have begun improving the performance of this product sector by expanding electronic trading in our foreign exchange products. We introduced side-by-side electronic and open outcry trading of foreign exchange futures in April 2001. We believe this change has helped facilitate the increase in volume in these products. In 2003, electronically traded foreign exchange futures volume increased 100.0% over 2002, from approximately 7.5 million contracts to nearly 14.9 million contracts and open outcry trading increased 6.2%, from 10.9 million contracts in 2002 to 11.5 million contracts in 2003.

In May 2002, we introduced 13 new cross-rate foreign exchange futures contracts, consisting of two U.S. dollar-based contracts and 11 non-dollar-based contracts.

We expect the growth in our foreign exchange product line to come from further transitioning to electronic trading. This will allow us to compete more effectively in an environment where electronic execution is growing rapidly and accounts for a significant portion of global foreign exchange volume. The foreign exchange interbank spot market is heavily reliant on electronic trading, with the majority of trades brokered online. We continue to increase both functionality and distribution and are in discussions to add electronic interfaces with OTC market electronic trading platforms. We believe these interfaces, if successfully implemented, will position us to increase our foreign exchange futures volume and expand our product offerings. In March 2003, we launched futures contracts and options on futures contracts based on a new dollar index, the CME$INDEX, a geometric index of seven foreign currencies that is weighted to reflect the relative competitiveness of U.S. goods in foreign markets. CME$INDEX provides investors with a new instrument for currency speculation and risk management. The seven currencies included in the index are the European Union euro, Japanese yen, British pound, Swiss franc, Australian dollar, Canadian dollar and Swedish krona.

Commodity Products. Commodity products were our only products when our exchange first opened for business. We have maintained a strong franchise in our commodity products, including futures contracts based on cattle, hogs, pork bellies, lumber, weather and dairy products. Commodity products accounted for 1.4% of our trading volume during 2003, an average of more than 35,000 contracts per day. These products provide hedging tools for our customers who deal in tangible physical commodities, including agricultural producers of commodities and food processors. Our commodity products are traded through our open outcry and electronic trading execution facilities. We introduced side-by-side electronic and open outcry trading of lean hog, live cattle and feeder cattle futures in 2002 and of frozen pork bellies in 2003.

Trading volume for our commodity products has been relatively stable in recent years. We believe continuing consolidation and restructuring in the agricultural sector, coupled with the reduction or elimination of government subsidies and the resulting increase in demand for risk management in this sector, could create growth in our commodity markets as more producers and processors adopt formal hedging and risk management programs.

We intend to leverage our experience in trading futures on physical commodities to jointly develop new commodity products with operators of electronic, cash and derivatives trading platforms. For example, in 2002 we entered into an agreement with NYMEX to introduce smaller-sized versions of key NYMEX energy futures contracts for trading on our GLOBEX electronic trading platform. The products, based on our successful E-mini stock index contracts, are called e-miNY energy futures and clear at the NYMEX clearing house. In June 2002, e-miNY crude oil and natural gas futures contracts began trading.

Market Data and Information Products. Our markets generate valuable information regarding prices and trading activity in our products. The market data we supply is central to trading activity in our products and to trading activity in related cash and derivatives markets. We sell our market data, which includes information about bids, offers, trades and trade size, to banks, broker-dealers, pension funds, investment companies, mutual funds, insurance companies, individual investors and other financial services companies or organizations that use our markets or monitor general economic conditions. We distribute our market data directly to our electronic trading customers as part of their access to our markets through our electronic facilities. We also distribute market data via dedicated networks to approximately 210 worldwide quote vendors who consolidate our market data with that from other exchanges, other third party data providers and news services, and then resell their consolidated data. As of December 31, 2003, approximately 60,000 subscribers displayed our data on approximately 174,000 screens. Revenues from market data products totaled $53.2 million, or 9.9% of our net revenues, in 2003.

We continue to enhance our current market data and information product offerings by packaging the basic data we have traditionally offered with advanced analytical data and information. We have created marketing programs to increase the use of our market data. We are developing new business relationships with companies that develop value-added computer-based applications that process our market data to provide specific insights into the dynamics of trading activity in our products.

In March 2002, we expanded the scope of our market data offerings by providing CME E-quotes, direct, real-time price quotes, to the trading community over the Internet, through our Web site. The new service enables users to integrate interactive charting and news services with market data, building customized packages of data, charting and news that fit their particular needs. CME E-quotes received a 2002 European Banking Technology Award for the best use of information technology in the wholesale banking sector. In June 2002, enhancements to our market data interface software reduced customers' bandwidth requirements 65% to 70%.

In August 2002, we introduced CME E-history to automate the process of supplying users with historical price data for our futures and options on futures contracts. We launched Eagle-i in March 2003, featuring real-time quotes and implied prices for outright and calendar spreads on Eurodollar contracts traded on the GLOBEX platform. In April 2003, we launched E-px, which provides complete real-time pack and bundle prices as well as the pricing data for all 40 underlying Eurodollar contracts. In May 2003, our E-quivalents product, which displays our real-time currency futures prices and quantities in spot foreign exchange convention, was made available to anyone visiting our Web site.

Execution

Our trade execution facilities consist of our open outcry trading pits and the GLOBEX electronic trading platform. Both of these execution facilities offer our customers immediate trade execution, anonymity and price transparency and are state-of-the-art trading environments supported by substantial infrastructure and technology for order routing, trade reporting, market data dissemination and market surveillance and regulation. In addition, trades can be executed through privately negotiated transactions that are cleared and settled through our clearing house. The chart below shows the range of trade execution choices we provide our customers in some of our key products.

Product	Open Outcry	GLOBEX Daytime	GLOBEX Nighttime	Privately Negotiated Transactions
Eurodollar	☒	☒	☒	☒
Standard S&P 500	☒	—	☒	☒
Standard NASDAQ-100	☒	—	☒	☒
E-mini S&P 500	—	☒	☒	—
E-mini NASDAQ-100	—	☒	☒	—
Foreign Exchange	☒	☒	☒	☒
Commodity	☒	☒	—	☒

Open Outcry Trading. Open outcry trading represented approximately 54% of our total trading volume in 2003. The trading pits are the centralized meeting place for floor traders and floor brokers representing customer orders to trade contracts. The trading floors, covering approximately 70,000 square feet, have tiered booths surrounding the pits from which clearing firm personnel can communicate with customers regarding current market activity and prices and receive orders either electronically or by telephone. In addition, our trading floors display current market information and news on electronic wallboards hung above the pits. During 2003, approximately 44% of our clearing and transaction fee revenues were derived from open outcry trading.

GLOBEX Electronic Trading. We began electronic trading in 1992 using a system developed in partnership with Reuters. Our second generation electronic trading platform was introduced in 1998, and is based on the Nouveau Système de Cotation, or NSC, owned and licensed to us by Euronext-Paris, a subsidiary of Euronext N.V. GLOBEX maintains an electronic, centralized order book and trade execution algorithm for futures contracts and options on futures contracts and allows users to enter orders directly into the order book. Initially, these systems were used to offer our products to customers after the close of our regular daytime trading sessions. Today, however, we trade some of our most successful products on the GLOBEX platform more than 23 hours a day, five days a week. In 2003, 44.1% of our trading volume was executed using GLOBEX, compared to 35.5% in 2002. Our electronic volume has grown rapidly during the last five years. Electronic trading volume has increased from nearly 16.1 million contracts in 1999 to nearly 282.4 million contracts in 2003. GLOBEX volume exceeded one million contracts for a single day for the first time on June 12, 2002. As of December 31, 2003, GLOBEX had achieved 225 days of volume greater than one million contracts, excluding the volume attributable to the first-day trading volumes of TRAKRS. During 2003, approximately 47% of our clearing and transaction fee revenues were derived from electronic trading. This was the first year that the percentage of our clearing and transaction fee revenues derived from electronic trading exceeded that derived from open outcry trading.

Privately Negotiated Transactions. In addition to offering traditional open outcry and electronic trading through the GLOBEX platform, we permit qualified customers to trade our products by entering into privately negotiated EFP and exchange basis facility, or EBF, transactions and block trades, which are reported and included in the market data we distribute. We also clear, settle and guarantee these transactions through our clearing house. Some market participants value privately negotiated transactions as a way to ensure that large transactions can be completed at a single price or in a single transaction while preserving their ability to effectively complete a hedging, risk management or other trading strategy. During 2003, approximately 9% of our clearing and transaction fee revenues were derived from this type of trading.

EFP and EBF transactions involve privately negotiated exchanges of futures contracts for cash positions or other qualified instruments. While EFP capabilities have been available for many years, and constitute a significant and profitable segment of our foreign exchange futures trading, EFPs have been offered on a restricted basis in some of our other markets. We have taken steps to liberalize our trading policies, including extending EBF capabilities to all Eurodollar futures contracts.

A block trade is the privately negotiated purchase and sale of futures contracts. Block trading was introduced on our exchange in late 2000, and volume has been limited to date. We believe block trading provides an important source of access designed to appeal to large-scale institutional traders. Originally, these transactions were limited to a certain number of contracts and required high minimum quantity thresholds along with a fee surcharge. We have implemented pricing and trading rules designed to increase customer participation. We intend to continue to enhance the utility of EFP and block transactions while maintaining an appropriate balance with the transactions conducted within the open outcry and electronic trading environments.

Clearing

We operate our own clearing house that clears, settles and guarantees the performance of all transactions matched through our execution facilities and futures and options on futures contracts traded through CBOT. Many derivatives exchanges do not provide clearing services for trades matched through their execution facilities, relying instead on outside clearing houses to provide these services. Ownership and control of our own clearing house enables us to capture the revenue associated with both the trading and clearing of our products. This is particularly important for trade execution alternatives such as block trades, where we can derive a higher per trade clearing fee compared to other trades. By owning our clearing house, we also control the cost structure and the technology development cycle for our clearing services. It also helps us manage our new product initiatives without being dependent on an outside entity. We believe having an integrated clearing function provides significant competitive advantages. Additionally, owning our own clearing house allows us to provide clearing services to other exchanges, such as CBOT.

During 2003, we processed an average of approximately 531,000 trade transactions per day, with an average transaction size of 9.5 contracts. We maintain the largest futures and options on futures open interest of any exchange in the world. As of December 31, 2003, our open interest stood at approximately 29.7 million contracts, not including CBOT contracts that we managed for CBOT. Our open interest record was approximately 35.4 million contracts, set on December 11, 2003, not including the 2.8 million contracts that we managed for CBOT on that day. As of December 31, 2003, we acted as custodian for approximately $37.0 billion in performance bond collateral deposited by our clearing firms and, during 2003, we moved an average of approximately $1.4 billion a day in settlement funds through our clearing system. In addition, our clearing house guarantees the performance of our contracts with a financial safeguards package of approximately $3.4 billion.

In April 2003, we entered into an agreement with CBOT to provide clearing and related services for CBOT futures and options on futures contracts transacted through CBOT's execution facilities. Pursuant to this agreement, we began providing clearing services on November 24, 2003 for a subset of CBOT's products and, as of January 2, 2004, we began clearing all of CBOT's remaining products. In providing clearing services to CBOT, our clearing house clears, settles and guarantees all CBOT transactions, using the full resources of our clearing processes and financial safeguards package. Open interest in CBOT products cleared by our clearing house on December 31, 2003 was 2.7 million contracts. On January 2, 2004, when we began clearing all of CBOT's products, open interest in CBOT products increased to 7.3 million contracts.

The clearing function provides three primary benefits to our markets: efficient, high-volume transaction processing; cost and capital efficiencies; and a reliable credit guarantee. The services we provide can be broadly categorized as follows:

- transaction processing and position management;
- cross-margining and mutual offset services;
- market protection and risk management;
- settlement, collateral and delivery services; and
- investment services.

Transaction Processing and Position Management. We developed a state-of-the-art clearing system, CLEARING 21, in conjunction with NYMEX, to provide high quality clearing services. This system processes reported trades and positions on a real-time basis, providing users with instantaneous information on trades, positions and risk exposure. CLEARING 21 is able to process trades in futures and options products, securities and cash instruments. CLEARING 21 can also support complex new product types, including combinations, options on combinations, options on options, swaps, repurchase and reverse repurchase agreements, and other instruments. Through CLEARING 21 user interfaces, our clearing firms can electronically manage their positions, exercise options, enter transactions related to foreign exchange deliveries, manage collateral posted to meet performance bond requirements and access all of our other online applications. Together with our order routing and trade matching services, we offer straight-through electronic processing of transactions in which an order is electronically routed, matched, cleared and made available to the clearing firm's back-office systems for further processing.

Cross-Margining and Mutual Offset Services. We have led the derivatives industry in establishing cross-margining agreements with other leading clearing houses. Cross-margining arrangements reduce capital costs for clearing firms and our customers. These agreements permit an individual clearing house to recognize a clearing firm's open positions at other participating clearing houses, and clearing firms are able to offset risks of positions held at one clearing house against those held at other participating clearing houses. This reduces the need for collateral deposits by the clearing firm. For example, our cross-margining program with the Options Clearing Corporation reduces performance bond requirements for our members by approximately $953 million a day. We have implemented cross-margining arrangements with the Fixed Income Clearing Corporation, formerly the Government Securities Clearing Corporation, and Clearnet-LCH for positions at the London International Financial Futures and Options Exchange. We have also implemented a cross-margining arrangement with NYMEX in connection with our agreement to offer e-miNY energy futures. In addition, our MOS Agreement with the Singapore Derivatives Exchange, which has been in place since 1984, allows a clearing firm of either exchange initiating trades in certain products on either exchange to execute after-hours trades at the other exchange in those products and then transfer them back to the originating exchange. This MOS enables firms to seamlessly execute trades at either exchange virtually 24 hours per day.

Market Protection and Risk Management. Our clearing house guarantee of performance is a significant attraction, and an important part of the functioning, of our exchange. Because of this guarantee, our customers do not need to evaluate the credit of each potential counterparty or limit themselves to a selected set of counterparties. This flexibility increases the potential liquidity available for each trade. Additionally, the substitution of our clearing house as the counterparty to every transaction allows our customers to establish a position with one party and then to offset the position with another party. This contract netting process provides our customers with significant flexibility in establishing and adjusting positions.

In order to ensure performance, we establish and monitor financial requirements for our clearing firms. We also set minimum performance bond requirements for our traded products. Our clearing house uses our proprietary SPAN software, which determines the appropriate performance bond requirements by simulating the gains and losses of complex portfolios. We typically hold performance bond collateral to cover at least 95% of price changes for a given product within a given historical period. Performance bond requirements for a clearing firm's or customer's overall portfolio are calculated using SPAN.

At each settlement cycle, our clearing house values at the market price prevailing at the time, or marks-to-market, all open positions and requires payments from clearing firms whose positions have lost value and makes payments to clearing firms whose positions have gained value. Our clearing house marks-to-market all open positions at least twice a day, and more often if market volatility warrants. Marking-to-market provides both participants in a transaction with an accounting of their financial obligations under the contract.

Having a mark-to-market cycle of a minimum of two times a day helps protect the financial integrity of our clearing house, our clearing firms and market participants. This allows our clearing house to identify quickly any clearing firms that may not be able to satisfy the financial obligations resulting from changes in the prices of their open contracts before those financial obligations become exceptionally large and jeopardize the ability of our clearing house to ensure performance of their open positions.

In the unlikely event of a payment default by a clearing firm, we would first apply assets of the clearing firm to cover its payment obligation. These assets include security deposits, performance bonds and any other available assets, such as the proceeds from the sale of Class A and Class B common stock and memberships of the clearing firm at our exchange owned by or assigned to the clearing firm. Thereafter, if the payment default remains unsatisfied, we would use our surplus funds, security deposits of other clearing firms and funds collected through an assessment against all other solvent clearing firms to satisfy the deficit. We have a secured, committed $750.0 million line of credit with a consortium of banks in order to provide additional liquidity to address a clearing firm payment default. The credit agreement requires us to pledge clearing firm security deposits held by us in the form of U.S. Treasury or agency securities, as well as security deposit funds in our second Interest Earning Facility program, called IEF2, to the line of credit custodian prior to drawing on the line. Performance bond collateral of a defaulting clearing firm may also be used to secure a draw on the line. This line of credit may also be utilized if there is a temporary disruption with the domestic payments system that would delay settlement payments between our clearing house and clearing firms.

The following shows the available assets of our clearing house at December 31, 2003 in the event of a payment default by a clearing firm:

CME Clearing House Available Assets
(in millions)

Aggregate Performance Bond Deposits by All Clearing Firms(1)	$37,009.9
Market Value of Pledged Shares/Memberships (minimum requirement per firm)(2)	$ 7.8
CME Surplus Funds(3)	85.8
Security Deposits of Clearing Firms(4)	876.1
Limited Assessment Powers(5)	2,409.3
Minimum Total Assets Available for Default	$ 3,379.0

(1) Aggregate performance bond deposits by all clearing firms includes cash performance bond deposits of $2.7 billion and the value assigned by our exchange for securities deposited to satisfy performance bond requirements. This assigned value for securities is generally less than the fair market value of the securities deposited.

(2) The market value of the pledged shares/memberships represents the minimum number of trading rights, shares and/or membership interests required to be pledged by a clearing firm clearing our products and/or CBOT products. Each firm clearing our products is required to pledge to our clearing house specified trading rights, shares of our Class B common stock associated with those trading rights and a specified number of shares of our Class A common stock. Firms clearing CBOT products are required to pledge, in addition to their pledge of CME trading rights and shares of common stock, if applicable, a first priority lien on CBOT membership interests. As of December 31, 2003, the market value of the shares/memberships pledged by each firm clearing our products was approximately $6.7 million and by each firm clearing CBOT products was approximately $1.1 million. The market value is based on the average of the bid and offer for the trading rights and associated shares and CBOT membership interests at December 31, 2003.

(3) CME surplus funds represent the amount of our working capital reduced by an amount necessary to support our short-term operations.

(4) Security deposits of clearing firms include security deposits required of clearing firms, but do not include any excess deposits held by our exchange at the direction of the clearing firms.

(5) In the event of a clearing firm default, if a loss continues to exist after the utilization of the assets of the defaulted firm, our surplus funds and the security deposits of non-defaulting firms, we have the right to assess all non-defaulting clearing members up to 2.75 times their existing security deposit requirements.

Settlement, Collateral and Delivery Services. We manage final settlement in all of our contracts, including cash settlement, physical delivery of selected commodities, and option exercises and assignments. Because some initial and maintenance performance bonds from clearing firms, as well as mark-to-market obligations on some of our contracts, are denominated in various foreign currencies, we offer multi-currency margin and settlement services. We also offer the Moneychanger Service to our clearing firms. This service provides members with access to overnight funds in various foreign currencies at competitive bid/ask spreads free of charge to satisfy the terms of a foreign currency denominated futures contract.

Although more than 95% of all futures contracts are liquidated before the expiration of the contract, the underlying financial instruments or commodities for the remainder of the contracts must be delivered. We act as the delivery agent for all contracts, ensuring timely delivery by the seller of the exact quality and quantity specified in a contract and full and timely payment by the buyer.

In order to administer its system of financial safeguards efficiently, our clearing house has developed banking relationships with a network of major U.S. banks and banking industry infrastructure providers, such as the Society for Worldwide Interbank Financial Telecommunications. Among the key services provided to our clearing house by these banks and service providers are a variety of custody, credit and payment services that support the substantial financial commitments and processes backing the guarantee of our clearing house to market participants.

Investment Services. In order to achieve collateral efficiencies for our clearing firms, we have also established our Interest Earning Facility, or IEF, program, which allows participating clearing firms to pool their funds and have the funds managed by third party investment managers, to allow clearing firms to enhance the yields they receive on their performance bond collateral deposited with our clearing house. The first IEFs were organized in 1997 as two limited liability companies. Interest earned, net of expenses, is passed on to participating clearing firms. The principal of the first IEFs is guaranteed by us. The investment portfolio of these facilities is managed by two of the exchange’s approved settlement banks, and eligible investments include U.S. Treasury bills and notes, U.S. Treasury strips and reverse repurchase agreements. The maximum average portfolio maturity is 90 days, and the maximum maturity for an individual security is 13 months. We believe that the market risk exposure relating to our guarantee of the principal is not material to the financial statements taken as a whole. In 2002, IEF2 was organized. IEF2 offers clearing firms the opportunity to invest cash performance bonds in shares of approved money market mutual funds. Dividends earned on these shares, net of fees, are solely for the account of the clearing firm on whose behalf the shares were purchased. The principal of IEF2 is not guaranteed by us. In 2003, IEF3 was launched. IEF3 is a specialized collateral program that utilizes various services and methods of processing that are most typically associated with tri-party repossession. Unlike the IEF and IEF2 programs, our IEF3 program does not employ an interest rate component. This program is simply a mechanism that allows clearing firms to pledge a wider range of collateral than we have typically accepted. As of December 31, 2003, clearing firms had more than $14.3 billion in balances in IEF, IEF2 and IEF3 funds, compared to $12.2 billion at December 31, 2002. Our clearing house earns fee income in return for providing these value-added services to our clearing firms.

Our clearing house launched a securities lending program in 2001 using a portion of certain securities deposited to meet the proprietary performance bond requirements of our clearing firms. Under this securities lending program, we lend a security to a third party and receive collateral in the form of cash. The majority of the cash is then invested on an overnight basis to generate interest income. The related interest expense represents payment to the borrower of the security for the cash collateral retained during the duration of the lending transaction. Securities on loan are marked-to-market daily and compared to collateral received. The securities lending activity utilizes some of the securities deposited by clearing firms.

Technology

Our operation of both trading facilities and a clearing house has influenced the design and implementation of the technologies that support our operations.

Trading Technology. We have a proven track record of operating successful open outcry and electronic markets by developing and integrating multiple, evolving technologies that support a growing and substantial trading volume. The integrated suite of technologies we employ to accomplish this has been designed to support a significant expansion of our current business and provides us with an opportunity to leverage our technology base into new markets, products and services.

As electronic trading activity expands, we continue to provide greater match engine functionality unique to various markets, market models and product types. We have adopted a modular approach to technology development and engineered an integrated set of solutions that support multiple specialized markets. We continually monitor and upgrade our capacity requirements. Our goal is to design our systems to handle at least twice our peak transactions in our highest volume products. Significant investments in production planning, quality assurance and certification processes have enhanced our ability to expedite the delivery of the system enhancements that we develop for our customers.

Speed, reliability, scalability, capacity and functionality are critical performance criteria for electronic trading platforms. A substantial portion of our operating budget is dedicated to system design, development and operations in order to achieve high levels of overall system performance. For example, to respond to customer requests and bring down the cost of trading for our European customers, we established a telecommunications hub in London in early 2002. In 2004, we plan to add telecommunications hubs in Amsterdam, Dublin, Frankfurt, Gibraltar, Milan and Paris. In late September 2002, we also launched a remote data center to provide additional system capacity and redundancy for our trading and clearing technology. The remote data center features an entirely new network to enhance data base and order routing servers and to improve overall system performance and functionality. Our data centers support our customer interfaces, trading and execution systems, as well as clearing and settlement operations.

The technology systems supporting our trading operations can be divided into four major categories:

Distribution	Technologies that support the ability of customers to access our trading systems from terminals through network access to our trading floor and/or electronic trading environments.
Order routing/order management	Technologies that control the flow of orders to the trading floor or electronic trading systems and that monitor the status of and modify submitted orders.
Trade matching (electronic market)	Technologies that aggregate submitted orders and electronically match buy and sell orders when their trade conditions are met.
Trading floor operations	Technologies that maximize market participants’ ability to capitalize on opportunities present in both the trading floor and electronic markets that we operate.

The GLOBEX electronic trading platform includes distribution, order routing, order management and trade matching technology. The modularity and functionality of GLOBEX enable us to selectively add products with unique trading characteristics onto the trading platform with minimal additional investment.

The distribution technologies we offer differentiate our platform and bring liquidity and trading volume to our execution facilities. As of December 31, 2003, nearly 1,100 customers connected directly with us, and thousands more connected with us through 22 independent software vendors and data centers, as well as 34 clearing firms that have interfaces with our systems. Many of these customers connect through a dedicated private frame-relay network that is readily available, has wide distribution and provides fast connections in the Americas, Europe and Asia. We have initiated efforts to provide additional access choices to customers. In early 2001, we implemented a Web-based, virtual private network solution, GLOBEX Trader-Internet, for our lower-volume customers. This added a low-cost alternative that was the first of its kind among major exchanges. Approximately 251 customers currently use GLOBEX Trader-Internet.

In order routing and management, we offer a range of mechanisms and were among the first U.S. derivatives exchanges to fully implement the FIX 4.2 protocol—the standard order routing protocol used within the securities industry. In addition, our order routing and order management systems are capable of supporting multiple electronic trading match engines. This functionality gives us great latitude in the types of markets that we choose to serve.

Several key technology platforms and standards are used to support these activities, including fault-tolerant Tandem systems, IBM mainframes, Sun Microsystems servers, HP and Dell PCs, Oracle and DB2 databases, Unix, Windows NT, Novell, Unicenter TNG software systems, TIBCO middleware and multi-vendor frame relay and virtual private network solutions.

Our match engine is based upon the computerized trading and match software known as the NSC system. We have a long-term license from Euronext-Paris, under which we have the ability to modify and upgrade the performance of the basic NSC system to optimize its performance to suit our needs. We have a fully trained development team that maintains, upgrades and customizes our version of the NSC system. For example, despite a large increase in trading volume, we reduced the average customer response time from 0.23 seconds at the beginning of 2003 to 0.17 seconds at year-end, allowing trades to be executed more quickly and consistently. The customized enhancements that we have developed address the unique trading demands of each marketplace that we serve. We continue to focus on performance features of the match engine and presently have multiple enhancements under development.

Clearing Technology. CLEARING 21, our clearing and settlement software, and SPAN, our margining and risk management software, form the core of our clearing technology.

CLEARING 21 is a system for high-volume, high-capacity clearing and settlement of exchange-based transactions that we developed jointly with NYMEX. The system offers clearing firms improved efficiency and reduced costs. CLEARING 21's modular design gives us the ability to rapidly introduce new products. The software can be customized to meet the unique needs of specialized markets.

SPAN is our sophisticated margining and risk management software. SPAN has now been adopted by 46 exchanges and clearing organizations worldwide. This software simulates the effects of changing market conditions on a complex portfolio and uses standard options pricing models to determine a portfolio's overall risk. SPAN then generates a performance bond requirement that typically covers 95% of price changes within a given historical period.

Strategic Relationships

CBOT. In April 2003, we entered into an agreement with CBOT to provide clearing and related services for CBOT futures and options on futures contracts. We began providing clearing services for CBOT's agricultural, equity index and a subset of CBOT's interest rate products on November 24, 2003 and, as of January 2, 2004, we began clearing all of CBOT's remaining products. In providing services to CBOT, our clearing house clears, settles and guarantees all CBOT transactions, using the full resources of our clearing processes and financial safeguards package. We cleared 9.5 million contracts for CBOT in 2003. Open interest for CBOT contracts cleared by us was 2.7 million contracts at December 31, 2003.

Tokyo Stock Exchange. In October 2000, we signed a non-binding letter of intent to pursue a global alliance with the Tokyo Stock Exchange, with the goal of further developing our respective fixed-income and equity derivatives markets. In March 2002, we introduced S&P/TOPIX 150 stock index futures on our electronic GLOBEX platform during the hours they are not available on the Tokyo Stock Exchange.

New York Mercantile Exchange. We entered into an agreement in 2002 with NYMEX to introduce small-sized versions of key NYMEX energy futures contracts for trading on our GLOBEX electronic trading platform. The products, based on our successful E-mini stock index contracts, are called e-miNY energy futures and clear at the NYMEX clearing house. On June 17, 2002, e-miNY crude oil and natural gas futures contracts began trading. As part of the agreement, we now offer a cross-margining program, creating capital efficiencies for market professionals and proprietary accounts by calculating performance bond requirements based on specified positions in both markets. In addition, GLOBEX terminals are available to NYMEX market participants on the NYMEX trading floor, and other market participants are able to connect to GLOBEX through a variety of access channels. During the term of the agreement and for one year thereafter, we are generally prohibited, other than in cooperation with NYMEX, from providing for or facilitating electronic trading in futures or options on futures contracts on any underlying commodity (or index of such commodities) that is also the underlying commodity for a product listed for trading by NYMEX.

Korea Futures Exchange. In October 2002, we signed a non-binding memorandum of understanding with the Korea Futures Exchange to pursue joint business development initiatives in derivatives products.

Singapore Derivatives Exchange Ltd. In 1984, we entered into a MOS agreement with the Singapore Derivatives Exchange and, in November 2003, we entered into an extension of the MOS agreement. This relationship allows a clearing firm of either exchange initiating trades in certain products on either exchange to execute after-hours trades at the other exchange in those products, then transfer them back to the originating exchange.

Shanghai Futures Exchange. In March 2003, we entered into a memorandum of understanding with the Shanghai Futures Exchange, or SHFE, to pursue joint business development initiatives in derivatives products. The agreement is the first of its kind between SHFE and a North American exchange.

Marketing Programs and Advertising

Our marketing programs primarily target institutional customers and, to a lesser extent, individual traders. Our marketing programs for institutional customers aim to inform traders, portfolio managers, corporate treasurers and other market professionals about novel uses of our products, such as new hedging and risk management strategies. We also strive to educate these users about changes in product design, performance bond requirements and new clearing services. We participate in major domestic and international trade shows and seminars regarding futures and options on futures and other derivatives products. In addition, we sponsor educational workshops and marketing events designed to educate market users about our products. Through these relationships and programs, we attempt to understand the needs of our customer base and use information provided by them to drive our product development efforts.

Our advertising strategies seek to increase awareness and perceptions of us among our institutional and retail customers, as well as support an increase in our trading volume. Our primary method of advertising has been through print media, utilizing trade magazines and newsletters as well as daily business publications. However, we also use on-line, television sponsorship and some out-of-home media to reach our audiences.

Competition

Until the passage of the Commodity Futures Modernization Act of 2000, futures trading was generally required to take place on or subject to the rules of a federally designated contract market. The costs and difficulty of obtaining contract market designation, complying with applicable regulatory requirements, establishing efficient execution facilities and liquidity pools and attracting customers created significant barriers to entry. The Commodity Futures Modernization Act has eroded the historical dominance by the exchanges of futures trading in the United States by, among other things, permitting private transactions in most futures contracts and similar products and authorizing the use of electronic trading systems to conduct both private and public futures transactions. For a more detailed description of the regulation of our industry and the regulatory changes brought on by the Commodity Futures Modernization Act, see the section of this Annual Report on Form 10-K entitled “Item 1. Business—Regulatory Matters.”

These changing market dynamics have led to increasing competition in all aspects of our business and from a number of different domestic and international sources of varied size, business objectives and resources. We now face competition from other futures, securities and securities option exchanges; OTC markets and clearing organizations; consortia formed by our members and large market participants; alternative trade execution facilities; technology firms, including market data distributors and electronic trading system developers; and other competitors.

At year-end 2003, there were 52 futures exchanges located in 27 countries, including 7 futures exchanges in the United States. On February 8, 2004, Eurex commenced operation of its U.S. derivatives exchange, U.S. Futures Exchange, L.L.C., or Eurex U.S. Eurex U.S.’s initial competitive efforts are directed at CBOT, but we anticipate that it may begin trading our products in the near future. In January 2004, Euronext.liffe announced that it would begin listing and trading Eurodollar futures contracts as early as March 2004. Additionally, because equity futures contracts are alternatives to underlying stocks and a variety of equity option and other contracts provide an alternative means of obtaining exposure to the equity markets, we also compete with securities and options exchanges, including the New York Stock Exchange and CBOE, dealer markets such as NASDAQ and alternative trading systems.

OTC markets for foreign exchange and fixed-income derivatives products also compete with us. The largest foreign exchange markets are operated primarily as electronic trading systems. Two of the largest of these, operated by Electronic Broking Services and Reuters plc, serve primarily professional foreign exchange trading firms. Additional electronic platforms designed to serve corporate foreign exchange users are beginning to emerge. Two of these are operated by consortia of interdealer and interbank market participants. A third is a proprietary trading system. These systems present significant potential competitive challenges to the growth of our foreign exchange futures markets.

The OTC fixed-income derivatives market is by far the largest fixed-income derivatives marketplace. The OTC market consists primarily of interbank and interdealer market participants. There is currently no single liquidity pool in the OTC fixed-income derivatives market that is comparable to our Eurodollar markets. The OTC market for fixed-income derivatives products has traditionally been limited to more customized products, and the large credit exposures created in this market and the absence of clearing facilities have limited participation to the most creditworthy institutional participants. However, the size of this market and technology-driven developments in electronic trading and clearing facilities, as well as regulatory changes implemented by the Commodity Futures Modernization Act, increase the likelihood that one or more substantial liquidity pools will emerge in the future in the OTC fixed-income derivatives market.

Alternative trade execution facilities that currently specialize in the trading of equity securities have electronic trade execution and routing systems that also can be used to trade products that compete with our products. While these firms generally may lack overall market liquidity and distribution capability, typically, they have advanced electronic and Internet technology, significant capitalization and competitive pricing. In addition, while there is currently relatively little electronic trading of OTC equity derivatives and the greatest portion of this market is conducted through privately negotiated transactions, it is likely that one or more OTC equity derivatives markets will emerge in the future.

Technology companies, market data and information vendors and front-end software vendors also represent potential competitors because, as purveyors of market data, these firms typically have substantial distribution capabilities. As technology firms, they also have access to trading engines that can be connected to their data and information networks. Additionally, technology and software firms that develop trading systems, hardware and networks that are otherwise outside of the financial services industry may be attracted to enter our markets.

We also face a threat of trading volume loss if a significant number of our traditional participants decide to trade futures or similar products among themselves without using any exchange or specific trading system. The Commodity Futures Modernization Act allows nearly all of our largest customers to transact futures or similar products directly with each other. While those transactions raise liquidity and credit concerns, they may be attractive based on execution costs, flexibility of terms, negotiability of margin or collateral deposits, or other considerations. Additionally, changes under the Commodity Futures Modernization Act permitting the establishment of stand-alone clearing facilities for futures and OTC derivatives transactions will facilitate the mitigation of credit-risk concentrations arising from such transactions.

We believe competition in the derivatives and securities businesses is based on a number of factors, including, among others:

- depth and liquidity of markets and related benefits;
- transaction costs;
- breadth of product offerings and rate and quality of new product development;
- transparency, reliability and anonymity in transaction processing;
- connectivity;
- technological capability and innovation;
- efficient and secure settlement, clearing and support services; and
- reputation.

We believe that we compete favorably with respect to these factors, and that our deep, liquid markets; breadth of product offerings; rate and quality of new product development; and efficient, secure settlement, clearing and support services distinguish us from our competitors. We believe that in order to maintain our competitive position, we must continue to develop new and innovative products; enhance our technology infrastructure, including its reliability; and maintain liquidity and low transaction costs.

We expect competition in our businesses to intensify as potential competitors expand into our markets, particularly as a result of technological advances and the Commodity Futures Modernization Act and other changes introduced by the Commodity Futures Trading Commission, or CFTC, that have reduced the regulatory requirements for the development and entry of products and markets that are competitive with our own. Additional factors that may intensify competition in the future include: an increase in the number of for-profit exchanges; the consolidation of our customer base or intermediary base; an increased acceptance of electronic trading and electronic order routing by our customer base; and the increasing ease and falling cost of other exchanges leveraging their technology investment and electronic distribution to enter new markets and list the products of other exchanges.

In addition to the competition we face in our derivatives business, we face a number of competitors in our transaction processing and other business services, including:

- other exchanges and clearing houses seeking to leverage their infrastructure; and
- technology firms, including front-end developers, back-office processing systems firms and match engine developers.

We believe competition in the transaction processing and business services market is based on, among other things, the cost of the services provided, quality and reliability of the services, timely delivery of the services, reputation and value of linking with existing products, markets and distribution.

Regulatory Matters

The Commodity Exchange Act, the scope of which was significantly expanded in 1974, subjected us to comprehensive regulation by the CFTC. Under the 1974 amendments, the CFTC was granted exclusive jurisdiction over futures contracts (and options on such contracts and on commodities). Such contracts were generally required to be traded on regulated exchanges known as contract markets. The Commodity Exchange Act placed our business in a heavily regulated environment but imposed significant barriers to unregulated competition.

Between 1974 and December 2000, the barriers against unregulated competitors were eroded. The Commodity Exchange Act's exchange trading requirement was modified by CFTC regulations and interpretations to permit privately negotiated swap contracts meeting specified requirements to be transacted in the OTC market. At June 30, 2003, according to data from the Bank for International Settlements, the total estimated notional amount of outstanding OTC derivatives contracts was nearly $170 trillion compared to approximately $38 trillion for exchange-traded futures and options on futures contracts. The CFTC exemption and interpretations under which the OTC derivatives market operated precluded the OTC market from using exchange-like electronic transaction systems and clearing facilities.

The Commodity Futures Modernization Act, which became effective on December 21, 2000, significantly altered the regulatory landscape and may have important competitive consequences. This legislation greatly expanded the freedom of regulated markets, like ours, to innovate and respond to competition. It also permits us to offer a previously prohibited set of products—single stock futures and futures on narrow-based indexes of securities. The provisions that permit us to trade these security futures products require a novel sharing of jurisdiction between the CFTC and the Securities and Exchange Commission, or SEC. Exchange trading of these security futures products is subject to more burdensome regulation than our other futures products. For example, in order to trade these products, we are required to "notice register" with the SEC as a special purpose national securities exchange solely for the purpose of trading security futures products, and the SEC is authorized to review some of our rules relating to these security futures products. Our members trading those products are subject to registration requirements and duties and obligations to customers under the securities laws that do not pertain to their other futures business.

The Commodity Futures Modernization Act excluded or exempted many of the activities of our non-exchange competitors from regulation under the Commodity Exchange Act. The Commodity Futures Modernization Act created broad exclusions and exemptions from the Commodity Exchange Act that permit derivatives contracts, which may serve the same or similar functions as the contracts we offer, to be sold in the largely unregulated OTC market, including through electronic trading facilities.

Additionally, the Commodity Futures Modernization Act permits SEC-regulated and bank clearing organizations to clear a broad array of derivatives products in addition to the products that such clearing organizations have traditionally cleared. The Commodity Futures Modernization Act also permits banks and broker-dealers, and some of their affiliates, to offer and sell foreign exchange futures to retail customers without being subject to regulation under the Commodity Exchange Act.

The Commodity Futures Modernization Act created a new flexible regulatory framework for us in our capacity as a CFTC registrant, and eliminated many prescriptive requirements of the Commodity Exchange Act and CFTC in favor of more flexible core principles. For instance, CFTC-regulated exchanges may now list new contracts and adopt new rules without prior CFTC approval under self-certification procedures, permitting more timely product launch and modification.

For regulated markets, the Commodity Futures Modernization Act creates a new three-tiered regulatory structure. The degree of regulation is related to the characteristics of the product and the type of customer that has direct or indirect access to the market, with retail customer markets being subject to greater regulation. The new three-tiered regulatory structure is as follows:

- designated contract markets with retail customer participation are subject to the highest level of regulation;

- derivatives transaction execution facilities with access limited to institutional traders and others trading through members that meet specified capital and other requirements and products limited to contracts that are less susceptible to manipulation (including single stock futures) will be subject to a lesser degree of regulation; and
- exempt boards of trade subject to the least regulation are characterized by products without cash markets or that are highly unlikely to be susceptible to manipulation and by the participation only of institutional traders and others that meet specified asset requirements.

Our existing market, which trades a broad range of products and permits intermediaries to represent unsophisticated customers, is subject to the most thorough oversight as a designated contract market. The Commodity Futures Modernization Act permits us to organize markets that are subject to lesser regulation depending on the types of products traded and the types of traders. Markets can be organized that trade only products that are unlikely to be susceptible to manipulation and permit direct trading only among institutional participants in order to achieve a less intrusive degree of oversight.

The Commodity Futures Modernization Act also provides for regulation of derivatives clearing organizations, or DCOs, like our clearing house, separately from the exchanges for which they clear contracts and permits DCOs to clear a range of OTC-traded products in addition to products traded on an exchange. The Commodity Futures Modernization Act requires a DCO that clears for a registered futures exchange to register with the CFTC. However, our clearing house was deemed to be registered by reason of its activities prior to enactment of the Commodity Futures Modernization Act. A DCO may accept for clearing any new contract or may adopt any new rule or rule amendment by providing to the CFTC a written certification that the new contract, rule or rule amendment complies with the Commodity Exchange Act. Alternatively, the DCO may request that the CFTC grant prior approval to any contract, rule or rule amendment, and the CFTC must grant approval within 75 days unless the CFTC finds that the proposed contract, rule, or rule amendment would violate the Commodity Exchange Act.

From time to time it is proposed in Congress that federal financial markets regulators should be consolidated, including a possible merger between the CFTC and the SEC. While those proposals have not been adopted to date, the perceived convergence of product lines offered on the securities and commodity exchanges could make adoption more likely. To the extent the regulatory environment following such consolidation is less beneficial for us, our business, financial condition and operating results could be negatively affected.

From time to time it is proposed in the President’s budget that a transaction tax be imposed on futures and options on futures transactions. While those proposals have not been adopted to date, except for a per-contract fee on single stock futures and futures on narrow-based stock indexes, the imposition of any such tax could increase the cost of using our products and, consequently, our business, financial condition and operating results could be negatively affected.

Our Members

As a result of our conversion into a for-profit corporation in the fall of 2000, individuals and entities who, at the time, were members and owned trading rights on our exchange became the owners of all of the outstanding equity of CME. In our reorganization into a holding company structure, CME shareholders exchanged their shares for shares of CME Holdings. CME shareholders that were members and owned trading rights on our exchange retained them after the merger. Owners of trading rights on our exchange owned, of record, approximately 69% of our outstanding Class A common stock as of December 31, 2003. CME members can execute trades for their own accounts, the clearing firm accounts of other members or for the accounts of customers of clearing firms. Members who trade for their own account, including those who lease trading rights, qualify for lower transaction fees in recognition of the market liquidity that their trading activity provides. These members also benefit from market information advantages that may accrue from their proximity to activity on the trading floors. Generally, member customers are charged lower fees than our non-member customers. In 2003, our members were responsible for nearly 80% of our total trading volume. There are four divisions of membership at our exchange: the Chicago Mercantile Exchange, or CME, division; the International Monetary Market, or IMM, division; the Index and Option Market, or IOM, division; and the Growth and Emerging Markets, or GEM, division. Each membership division has different trading rights. Membership applicants planning to access the trading floor are subject to a review and approval process prior to becoming members and obtaining trading rights. We also have individual trading members and clearing firms.

Membership in our exchange entitles members to appear on the floor of the exchange during business hours and act as a floor broker and/or floor trader executing trades in the appropriate contracts that correlate with their membership division. Applicants for membership on our exchange are required to be of good moral character, reputation and business integrity. They must also have adequate financial resources and credit to assume the responsibilities and privileges of membership. All members must understand the rules and regulations of our exchange and agree to abide by them. Additionally, they must comply with the provisions of the Commodity Exchange Act and the rules and regulations issued by the CFTC.

Our exchange is a self-regulatory organization subject to the oversight of the CFTC. Members submit to the jurisdiction of our exchange rules. Our Market Regulation department is the investigative and enforcement arm of our exchange with regard to our exchange rules. Members who are found to have violated a rule can be subject to sanctions such as fines, trading suspensions and/or expulsion from our exchange. Changes to our rules must be approved by our Board of Directors. Some rule changes are subject to CFTC approval prior to their implementation. In addition, members receive prior notice of a new rule or amendment before it becomes effective through various publications.

Under the terms of our certificate of incorporation, our members, as Class B shareholders, have the ability to protect their rights to trade on our exchange by means of special approval rights over changes to the operation of our markets and are entitled to elect six of the 20 directors on our Board. In particular, our certificate of incorporation grants the holders of our Class B common stock the right to approve any changes to the trading floor rights, access rights and privileges that a member has, the number of memberships in each membership class and the related number of authorized shares in each class of Class B common stock and the eligibility requirements to exercise trading rights or privileges. Class B shareholders must approve any changes to these special rights.

Our Shareholder Relations and Membership Services Department maintains an auction market for individual trading rights and for trading rights bundled with their associated restricted Class A-1, A-2, A-3 and A-4 shares. Prospective purchasers sign and file with the department a “Bid to Purchase” form which must be guaranteed by either a clearing firm or accompanied by a certified or cashier’s check. Prospective sellers sign and file with the department an “Offer to Sell” form. The department posts bids, offers and last trade prices for purchase of trading rights and for trading rights bundled with their associated restricted Class A-1, A-2, A-3 and A-4 shares. The department then matches the highest bid to buy with the lowest offer to sell.

Other Business Relationships and Subsidiaries

GFX Corporation. GFX Corporation, a wholly owned subsidiary of CME, was established in 1997 for the purpose of maintaining and creating liquidity in our foreign exchange futures contracts. GFX expanded its business model in 2002 to allow for the trading of interest rate products. GFX accounted for 1.3%, 0.7%, and 1.0% of our consolidated net revenues in 2003, 2002 and 2001, respectively. Experienced foreign exchange and interest rate traders employed by GFX buy and sell our foreign exchange and interest rate futures contracts using our GLOBEX system. They limit risk from these transactions through offsetting transactions using futures contracts and spot foreign exchange transactions with approved counterparties in the interbank market.

CME Trust. The Chicago Mercantile Exchange Trust, or the CME Trust, was established in 1969 to provide financial assistance, on a discretionary basis, to customers of any clearing firm that becomes insolvent. We funded the CME Trust through tax-deductible contributions until June 1996. The CME Trust had approximately $59.4 million, $57.7 million, and $55.4 million in net assets as of December 31, 2003, 2002 and 2001, respectively, as a result of contributions, investment income and the absence of any distributions. Trustees of the CME Trust, who are also members of our Board of Directors, have discretion to use the CME Trust to satisfy customer losses in the event a clearing firm fails to or is in such severe financial condition that it cannot meet a customer’s obligations, provided that the customer’s losses are related to transactions in our contracts. No outside parties, including CME, have any residual interest in the assets of the CME Trust.

Licensing Agreements

Standard & Poor’s. We have had a licensing arrangement with Standard & Poor’s Corporation since 1980. In 1997, all of our previous licensing agreements with Standard & Poor’s were consolidated into one agreement that terminates on December 31, 2013 and includes a clause to negotiate potential extensions in good faith. Under the terms of the agreement, S&P granted us a license to use certain S&P stock indexes and the related trade names, trademarks and service marks in connection with the creation, marketing, trading, clearing and promoting of futures and/or options on futures contracts that are indexed to certain S&P stock indexes. The license is exclusive until December 31, 2008 for S&P stock indexes licensed to us and listed by us prior to September 24, 1997. For contracts granted before September 24, 1997 but not listed before September 24, 1997, the licenses are exclusive for one year with possible extensions, and, once listed, the license will be exclusive upon meeting a certain minimum average trading volume or payment of a fee by us. For contracts granted and listed after September 24, 1997, and upon which we have listed indexed contracts for trading within one year of the grant date, the licenses are exclusive for two years after listing, after which they may be made exclusive for the remainder of the term of the agreement upon meeting a certain minimum average trading volume or payment of a fee by us. These licenses become non-exclusive in the event we and S&P do not agree on an extension or we list certain competitive contracts. We have a right of first refusal for stock indexes not licensed under the license agreement as of September 24, 1997 and that are developed solely by S&P before and during the term of the license agreement. We pay S&P a per trade fee and have made certain lump sum payments in accordance with the terms of our agreement. If S&P discontinues compilation and publication of any license or index, we may license, on a non-exclusive and royalty-free basis, the information regarding the list of companies, shares outstanding and divisors for that index or terminate the obligations regarding the index.

NASDAQ. We have had a licensing arrangement with The Nasdaq Stock Market, Inc. since 1996 to license the NASDAQ-100 Index and related trade names, trademarks and service marks. The license was extended and expanded in October 2003, to license us both the NASDAQ-100 Index and the NASDAQ Composite Index for trading futures and options on futures contracts that are based on the indexes. The license for these indexes is exclusive through October 9, 2007 with an automatic renewal until October 9, 2011. With respect to the NASDAQ Composite Index, as of October 27, 2005 and on each subsequent anniversary, Nasdaq may terminate the exclusivity or the entire license if trading volume fails to meet certain performance criteria. During the applicable period of exclusivity, Nasdaq will not grant a license to use the indexes in connection with the trading, marketing and promotion of futures contracts and options on those futures contracts that are based on an index that is exclusive to us. We pay per trade fees to Nasdaq under the license. We have a right of first refusal for new Nasdaq indexes that are licensed for futures products where the index is substantially equivalent to an index licensed to us or is a subset of an index licensed to us.

NSC. Our license agreement for the NSC software was signed with Paris Bourse^{SBF} SA in 1997, and it continues until 2022. The agreement was assigned by Paris Bourse^{SBF} SA to Euronext N.V. in 1997. Under the terms of the agreement, Euronext N.V. granted us a nonexclusive license to use the NSC software for the trading of our products and the products of certain other exchanges. The agreement also allows us to specify modifications and enhancements to the NSC software prior to delivery to be made by Paris Bourse^{SBF} SA. In addition, we have the right to use our GLOBEX trademark in conjunction with our operation of the electronic trading system based on NSC software. In consideration for the license of the NSC software, we granted Euronext N.V. a license to use and modify CLEARING 21. In December 2002, we acquired the right to offer application service provider services to third parties using the NSC software.

Intellectual Property

We regard substantial elements of our brand name, marketing elements and logos, products, market data, software and technology as proprietary. We attempt to protect these elements by relying on trademark, service mark, copyright and trade secret laws, restrictions on disclosure and other methods. For example, with respect to trademarks, we have registered marks in more than 20 countries. We have filed patent applications to protect our technology. Our rights to stock indexes for our futures products principally derive from license agreements that we have obtained from Standard & Poor’s and the Nasdaq Stock Market, Inc. For a more detailed discussion of these licenses, see the section of this Annual Report on Form 10-K entitled “Item 1. Business—Licensing Agreements.”

We regularly review our intellectual property to identify property that should be protected, the extent of current protection for that property and the availability of additional protection. We believe our various trademarks and service marks have been registered or applied for where needed. We also seek to protect our software and databases as trade secrets and under copyright law. We have copyright registrations for certain of our software, user manuals, and databases. Recent legal developments allowing patent protection for methods of doing business hold the possibility of additional protection, which we are examining.

Patents of third parties may have an important bearing on our ability to offer certain of our products and services. It is possible that, from time to time, we may face claims of infringement that could interfere with our ability to use technology or other intellectual property that is material to our business.

Employees

As of December 31, 2003, we had 1,221 employees. We consider relations with our employees to be good. We have never experienced a work stoppage. We are not a party to any collective bargaining agreement. However, we employ eight engineers who are associated with the International Union of Operating Engineers, Local 399, AFL-CIO.

Available Information

Our Web site is *www.cme.com*. Information made available on our Web site does not constitute part of this document. We make available on our Web site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the SEC. Our corporate governance materials, including our Corporate Governance Principles, Conflict of Interest Policy, Board of Directors Code of Ethics, Independence Standards, Employee Code of Business Conduct and the charters for all the standing committees of our Board, may also be found on our Web site. Copies of these materials are also available to shareholders upon written request to Shareholder Relations and Membership Services, Attention Ms. Beth Hausoul, Chicago Mercantile Exchange Holdings Inc., 20 South Wacker Drive, Chicago, Illinois 60606.

Certain Factors that May Affect Our Business

In addition to the other information contained in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating us and our business.

Our shareholders who are members and own trading rights on our exchange, and who may have interests that differ from or conflict with those of shareholders who are not also members, currently own more than a majority of our voting stock. Shareholders who own trading rights on our exchange account for 15 of the 20 directors on our Board and currently have the ability to control the election of all directors. Our dependence on the trading and clearing activities of our members, combined with their ability to control the election of directors, enables them to exert substantial influence over the operation of our business.

As of December 31, 2003, we estimated that our shareholders who own trading rights on our exchange together owned, of record, shares representing approximately 69% of our outstanding Class A common stock. As a result, they will, if voting in the same manner, control all matters submitted to our shareholders for approval, including electing directors and approving changes of control. As of December 31, 2003, 15 of the 20 directors on our Board owned or were officers or directors of others who own memberships on our exchange. In addition, we are dependent on the revenues from the trading and clearing activities of our members. This dependence also gives them substantial influence over how we operate our business.

Many of our trading members and clearing firms derive a substantial portion of their income from their trading or clearing activities on or through our exchange. In addition, trading rights on our exchange have substantial independent value. The amount of income that members derive from their trading, brokering and clearing activities and the value of their trading rights are, in part, dependent on the fees they are charged to trade, broker, clear and access our markets and the rules and structure of our markets. Our trading members, many of whom act as floor brokers and floor traders, benefit from trading rules, membership privileges and fee discounts that enhance their open outcry trading opportunities and profits. Our predominantly electronic trading members benefit from fee discounts and transaction fee caps that enhance their electronic trading opportunities and profits. Our clearing firms benefit from all of the foregoing, as well as decisions that increase electronic trading, which over time will reduce their costs of doing business on our exchange. As a result, holders of our Class A common stock may not have the same economic interests as our members. In addition, our members may have differing interests among themselves depending on the role they serve in our markets, their method of trading and the products they trade. Consequently, members may advocate that we enhance and protect their clearing and trading opportunities and the value of their trading privileges over their economic interest in us represented by Class A common stock they own.

The share ownership of our members, in combination with their Board representation rights and charter provision protections described in the immediately following risk factor, could be used to influence how our business is changed or developed, including how we address competition and how we seek to grow our volume and revenue and enhance shareholder value.

Our certificate of incorporation grants special rights to holders of Class B common stock, which protect their trading rights and give them special Board representation, and requires that we maintain open outcry trading until volumes are not significant.

Under the terms of our certificate of incorporation, our Class B shareholders have the ability to protect their rights to trade on our exchange by means of special approval rights over changes to the operation of our markets. In particular, these provisions include a grant to the holders of our Class B common stock of the right to approve any changes to:

- the trading floor rights;
- access rights and privileges that a member has;
- the number of memberships in each membership class and the related number of authorized shares of each class of Class B common stock; and
- the eligibility requirements to exercise trading rights or privileges.

Our Class B shareholders are also entitled to elect six of the 20 directors on our Board even if their Class A share ownership interest is very small.

Our certificate of incorporation also includes a provision requiring us to maintain open outcry floor trading on our exchange for a particular traded product as long as the open outcry market is "liquid." Our certificate of incorporation requires us to maintain a facility for conducting business, disseminating price information, clearing and delivery and to provide reasonable financial support for technology, marketing and research for open outcry markets. Our certificate of incorporation provides specific tests as to whether an open outcry market will be deemed liquid, as measured on a quarterly basis. If a market is deemed illiquid as a result of a failure to meet any of these tests, our Board will determine whether or not that market will be closed.

Our business is subject to the impact of domestic and international market and economic conditions, many of which are beyond our control and could significantly reduce our trading volumes and make our financial results more volatile.

We generate revenues primarily from our trade execution services, clearing services and market data and information services. We expect to continue to do so for the foreseeable future. Each of these revenue sources is substantially dependent on the trading volume in our markets. Our trading volume is directly affected by U.S. domestic and international factors that are beyond our control, including:

- economic, political and market conditions;
- broad trends in industry and finance;
- changes in levels of trading activity, price levels and price volatility in the derivatives markets and in underlying fixed-income, equity, foreign exchange and commodity markets;
- legislative and regulatory changes;
- competition;
- changes in government monetary policies and foreign exchange rates;
- consolidation in our customer base and within our industry; and
- inflation.

Any one or more of these factors may contribute to reduced activity in our markets. Our operating results and trading volume tend to increase during periods of global and domestic economic and geopolitical uncertainty. This is because our customers seek to hedge or manage the risks associated with volatility in the U.S. equity markets, fluctuations in interest rates and price changes in the foreign exchange and commodities markets. The future economic environment will be subject to periodic downturns, including possible recession and lower volatility in financial markets, and may not be as favorable as it has been in recent years. As a result, period-to-period comparisons of our financial results are not necessarily meaningful. Trends less favorable than those of recent periods could result in decreased trading volume, decreased capital formation and a more difficult business environment for us. Material decreases in trading volume would have a material adverse effect on our financial condition and operating results.

Our operating results are subject to significant fluctuations due to seasonality and a number of other factors. As a result, you will not be able to rely on our operating results in any particular period as an indication of our future performance.

A number of factors beyond our control may contribute to substantial fluctuations in our operating results—particularly in our quarterly results. In the three years prior to 2001, we experienced relatively higher volume during the first and second quarters, and we generally expect that the third and fourth quarters will have lower trading volume. This trend was not evident in 2001 or 2002, except for the fourth quarter of 2002, in part because of the volatility of interest rates and U.S. equities in the third quarter in each of those years. As a result of seasonality and the factors described in the preceding risk factors, you will not be able to rely on our operating results in any particular period as an indication of our future performance. If we fail to meet securities analysts' expectations regarding our operating performance, the price of our Class A common stock could decline substantially.

Our cost structure is largely fixed. If we are unable to reduce our costs if our revenues decline, our profitability will be adversely affected.

Our cost structure is largely fixed. We base our cost structure on historical and expected levels of demand for our products and services. If demand for our products and services and our resulting revenues decline, we may not be able to adjust our cost structure on a timely basis. In that event, our profitability will be adversely affected.

The global trend toward electronic trading may divert volume away from our open outcry trading facilities. Our revenues, profits and stock price will be adversely affected if we experience reductions in our open outcry trading volume that are not offset by increases in our electronic trading volume.

Both newly formed organizations and established exchanges are increasingly employing trading systems that provide fast, low-cost execution of trades by matching buyers and sellers electronically. These organizations are attracting order flow away from some traditional open outcry trading markets. Many market participants believe that these electronic trading systems represent a threat to the continued viability of the open outcry method of trading. Some major European and Asian futures exchanges have closed their traditional open outcry trading facilities and replaced them entirely with electronic systems. Although we offer an electronic trading system, in 2003 approximately 44% of our revenues from clearing and transaction fees are generated by open outcry trading. Reductions in our open outcry trading volume that are not offset by increases in our electronic trading volume would have a material adverse effect on our revenue, earnings and stock price.

The success of our markets will depend on our ability to complete development of and successfully implement electronic marketplaces that have the functionality, performance, reliability, speed and liquidity required by customers.

The future success of our business depends in large part on our ability to create interactive electronic marketplaces in a wide range of derivatives products that have the required functionality, performance, reliability, speed and liquidity to attract and retain customers. A significant portion of our current overall volume is generated through electronic trading of our E-mini S&P 500 and E-mini NASDAQ-100 products. However, during 2003, approximately 54% of our volume and approximately 44% of our clearing and transaction fee revenues were generated through our open outcry trading facilities. Most of that open outcry volume is related to trading in Eurodollar contracts. Our electronic functionality may not be capable of accommodating all of the complex trading strategies typically used for trading our Eurodollar contracts. We have implemented electronic system upgrades and have acquired technology-related assets and intellectual property of Liquidity Direct to incorporate additional technology into our GLOBEX electronic platform. In addition, we are developing additional functionality to accommodate more Eurodollar trading strategies. We may not complete the development of or successfully implement the required electronic functionality for our Eurodollar marketplace, including the integration and operation of the technology-related assets and intellectual property of Liquidity Direct. Moreover, our Eurodollar customers may not accept our electronic trading systems. In either event, our ability to increase our electronic Eurodollar trading volume would be adversely affected. In addition, if we are unable to develop our electronic trading systems to include other products and markets, or if our electronic marketplaces do not have the required functionality, performance, reliability, speed and liquidity, we may not be able to compete successfully in a new environment that we expect to be increasingly dominated by electronic trading.

We maintain the simultaneous operation of open outcry trading and electronic trade execution facilities, which may, over time, prove to be inefficient and costly and ultimately adversely affect our profitability.

Currently, we maintain both open outcry trade execution facilities and electronic trade execution facilities. For some products, we maintain side-by-side trading facilities for both open outcry and electronic trading. We are obligated, through the inclusion of provisions in our certificate of incorporation, to maintain the operation of our open outcry trading facilities until the trading volumes in them are not significant. If we continue to operate both trading facilities for the same product, liquidity of markets on each may be less than the liquidity of competing markets on a unified trading platform. In addition, it may be expensive to continue operating two trading systems for the same product. We may incur substantial expenses and experience delays because of our efforts to create trading links between the separate trading platforms to facilitate trading on both systems. Any loss of efficiency or increase in time to market of new or improved products could be detrimental to our business. In addition, we may expend resources on the maintenance of our open outcry facilities that could be more efficiently used to develop our capacity and reduce our costs in the increasingly competitive market for electronic trading facilities.

The development of our electronic trading facilities exposes us to risks inherent in operating in the new and evolving market for electronic transaction services. If we do not successfully develop our electronic trading facilities, or if our customers do not accept them, our revenues, profits and stock price will be adversely affected.

We must further develop our electronic trading facilities to remain competitive. As a result, we will continue to be subject to risks, expenses and uncertainties encountered in the rapidly evolving market for electronic transaction services. These risks include our failure or inability to:

- provide reliable and cost-effective services to our customers;
- develop, in a timely manner, the required functionality to support electronic trading in some of our key products in a manner that is competitive with the functionality supported by other electronic markets;
- match fees of our competitors that offer only electronic trading facilities;
- increase the number of trading and order routing terminals capable of sending orders to our floor and to our electronic trading system;
- attract independent software vendors to write front-end software that will effectively access our electronic trading system and automated order routing system;

- respond to technological developments or service offerings by competitors; and
- generate sufficient revenue to justify the substantial capital investment we have made and will continue to make to develop our electronic trading facilities.

If we do not successfully develop our electronic trading facilities, or our current or potential customers do not accept them, our revenues, profits and stock price will be adversely affected.

If we are not able to keep up with rapid technological changes, our business will be materially harmed.

To remain competitive, we must continue to improve the responsiveness, functionality, accessibility and other features of our software, network distribution systems and technologies. The markets in which we compete are characterized by rapidly changing technology, changes in customer demand and uses of our products and services, frequent product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render our existing technology and systems obsolete. Our future success will depend in part on our ability to anticipate and adapt to technological advancements and changing standards in a timely, cost-efficient and competitive manner. We cannot assure you that we will successfully implement new technologies or adapt our technology to customer and competitive requirements or emerging industry standards.

We face intense competition from other companies, including some of our members. If we are not able to successfully compete, our business will not survive.

The derivatives, securities and financial services industries are highly competitive. We expect that competition will intensify in the future. Our current and prospective competitors, both domestically and around the world, are numerous. They include securities and securities option exchanges, futures exchanges, OTC markets, clearing organizations, market data and information vendors, electronic communications networks, crossing systems and similar entities, consortia of large customers, consortia of some of our clearing firms and electronic brokerage and dealing facilities. At December 31, 2003, there were 52 futures exchanges located in 27 countries, including 7 futures exchanges in the United States. On February 8, 2004, Eurex commenced operation of its U.S. derivatives exchange, Eurex U.S. Eurex U.S.'s initial competitive efforts are directed at CBOT, but we anticipate that it may begin trading our products in the near future. In January 2004, Euronext.liffe announced that it would begin listing and trading our Eurodollar future contracts as early as March 2004.

We believe we may also face competition from large computer software companies and media and technology companies. The number of businesses providing Internet-related financial services is rapidly growing. Other companies have entered into or are forming joint ventures or consortia to provide services similar to those provided by us. Others may become competitive with us through acquisitions. Recent changes in federal law allow institutions that have been major participants on our exchange to trade the same or similar products among themselves without utilizing any exchange or trading system. Many of our competitors and potential competitors have greater financial, marketing, technological and personnel resources than we do. These factors may enable them to develop similar products, to provide lower transaction costs and better execution to their customers and to carry out their business strategies more quickly and efficiently than we can. In addition, our competitors may:

- respond more quickly to competitive pressures due to their corporate governance structures, which may be more flexible and efficient than our corporate governance structure;
- develop products that are preferred by our customers;
- develop risk transfer products that compete with our products;
- price their products and services more competitively;
- develop and expand their network infrastructure and service offerings more efficiently;

- utilize better, more user-friendly and more reliable technology;
- take greater advantage of acquisitions, alliances and other opportunities;
- more effectively market, promote and sell their products and services;
- better leverage existing relationships with customers and alliance partners or exploit better recognized brand names to market and sell their services; and
- exploit regulatory disparities between traditional, regulated exchanges and alternative markets that benefit from a reduced regulatory burden and lower-cost business model.

If our products, markets and services are not competitive, our business, financial condition and operating results will be materially harmed. In addition, even if new entrants do not significantly erode our market share, we may be required to reduce our fees significantly to remain competitive, which could have a material adverse effect on our profitability.

The enactment of the Commodity Futures Modernization Act will increase competition and enable many of our customers to trade futures contracts other than on exchanges. These events could result in lower trading volume, revenue and profits.

Our industry has been subject to several fundamental regulatory changes, including changes in the statute under which we have operated since 1974. The Commodity Exchange Act generally required all futures contracts to be executed on an exchange that has been approved by the CFTC. The exchange trading requirement was modified by CFTC regulations and interpretations to permit privately negotiated swap contracts to be transacted in the OTC market. The CFTC exemption under which the OTC derivatives market operated precluded the OTC market from using exchange-like electronic transaction systems and clearing facilities. These barriers to competition from the OTC market were largely repealed by the Commodity Futures Modernization Act. It is possible that the chief beneficiaries of the Commodity Futures Modernization Act will be OTC dealers and competitors that operate or intend to open electronic trading facilities or to conduct their futures business directly among themselves on a bilateral basis. The customers who may access these trading facilities or engage in bilateral private transactions are the same customers who account for a substantial portion of our trading volume. The Commodity Futures Modernization Act also permits banks, broker-dealers and some of their affiliates to engage in foreign exchange futures transactions for or with retail customers without being subject to regulation under the Commodity Exchange Act.

The Commodity Futures Modernization Act also permits bank clearing organizations and clearing organizations regulated by the SEC to clear a broad array of derivatives products in addition to the products that these clearing organizations have traditionally cleared. This allocation of jurisdiction may be advantageous to competing clearing organizations and result in a lower volume of trading cleared through our clearing house.

Our members may seek alternative trading venues and products and negatively impact the liquidity of our markets and our trading volume.

The trading activities of our members accounted for nearly 80% of our trading volume during 2003. When we became a for-profit company, we changed the role of our members in the operation of our business. We eliminated many member-dominated committees or converted them into advisory bodies. We gave our professional staff greater decision-making responsibilities. Subject to the oversight of our Board of Directors, our management is charged with making decisions that are designed to enhance shareholder value, which may lead to decisions or outcomes with which our members disagree. These changes may make us less attractive to our members and encourage them to conduct their business at, or seek membership in, another exchange or to trade in equivalent products among themselves on a private, bilateral basis. A material decrease in member trading activity would negatively impact liquidity and trading volume in our products and reduce our revenues. A loss or material reduction in the number of our clearing firms and the capital they provide to guarantee their trades and the trades of their customers would also diminish the strength and attractiveness of our clearing house and our markets.

Despite our governance changes, our dependence on our members gives them substantial influence over how we operate our business. Members could use their ownership of Class A and Class B common stock, and ability to elect our Board of Directors, to change or modify our policies or business practices with which they do not agree.

Our trading volume, and consequently our revenues and profits, would be adversely affected if we are unable to retain our current customers or attract new customers to our exchange.

The success of our business depends, in part, on our ability to maintain and increase our trading volume. To do so, we must maintain and expand our product offerings, our customer base and our trade execution alternatives. Our success also depends on our ability to offer competitive prices and services in an increasingly price sensitive business. In addition, our success depends on our ability to increase the base of individual customers who trade our products. We cannot assure you that we will be able to continue to expand our product lines, or that we will be able to retain our current customers or attract new customers. We also cannot assure you that we will not lose customers to low-cost competitors with comparable or superior products, services or trade execution facilities. If we fail to expand our product offerings or execution facilities, or lose a substantial number of our current customers, or are unable to attract new customers, our business will be adversely affected.

Any significant decline in the trading volume of our Eurodollar, S&P 500 or NASDAQ-100 futures and options on futures contracts or in privately negotiated foreign exchange transactions using our clearing house would adversely affect our revenues and profitability.

We are substantially dependent on trading volume from three product offerings for a significant portion of our clearing and transaction fee revenues and profits. The clearing and transaction fee revenues attributable to transactions in our Eurodollar contracts, all our contracts based on the S&P 500 and NASDAQ-100, including our E-mini products, and privately negotiated foreign exchange transactions using our clearing house were approximately 36%, 35%, 12% and 8%, respectively, of our total clearing and transaction fee revenues during 2003 and approximately 40%, 32%, 13% and 7%, respectively, during 2002. Any significant decline in our trading volume in any of these products would negatively impact our business, financial condition and operating results.

We believe our Eurodollar product serves as a global financial benchmark, but we cannot assure you that, in the future, other products will not become preferred alternatives to the Eurodollar contract as a means of managing or speculating on interest rate risk. We also cannot assure you that competitors will not enter the Eurodollar market. For example, in January 2004, Euronext.liffe announced that would it would begin listing and trading Eurodollar futures contracts as early as March 2004. Our members may also elect to trade Eurodollars in privately negotiated bilateral transactions without the use of our clearing house. In either of these events, our trading volume, revenues and profitability could be adversely affected.

Our rights to the Standard & Poor's and NASDAQ products were obtained through licensing arrangements. Our license agreement with Standard & Poor's provides that the S&P 500 Index futures products will be exclusive until December 31, 2008 and non-exclusive from December 31, 2008 until December 31, 2013.

In October 2003, we extended and expanded our license agreement with The Nasdaq Stock Market, Inc. to license both the NASDAQ-100 Index and the NASDAQ Composite Index to us for trading futures and options on futures contracts that are based on the indexes. Our license with Nasdaq is exclusive with respect to futures and options on futures contracts based on the NASDAQ-100 Index through October 9, 2007 with an automatic renewal until October 9, 2011.

We cannot assure you that either of our Standard & Poor's or Nasdaq license agreements will be renewed when they terminate. In addition, we cannot assure you that others will not succeed in creating stock index futures based on information similar to that which we have obtained by license or that market participants will not increasingly use alternative instruments, including securities and options based on the S&P and NASDAQ indexes, to manage or speculate on U.S. stock risks. We also cannot assure you that

Nasdaq will not directly or indirectly through other exchanges offer security futures contracts that compete with our broad-based index futures contracts based upon NASDAQ indexes. Currently, NQLX, LLC offers futures contracts based on an exchange-traded fund called QQQ, which may compete with our NASDAQ-100 futures contracts. Any of these events could have an adverse effect on our trading volume, revenues and profits.

Our clearing house operations expose us to substantial credit risk of third parties. Our financial condition will be adversely affected in the event of a significant default.

Our clearing house acts as the counterparty to all trades consummated on or through our exchange and for CBOT futures and options on futures. As a result, we are exposed to significant credit risk of third parties, including our clearing firms. We are also exposed, indirectly, to the credit risk of customers of our clearing firms. These parties may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. A substantial part of our working capital is at risk if a clearing firm defaults on its obligations to our clearing house and its margin and security deposits are insufficient to meet its obligations. Although we have policies and procedures to help assure that our clearing firms can satisfy their obligations, these policies and procedures may not succeed in detecting problems or preventing defaults. We also have in place various measures intended to enable us to cover any default and maintain liquidity. However, we cannot assure you that these measures will be sufficient to protect us from a default or that we will not be materially and adversely affected in the event of a significant default.

We may not realize the anticipated benefits of our agreement to provide clearing and related services for CBOT products.

In April 2003, we entered into an agreement with CBOT to provide clearing and related services for CBOT futures and options on futures contracts. Under the terms of the agreement, clearing services for commodity, equity and some interest rate products began in November 2003 and for all other CBOT futures and options on futures contracts on January 2, 2004. The initial term of the agreement is four years, with three year renewals upon the mutual consent of the parties. Under the terms of the agreement, CBOT will pay us a fee for the clearing services we provide. This fee will vary based on transaction volume but is guaranteed to be at least $4.5 million per quarter. Pursuant to the agreement, CBOT reimbursed us $2.0 million in initial development costs. CBOT will also reimburse us for the ongoing costs associated with the telecommunications equipment and services that are necessary for us to provide clearing services.

Our anticipated net revenues and net income from providing these clearing services will be dependent on CBOT's ability to maintain and/or expand its trading volume, which is subject to a number of factors beyond CBOT's control. As a futures exchange, CBOT's ability to maintain or expand its volume and operate its business is subject to the same types of risks to which we are subject. For example, on February 8, 2004, Eurex launched a registered U.S. derivatives exchange, Eurex U.S., which initially offers, among other products, contracts on U.S. Treasury notes and bonds in direct competition with contracts currently traded at CBOT. Our net income from the clearing services we provide to CBOT will also depend on our ability to control our costs associated with providing the clearing services.

Our agreement with CBOT provides that both we and CBOT may terminate the agreement in some circumstances. We cannot assure you that the agreement will not be terminated prior to the end of its term or that we will be able to realize the anticipated benefits of our clearing agreement with CBOT. Any such event could have an adverse effect on the price of our Class A common stock.

Our market data fees may be reduced or eliminated by the growth of electronic trading and electronic order entry systems. If we are unable to offset that reduction through terminal usage fees or transaction fees, we will experience a reduction in revenue.

Electronic trading systems do not usually impose separate charges for supplying market data to trading terminals. If we do not separately charge for market data supplied to trading terminals, and trading terminals with access to our markets become widely available, we would lose quote fee revenue from those who have access to trading terminals. We will experience a reduction in our revenues if we are unable to recover that lost quote fee revenue through terminal usage fees or transaction fees.

If we experience systems failures or capacity constraints, our ability to conduct our operations and execute our business strategy could be materially harmed and we could be subjected to significant costs and liabilities.

We are heavily dependent on the capacity and reliability of the computer and communications systems and software supporting our operations. We receive and/or process a large portion of our trade orders through electronic means, such as through public and private communications networks. Our systems, or those of our third party providers, may fail or operate slowly, causing one or more of the following to occur:

- unanticipated disruptions in service to our customers;
- slower response times;
- delays in our customers' trade execution;
- failed settlement of trades;
- incomplete or inaccurate accounting, recording or processing of trades;
- financial losses;
- litigation or other customer claims
- loss of customers; and
- regulatory sanctions.

We cannot assure you that we will not experience systems failures from power or telecommunications failure, acts of God, war or terrorism, human error, natural disasters, fire, sabotage, hardware or software malfunctions or defects, computer viruses, acts of vandalism or similar events. If any of our systems do not operate properly or are disabled, including as a result of system failure, customer error or misuse of our systems, we could suffer financial loss, liability to customers, regulatory intervention or reputational damage that could affect demand by current and potential users of our market.

From time to time, we have experienced system errors and failures that have resulted in some customers being unable to connect to our electronic trading platform or erroneous reporting, such as transactions that were not authorized by any customer or reporting of filled orders as cancelled. In September 2002 and May 2003, we experienced hardware failures that resulted in a temporary suspension of trading on our GLOBEX platform. The impact of these events has not been material.

Our status as a CFTC registrant requires that our trade execution and communications systems be able to handle anticipated present and future peak trading volume. Heavy use of our computer systems during peak trading times or at times of unusual market volatility could cause our systems to operate slowly or even to fail for periods of time. We constantly monitor system loads and performance and regularly implement system upgrades to handle estimated increases in trading volume. However, we cannot assure you that our estimates of future trading volume will be accurate or that our systems will always be able to accommodate actual trading volume without failure or degradation of performance. For example, as of December 31, 2003, GLOBEX had achieved 225 days of volume greater than one million contracts, excluding the volume attributable to the first-day trading volumes of TRAKRS. During the initial period of increased GLOBEX trading volume, there were instances of connectivity problems or erroneous reports that affected some users of the platform. System failure or degradation could lead our customers to file formal complaints with industry regulatory organizations, file lawsuits against us or cease doing business with us or could lead the CFTC or other regulators to initiate inquiries or proceedings for failure to comply with applicable laws and regulations.

We will need to continue to upgrade, expand and increase the capacity of our systems as our business grows and we execute our business strategy. Our goal is to design our systems to handle at least twice our peak transactions in our highest volume products. As volumes grow, the ability of our systems to meet this goal on an ongoing basis depends on our ability to increase our system capacity on a timely basis while maintaining system reliability. Although many of our systems are designed to accommodate additional volume and products and services without redesign or replacement, we will need to continue to make significant investments in additional hardware and software to accommodate increased volume and to provide transaction processing and business services to third parties. If we cannot increase the capacity and capabilities of our systems to accommodate an increasing volume of transactions and to execute our business strategy, our ability to maintain or expand our businesses would be adversely affected.

Some of our largest clearing firms have indicated their belief that clearing facilities should not be owned or controlled by exchanges and should be operated as utilities and not for profit. These clearing firms are seeking legislative or regulatory changes that would, if adopted, enable them to use alternative clearing services for positions established on our exchange. Even if they are not successful, these factors may cause them to limit or stop the use of our markets.

Some of our largest clearing firms, which are significant customers and intermediaries in our products, have increasingly stressed the importance to them of centralizing clearing of futures contracts and options on futures contracts in order to maximize the efficient use of their capital, exercise greater control over their value at risk and extract greater operating leverage from clearing activities. Many clearing firms have expressed the view that clearing firms should control the governance of clearing houses or that clearing houses should be operated as utilities rather than as for-profit enterprises. Some of these firms, along with the Futures Industry Association, are attempting to cause legislative or regulatory changes to be adopted that would facilitate mechanisms or policies that allow market participants to transfer positions from an exchange-owned clearing house to a clearing house owned and controlled by clearing firms. Our strategic business plan is to operate a vertically integrated transaction execution and clearing and settlement business. If these legislative or regulatory changes are adopted, our strategy and business plan may lead clearing firms to establish, or seek to use, alternative clearing houses for clearing positions established on our exchange. Even if they are not successful in their efforts, the factors described above may cause clearing firms to limit or stop the use of our products and markets. If any of these events occur, our revenues and profits would be adversely affected.

We depend on third party suppliers and service providers for a number of services that are important to our business. An interruption or cessation of an important supply or service by any third party could have a material adverse effect on our business.

We depend on a number of suppliers, such as banking, clearing and settlement organizations, telephone companies, online service providers, data processors, and software and hardware vendors for elements of our trading, clearing and other systems, as well as communications and networking equipment, computer hardware and software and related support and maintenance. We cannot assure you that any of these providers will be able to continue to provide these services in an efficient, cost-effective manner or that they will be able to adequately expand their services to meet our needs. An interruption in or the cessation of an important supply or service by any third party and our inability to make alternative arrangements in a timely manner, or at all, would result in lost revenue and higher costs.

Our networks and those of our third party service providers may be vulnerable to security risks, which could result in wrongful use of our information or cause interruptions in our operations that cause us to lose customers and trading volume and result in significant liabilities. We could also be required to incur significant expense to protect our systems.

We expect the secure transmission of confidential information over public networks to continue to be a critical element of our operations. Our networks and those of our third party service providers, our members and our customers may be vulnerable to unauthorized access, computer viruses and other security problems. Persons who circumvent security measures could wrongfully use our information or cause interruptions or malfunctions in our operations. Any of these events could cause us to lose customers or trading volume. We may be required to expend significant resources to protect against the threat of security breaches or to alleviate problems, including reputational harm and litigation, caused by breaches. Although we intend to continue to implement industry-standard security measures, these measures may prove to be inadequate and result in system failures and delays that could cause us to lose customers, experience lower trading volume and incur significant liabilities.

We operate in a heavily regulated environment that imposes significant costs and competitive burdens on our business.

Although the Commodity Futures Modernization Act significantly reduced our regulatory burdens, we remain extensively regulated by the CFTC. Our international operations may be subject to similar regulations in specific jurisdictions. We are registered in the United Kingdom, Australia, Japan and Hong Kong. In some cases, our registrations are subject to annual review and such reviews may subject us to additional requirements in the future. We may also be required to register or become subject to regulation in other jurisdictions in order to accept business from customers in those jurisdictions.

Many aspects of our operations are subject to oversight and regulation by the CFTC. Our activities relating to single stock and narrow-based stock index futures products will also be subject to oversight by the SEC. Our operations are subject to ongoing review and oversight, including:

- the security and soundness of our order routing and trading systems;
- record keeping and record retention procedures;
- maintaining a fair and orderly market;
- the licensing of our members and many of their employees; and
- the conduct of our directors, officers, employees and affiliates.

If we fail to comply with applicable laws, rules or regulations, we may be subject to censure, fines, cease-and-desist orders, suspension of our business, removal of personnel or other sanctions, including revocation of our designations as a contract market and derivatives clearing organization. Changes in laws, regulations or governmental policies could have a material adverse effect on the way we conduct our business.

The CFTC has broad powers to investigate and enforce compliance and punish non-compliance with its rules and regulations. We cannot assure you that we and/or our directors, officers and employees will be able to fully comply with these rules and regulations. We also cannot assure you that we will not be subject to claims or actions by the CFTC or other agencies.

Demutualization and utilization of electronic trading systems by traders from remote locations will, among other developments, impact our ability to continue the traditional forms of "self-regulation" that have been an integral part of the CFTC regulatory program. The CFTC is reviewing that impact, and it is unclear at this time whether the CFTC will make modifications to its regulations that will have an adverse effect on the way we conduct our business.

From time to time, it is proposed in Congress that federal financial markets regulators should be consolidated, including a possible merger between the CFTC and the SEC. While those proposals have not been adopted to date, the perceived convergence of product lines offered on the securities and commodity exchanges could make adoption more likely. To the extent the regulatory environment following such consolidation is less beneficial for us, our business could be negatively affected.

From time to time, the President's budget includes a proposal that a transaction tax be imposed on futures and options on futures transactions. While those proposals have not been adopted to date, except for a per-contract fee imposed under the Securities Exchange Act of 1934 on single stock futures and futures on narrow-based stock indexes, the imposition of any such tax would increase the cost of using our products and, consequently, could adversely impact our trading volumes, revenues and profits.

Our compliance and risk management methods might not be effective and may result in outcomes that could adversely affect our reputation, financial condition and operating results.

Generally, the CFTC has broad enforcement powers to censure, fine, issue cease-and-desist orders, prohibit us from engaging in some of our businesses or suspend or revoke our designation as a contract market or the registration of any of our officers or employees who violate applicable laws or regulations. Our ability to comply with applicable laws and rules is largely dependent on our establishment and maintenance of compliance, audit and reporting systems, as well as our ability to attract and retain qualified compliance and other risk management personnel. We face the risk of significant intervention by regulatory authorities, including extensive examination and surveillance activity. In the case of non-compliance or alleged non-compliance with applicable laws or regulations, we could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits, including by customers, for damages, which can be significant. Any of these outcomes would adversely affect our reputation, financial condition and operating results. In extreme cases, these outcomes could adversely affect our ability to conduct our business.

Our policies and procedures to identify, monitor and manage our risks may not be fully effective. Some of our risk management methods depend upon evaluation of information regarding markets, customers or other matters that are publicly available or otherwise accessible by us. That information may not in all cases be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events. We cannot assure you that our policies and procedures will always be effective or that we will always be successful in monitoring or evaluating the risks to which we are or may be exposed.

As a financial services provider, we are subject to significant litigation risk and potential securities law liability.

Many aspects of our business involve substantial liability risks. While we enjoy governmental immunity for some of our market-related activities, we could be exposed to substantial liability under federal and state laws and court decisions, as well as rules and regulations promulgated by the SEC and the CFTC. These risks include, among others, potential liability from disputes over terms of a trade, the claim that a system failure or delay caused monetary losses to a customer, that we entered into an unauthorized transaction or that we provided materially false or misleading statements in connection with a transaction. Dissatisfied customers frequently make claims regarding quality of trade execution, improperly settled trades, mismanagement or even fraud against their service providers. We may become subject to these claims as the result of failures or malfunctions of our systems and services we provide. We could incur significant legal expenses defending claims, even those without merit. In addition, an adverse resolution of any future lawsuit or claim against us could have a material adverse effect on our business.

We could be harmed by employee misconduct or errors that are difficult to detect and deter.

There have been a number of highly publicized cases involving fraud or other misconduct by employees of financial services firms in recent years. Misconduct by our employees, including employees of GFX Corporation, our wholly owned subsidiary that engages in proprietary trading in foreign exchange and Eurodollar futures, could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of customers or improper use of confidential information. Employee misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Our employees also may commit errors that could subject us to financial claims for negligence, or otherwise, as well as regulatory actions.

Our acquisition, investment and alliance strategy involves risks. If we are unable to effectively manage these risks, our business will be materially harmed.

To achieve our strategic objectives, in the future we may seek to acquire or invest in other companies, businesses or technologies. Acquisitions entail numerous risks, including the following:

- difficulties in the assimilation of acquired businesses or technologies;

- diversion of management's attention from other business concerns;
- assumption of unknown material liabilities;
- failure to achieve financial or operating objectives; and
- potential loss of customers or key employees of acquired companies.

We may not be able to integrate successfully any operations, personnel, services or products that we have acquired or may acquire in the future.

We also may seek to expand or enhance some of our operations by forming joint ventures or alliances with various strategic partners throughout the world. Entering into joint ventures and alliances also entails risks, including difficulties in developing and expanding the business of newly formed joint ventures, exercising influence over the activities of joint ventures in which we do not have a controlling interest, and potential conflicts with our joint venture or alliance partners. For example, in 2001 we entered into an operating agreement governing OneChicago, our joint venture with CBOE and CBOT, to trade single stock futures and futures based on narrow-based stock indexes. Under the terms of our operating agreement, we own approximately a 40% interest in the joint venture, CBOE owns approximately a 40% interest and CBOT and management of OneChicago each own a minority interest. Our ability to control key decisions relating to the operation and development of OneChicago will be limited. In addition, under the terms of our operating agreement, until May 31, 2005, we are restricted from in any way engaging in the business of trading, marketing, regulating, selling, purchasing, clearing or settling transactions in single stock futures other than in conjunction with the joint venture. This restriction on our ability to compete applies whether or not we remain part of the joint venture, but it does not apply to futures based on narrow-based stock indexes. In 2002, we entered into an agreement with NYMEX to introduce e-miNY energy futures contracts, which trade on our GLOBEX electronic trading platform and clear at the NYMEX clearing house. During the term of the agreement and for one year thereafter, we are generally prohibited, other than in cooperation with NYMEX, from providing for or facilitating electronic trading in futures or options on futures contracts on any underlying commodity (or index of commodities) that is also the underlying commodity for a product listed for trading by NYMEX. We cannot assure you that any joint venture or alliance that we have entered into or may enter into in the future will be successful.

Our ability to successfully trade single stock futures and futures on narrow-based stock indexes may be impaired by statutory and regulatory provisions that limit our natural competitive advantages and expand opportunities for competitors.

The Commodity Futures Modernization Act, which authorized us to trade futures contracts based on individual securities and narrow-based stock indexes, or security futures, prohibited the implementation in connection with these contracts of many traditional features of futures trading that would have made using security futures cheaper, tax advantaged and more efficient than using similar security options and OTC security derivatives. The Commodity Futures Modernization Act also created a system of dual registration and regulation for security futures intermediaries and exchanges that may be costly and burdensome to the intermediaries and the exchanges and may discourage intermediaries and investors from using security futures. The Commodity Futures Modernization Act also eliminated most legal impediments to unregulated trading of security futures or similar products between qualified investors. In addition, foreign exchanges may be allowed to trade similar products under terms that will be more favorable than the terms we are permitted to offer our customers. Finally, security futures are subject to a number of complicated and controversial regulations. As a result, we cannot assure you that we, either directly or through our joint venture, OneChicago, will be successful in offering single stock futures or futures on narrow-based stock indexes.

The imposition in the future of regulations requiring that clearing houses establish linkages with other clearing houses whereby positions at one clearing house can be transferred to and maintained at, or otherwise offset by a fungible position existing at, another clearing house may have a material adverse effect on the operation of our business.

In connection with the trading of single stock futures and futures on narrow-based stock indexes, the Commodity Futures Modernization Act contemplates that clearing houses will, after an initial period, establish linkages enabling a position in any such product executed on an exchange for which it clears these products to be offset by an economically linked or fungible position on the opposite side of the market that is executed on another exchange utilizing a different clearing house. If, in the future, a similar requirement is imposed with respect to futures contracts generally, the resulting unbundling of trade execution and clearing services would have a material adverse effect on our revenues and profits.

Expansion of our operations internationally involves special challenges that we may not be able to meet, which could adversely affect our financial results.

We plan to continue to expand our operations internationally, including by directly placing order entry terminals with members and/or customers outside the United States and by relying on distribution systems established by our current and future strategic alliance partners. We face certain risks inherent in doing business in international markets, particularly in the regulated derivatives exchange business. These risks include:

- restrictions on the use of trading terminals or the contracts that may be traded;
- becoming subject to extensive regulations and oversight, tariffs and other trade barriers;
- reduced protection for intellectual property rights;
- difficulties in staffing and managing foreign operations; and
- potentially adverse tax consequences.

In addition, we will be required to comply with the laws and regulations of foreign governmental and regulatory authorities of each country in which we conduct business. These may include laws, rules and regulations relating to any aspect of the derivatives business. To date, we have had limited experience in marketing and operating our products and services internationally. We cannot assure you that we will be able to succeed in marketing our products and services in international markets. We may also experience difficulty in managing our international operations because of, among other things, competitive conditions overseas, management of foreign exchange risk, established domestic markets, language and cultural differences and economic or political instability. Any of these factors could have a material adverse effect on the success of our international operations and, consequently, on our business, financial condition and operating results.

We may not be able to protect our intellectual property rights, which may materially harm our business.

We rely primarily on trade secret, copyright, service mark, trademark and patent law and contractual protections to protect our proprietary technology and other proprietary rights. We have filed several patent applications covering our technology in the United States and certain other jurisdictions. Notwithstanding the precautions we take to protect our intellectual property rights, it is possible that third parties may copy or otherwise obtain and use our proprietary technology without authorization or otherwise infringe on our rights. We also seek to protect our software and databases as trade secrets and under copyright law. We have copyright registrations for certain of our software, user manuals and databases. The copyright protection afforded to databases, however, is fairly limited. While the arrangement and selection of data generally are protectable, the actual data may not be, and others may be free to create databases that would perform the same function. In some cases, including a number of our most important products, there may be no effective legal recourse against duplication by competitors. In addition, in the future, we may have to rely on litigation to enforce our intellectual property rights, protect our trade secrets, determine the validity and scope of the proprietary rights of others or defend against claims of infringement or invalidity. Any such litigation, whether successful or unsuccessful, could result in substantial costs to us and diversions of our resources, either of which could adversely affect our business.

Any infringement by us on patent rights of others could result in litigation and adversely affect our ability to continue to provide, or increase the cost of providing, electronic execution services.

Patents of third parties may have an important bearing on our ability to offer certain of our products and services. Our competitors as well as other companies and individuals may obtain, and may be expected to obtain in the future, patents related to the types of products and services we offer or plan to offer. We cannot assure you that we are or will be aware of all patents containing claims that may pose a risk of infringement by our products and services. In addition, some patent applications in the United States are confidential until a patent is issued and, therefore, we cannot evaluate the extent to which our products and services may be covered or asserted to be covered by claims contained in pending patent applications. In general, if one or more of our products or services were to infringe patents held by others, we may be required to stop developing or marketing the products or services, to obtain licenses to develop and market the services from the holders of the patents or to redesign the products or services in such a way as to avoid infringing on the patent claims. We cannot assess the extent to which we may be required in the future to obtain licenses with respect to patents held by others, whether such licenses would be available or, if available, whether we would be able to obtain such licenses on commercially reasonable terms. If we were unable to obtain such licenses, we may not be able to redesign our products or services to avoid infringement, which could materially adversely affect our business, financial condition and operating results.

*We only recently began operating as a for-profit company and have a limited operating history as a for-profit company. Accordingly, our historical and recent financial and business results may not be representative of what they may be in the future***.**

We have only operated as a for-profit company with private ownership interests since November 13, 2000. We have a limited operating history as a for-profit business on which you can evaluate our management decisions, business strategy and financial results. As a result, our historical and recent financial and business results may not be representative of what they may be in the future. We are subject to risks, uncertainties, expenses and difficulties associated with changing and implementing our business strategy that are not typically encountered by established for-profit companies. The major U.S. futures exchanges have operated historically as mutual, membership organizations. There is little history or experience in operating an exchange as a for-profit corporation upon which we can draw. As a not-for-profit company, our business strategy and fee structure were designed to provide profit opportunities for our members. We targeted profit levels that provided sufficient levels of working capital. Today, our for-profit initiatives are designed to increase our revenues, make us profitable, optimize volume and liquidity and create operating efficiencies. These initiatives may not yield the benefits or efficiencies we expect. For example, fee increases, volume and member discounts and new access rules to our markets may not separately result in higher revenues and profits or greater volume or liquidity in our markets. As a result, we may not be able to operate effectively as a for-profit corporation. It is possible that we may incur significant operating losses in the future and that we may not be able to achieve or sustain long-term profitability.

As a holding company, we are totally dependent on dividends from our operating subsidiary to pay dividends and other obligations.

We are a holding company with no business operations. Our only significant asset is the outstanding capital stock of our subsidiary. As a result, we must rely on payments from our subsidiary to meet our obligations. In 2003, we paid regular quarterly dividends of $0.14, $0.14, $0.14 and $0.21 per share to our Class A and Class B shareholders. As of September 3, 2003, our annual dividend target was increased from 20% of the prior year’s cash earnings to 30% of the prior year’s cash earnings. On February 5, 2004, we declared a quarterly dividend of $0.26 per share to the Class A and Class B shareholders. We currently expect that the earnings and cash flow of our subsidiary will primarily be retained and used by it in its operations, including servicing any debt obligations it may have now or in the future. Accordingly, our subsidiary may not be able to generate sufficient cash flow to pay a dividend or distribute funds to us in order to allow us to pay a dividend on or make a distribution in respect of our Class A common stock. Our existing credit facility, as well as future credit facilities, other future debt obligations and statutory provisions, may limit our ability to pay dividends.

ITEM 2. PROPERTIES

Our trading facilities and corporate headquarters are located at 20 South Wacker Drive in Chicago, Illinois. We occupy approximately 445,000 square feet of office space pursuant to a lease which expires in 2008. We have an option on three extensions that will allow us to continue to occupy this office space until November 2026. We also occupy 70,000 square feet of trading floor space under a lease with the CME Trust that expires in 2005. We have an option on three extensions that will allow us to continue to occupy this trading facility until October 2026. We maintain backup facilities for our electronic systems in separate office towers at 10 and 30 South Wacker Drive, and we opened a remote data center in a Chicago suburb that became operational in the third quarter of 2002. We also lease administrative office space in Washington, D.C., and Tokyo, Japan and both administrative and communication equipment space in London, England. We believe our facilities are adequate for our current operations and that additional space can be obtained if needed.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings and litigation arising in the ordinary course of business. As of the date of this Annual Report on Form 10-K, we are not a party to or, to our knowledge, threatened with any litigation or other legal proceeding that, in our opinion, could have a material adverse effect on our business, operating results or financial condition.

On October 14, 2003, the U.S. Futures Exchange, L.L.C. 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. The U.S. Futures Exchange, L.L.C. and U.S. Exchange Holdings, Inc. are seeking a preliminary injunction and treble damages. On December 12, 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. We believe this suit lacks factual or legal foundation and we intend to vigorously defend against these charges.

In November 2002, a former employee filed a complaint against CME in the Circuit Court of Cook County, Illinois (Case No. 02L014905), which was subsequently amended to allege common law claims of retaliatory discharge. CME moved to dismiss the action for failure to state a claim, which motion is awaiting ruling by the court. This individual is seeking damages in excess of $3 million in this action. CME has asserted three counterclaims against the former employee for breach of fiduciary duty, unlawful destruction of personal property and conversion. In June 2003, the former employee filed a complaint in the United States District Court for the Northern District of Illinois alleging that his employment was terminated because of his race in violation of Title VII, and that his employment termination violated Section 1981 (which prohibits discrimination in making and enforcing contracts). In this matter, the individual seeks reinstatement, back pay and benefits, punitive damages in the amount of $2 million, plus actual damages to be determined at trial. CME has asserted the same three counterclaims alleged in the state action in the federal action. Discovery in these matters is ongoing. Based on its investigation to date and advice from legal counsel, we believe these claims are without merit and intend to defend them vigorously.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The disclosure regarding market information and dividends required by this Item is included in CME Holdings' annual report to shareholders for the year ended December 31, 2003, under the heading "Share Information" on pages 93 through 95 and is incorporated herein by reference, pursuant to General Instruction G(2). The referenced information from CME Holdings' annual report to shareholders is included in Exhibit 13.1 to this document.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is included in CME Holdings' annual report to shareholders for the year ended December 31, 2003, under the heading "Selected Financial Data" on page 25 and is incorporated herein by reference, pursuant to General Instruction G(2). The referenced information from CME Holdings' annual report to shareholders is included in Exhibit 13.1 to this document.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is included in CME Holdings' annual report to shareholders for the year ended December 31, 2003, on pages 26 through 56 and is incorporated herein by reference, pursuant to General Instruction G(2). The referenced information from CME Holdings' annual report to shareholders is included in Exhibit 13.1 to this document.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is included in CME Holdings' annual report to shareholders for the year ended December 31, 2003, under the heading "Quantitative And Qualitative Disclosure About Market Risk" on pages 56 and 57 and is incorporated herein by reference, pursuant to General Instruction G(2). The referenced information from CME Holdings' annual report to shareholders is included in Exhibit 13.1 to this document.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is included in CME Holdings' annual report to shareholders for the year ended December 31, 2003, on pages 58 through 86 and is incorporated herein by reference, pursuant to General Instruction G(2). The referenced information from CME Holdings' annual report to shareholders is included in Exhibit 13.1 to this document.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The information required by this Item was previously reported by CME Holdings in a Current Report on Form 8-K, dated May 17, 2002.

ITEM 9.A CONTROLS AND PROCEDURES

(a) *Controls and Procedures.* Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this annual report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

(b) *Changes in Internal Control Over Financial Reporting.* There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is included in CME Holdings' Proxy Statement, dated March 11, 2004, under the headings "Nominees for Equity Directors" on pages 5 and 6, "Nominees for Class B-1 Director" on page 7, and "Nominees for Class B-2 Director" on page 8, "Members of the Board Not Standing for Election This Year" on pages 9 through 11, "Executive Officers" on pages 17 through 19, "Meetings of Our Board and Board Committees – Audit" on pages 12 and 13 and "Section 16(a) Beneficial Ownership Reporting Compliance" on page 41 and is incorporated herein by reference, pursuant to General Instruction G(3).

We have adopted a written code of business conduct applicable to all of our employees, including our Chief Executive Officer, Chief Financial Officer and other senior financial officers. In accordance with SEC rules and regulations, our code of business conduct is available on our Web site at *www.cme.com* under the "Investor Relations—Corporate Governance" link. We intend to disclose promptly on our Web site any substantive amendments to our code of business conduct and waivers granted to our executive officers. You may also obtain a copy of our Employee Code of Business Conduct by following the instructions in the section of this Annual Report on Form 10-K entitled "Item 1. Business — Available Information."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is included in CME Holdings' Proxy Statement, dated March 11, 2004, under the headings "Directors' Compensation and Benefits" on pages 16 and 17 and "Executive Compensation" on pages 31 through 40 and is incorporated herein by reference, pursuant to General Instruction G(3); provided, however, that the Report of the Compensation Committee and the Performance Graph contained in the Proxy Statement are not incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Equity Compensation Plan Information

The following table sets forth information regarding outstanding options and shares reserved for future issuance as of December 31, 2003.

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders(1)	489,300	$ 62.12	1,229,955
Equity compensation plans not approved by security holders(1)	2,257,171(2)	26.10	—
Total	2,746,471	32.52	1,229,955

(1) The Plan is our only equity compensation plan. Prior to our reorganization, CME issued options under the Chicago Mercantile Exchange Omnibus Stock Plan, which was not approved by CME shareholders. In connection with our reorganization, CME, as the sole stockholder of CME Holdings, approved the assumption by CME Holdings of the Chicago Mercantile Exchange Omnibus Stock Plan. After the reorganization, the plan was amended and restated as the CME Holdings Amended and Restated Omnibus Stock Plan. Options issued prior to the sole shareholder approval are listed in the table above as being made under an equity compensation plan not approved by security holders, and options issued after such time are listed above as being made under an equity compensation plan approved by security holders.

(2) Includes 1,397,847 shares of Class A common stock that may be issued to Mr. McNulty pursuant to the terms of his option based on the value of the option at December 31, 2003, assuming Mr. McNulty satisfied the exercise price in cash and CME Holdings elects to settle the option entirely with shares of Class A common stock.

The information required by the Item relating to the security ownership of certain beneficial owners and management is included in CME Holdings' Proxy Statement, dated March 11, 2004, under the heading "Security Ownership of Directors and Executive Officers" on pages 20 through 24 and "Security Ownership by Certain Owners" on page 25 and is incorporated herein by reference, pursuant to General Instruction G(3).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is included in CME Holdings' Proxy Statement, dated March 11, 2004, under the heading "Certain Business Relationships" on page 40 and is incorporated herein by reference, pursuant to General Instruction G(3).

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is included in CME Holdings' Proxy Statement, dated March 11, 2004, under the heading "Principal Accountant Fees and Services" on pages 27 and 28 and "Audit Committee Pre-Approval Policy" on page 28 and is incorporated herein by reference, pursuant to General Instruction G(3).

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements and Financial Statement Schedules

(1) Financial Statements

The following Consolidated Financial Statements and related Notes, together with the Report of Independent Auditors with respect thereto, appearing on pages 58 through 86 of CME Holdings' annual report to shareholders are included in Exhibit 13.1 hereto and are incorporated by reference herein:

Report of Independent Auditors

Consolidated Balance Sheets at December 31, 2003 and 2002

Consolidated Statements of Income for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

The following Financial Statement Schedules are filed as part of this Annual Report on Form 10-K:

Report of Independent Auditors on Financial Statement Schedules

Schedule I Condensed Financial Information at December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001

Schedule II Valuation and Qualifying Accounts for the Years Ended December 31, 2003, 2002 and 2001

All other schedules have been omitted because the information required to be set forth in those schedules is not applicable or is shown in the consolidated financial statements or notes thereto.

To the Board of Directors of Chicago Mercantile Exchange Holdings Inc.:

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Chicago Mercantile Exchange Holdings Inc. of our report dated February 2, 2004, included in the 2003 Annual Report to Shareholders of Chicago Mercantile Exchange Holdings Inc.

Our audits also included the financial statement schedules of Chicago Mercantile Exchange Holdings Inc. listed in Item 15(a). These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Chicago, Illinois
February 2, 2004

Schedule I - Condensed Financial Information of
Chicago Mercantile Exchange Holdings Inc. and Subsidiaries

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.
BALANCE SHEETS
(in thousands)

	At December 31	
	2003	**2002**
Assets		
Cash and cash equivalents	$ 99,942	$ 120,940
Marketable securities	176,745	—
Other current assets	1,451	—
Investment in CME, including advances to (from) CME of $596 in 2003 and ($3,388) in 2002	285,641	325,236
Total Assets	$ 563,779	$ 446,176
Liabilities and Shareholders' Equity		
Other current liabilities	$ 784	$ 37
Total shareholders' equity	562,995	446,139
Total Liabilities and Shareholders' Equity	$ 563,779	$ 446,176

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.
STATEMENTS OF INCOME
(in thousands)

	Year Ended December 31		
	2003	**2002**	**2001**
Revenues			
Interest income	$ 2,025	$ 93	$ —
Expenses	229	—	—
Income before income taxes and equity in net income of CME	1,796	93	—
Income tax provision	(731)	(37)	—
Income before equity in net income of CME	1,065	56	—
Equity in net income of CME	121,067	94,011	75,108
Net Income	$ 122,132	$ 94,067	$ 75,108

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.
STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31		
	2003	2002	2001
Cash Flows from Operating Activities:			
Net income	$ 122,132	$ 94,067	$ 75,108
Less equity in net income of CME	(121,067)	(94,011)	(75,108)
Adjustments to reconcile net income to cash provided by operating activities:			
Increase (decrease) in advances to / from CME	(3,984)	3,388	—
Increase in other current assets	(1,451)	—	—
Increase in other current liabilities	747	37	—
Net Cash Provided by (Used in) Operating Activities	(3,623)	3,481	—
Cash Flows from Investing Activities:			
Purchase of marketable securities	(176,745)	—	—
Dividend from CME	172,122	17,290	—
Net Cash Provided by (Used in) Investing Activities	(4,623)	17,290	—
Cash Flows from Financing Activities:			
Net proceeds from initial public offering	—	117,459	—
Exercise of stock options	7,878	—	—
Cash dividends to shareholders	(20,630)	(17,290)	—
Net Cash Provided by (Used in) Financing Activities	(12,752)	100,169	—
Net increase (decrease) in cash and cash equivalents	(20,998)	120,940	—
Cash and cash equivalents, beginning of year	120,940	—	—
Cash and Cash Equivalents, End of Year	$ 99,942	$ 120,940	$ —

Chicago Mercantile Exchange Holdings Inc. (CME Holdings) was organized in August 2001 to be the holding company for Chicago Mercantile Exchange Inc. (CME). On December 3, 2001, the reorganization of CME into a holding company structure was completed by merging CME into a wholly owned subsidiary of CME Holdings. CME Holdings, the registrant, has no long-term liabilities, material contingencies or guarantees.

Cash dividends paid to CME Holdings from CME amounted to $172.1 million and $17.3 million in 2003 and 2002, respectively. CME Holdings accounts for its investment in CME under the equity method.

Chicago Mercantile Exchange Holdings Inc. and Subsidiaries
Schedule II - Valuation and Qualifying Accounts
For the Years Ended December 31, 2003, 2002 and 2001
(dollars in thousands)

Description	Balance at Beginning of Year	Charged to Costs and Expenses	Charged to Revenues	Deductions (1)	Balance at End of Year
Year ended December 31, 2003:					
Allowance for doubtful accounts	$1,232	$(95)	$—	$(271)	$866
Accrued fee adjustments	3,137	—	13,209	(14,360)	1,986
Year ended December 31, 2002:					
Allowance for doubtful accounts	$962	$771	$—	$(501)	$1,232
Accrued fee adjustments	2,241	—	20,656	(19,760)	3,137
Year ended December 31, 2001:					
Allowance for doubtful accounts	$1,700	$1,733	$—	$(2,471)	$962
Accrued fee adjustments	5,215	—	12,149	(15,123)	2,241

(1) Includes write-offs of doubtful accounts and payments for fee adjustments.

(b) Reports on Form 8-K

On October 1, 2003, Chicago Mercantile Exchange Holdings Inc. furnished a Current Report on Form 8-K reporting under Item 9 that it had issued a press release announcing certain management changes and the treatment of stock options in connection with such changes.

On October 10, 2003, Chicago Mercantile Exchange Holdings Inc. furnished a Current Report on Form 8-K reporting under Item 9 that it had issued a joint press release with The Nasdaq Stock Market, Inc. announcing that they had reached an agreement to expand the relationship between the parties.

On October 22, 2003, Chicago Mercantile Exchange Holdings Inc. furnished a Current Report on Form 8-K reporting under Item 12 that it had issued a press release reporting its financial results for the third quarter of 2003.

(c) Exhibits

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of October 1, 2001, between Chicago Mercantile Exchange Inc., Chicago Mercantile Exchange Holdings Inc. and CME Merger Subsidiary Inc. (incorporated by reference to Exhibit 2.1 to Chicago Mercantile Exchange Holdings Inc.'s Form S-4, filed with the SEC on August 7, 2001, File No. 33-66988).
3.1	Amended and Restated Certificate of Incorporation of Chicago Mercantile Exchange Holdings Inc. (incorporated by reference to Exhibit 3.1 to Chicago Mercantile Exchange Holdings Inc.'s Current Report on Form 8-K, filed with the SEC on December 4, 2001, File No. 0-33379).
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Chicago Mercantile Exchange Holdings Inc. (incorporated by reference to Exhibit 3.2 to Chicago Mercantile Exchange Holdings Inc.'s Current Report on Form 8-K, filed with the SEC on May 16, 2002, File No. 0-33379).

Exhibit Number	Description of Exhibit
3.3	Second Amended and Restated Bylaws of Chicago Mercantile Exchange Holdings Inc., as amended November 7, 2002 (incorporated by reference to Exhibit 3.3 to Chicago Mercantile Exchange Holdings Inc.'s Registration Statement on Form S-1, filed with the SEC on December 5, 2002, File No.333-90106).
4.1	Rights Agreement, dated as of November 30, 2001, between Chicago Mercantile Exchange Holdings Inc. and Mellon Investor Services LLC (incorporated by reference to Exhibit 4.1 to Chicago Mercantile Exchange Holding's Inc.'s Form 8-A, filed with the SEC on December 4, 2001).
4.2	First Amendment to Rights Agreement, dated as of November 13, 2002, between Chicago Mercantile Exchange Holdings Inc., Mellon Investor Services, LLC and Computershare Investor Services, LLC (incorporated by reference to Exhibit 5 to Chicago Mercantile Exchange Holdings Inc.'s Form 8-A, filed with the SEC on November 29, 2002).
10.1**	Chicago Mercantile Exchange Holdings Inc. Amended and Restated Omnibus Stock Plan, amended and restated effective as April 23, 2002 and as further amended on February 5, 2003 (incorporated by reference to Exhibit 10.1 to Chicago Mercantile Exchange Holdings Inc.'s Registration Statement on Form S-8, filed with the SEC on May 14, 2003, File No. 333-105236).
10.2**	Chicago Mercantile Exchange Inc. Senior Management Supplemental Deferred Savings Plan, including First Amendment thereto, dated December 14, 1994, Second Amendment thereto, dated December 8, 1998 and Administrative Guidelines thereto (incorporated by reference to Exhibit 10.2 to Chicago Mercantile Exchange Inc.'s Form S-4, filed with the SEC on February 24, 2000, File No. 33-95561).
10.3**	Chicago Mercantile Exchange Inc. Directors' Deferred Compensation Plan, including First Amendment thereto, dated December 8, 1998 (incorporated by reference to Exhibit 10.3 to Chicago Mercantile Exchange Inc.'s Form S-4, filed with the SEC on February 24, 2000, File No. 33-95561).
10.4**	Chicago Mercantile Exchange Inc. Supplemental Executive Retirement Plan, including First Amendment thereto, dated December 31, 1996, Second Amendment thereto, dated January 14, 1998 and Third Amendment thereto, dated December 1998 (incorporated by reference to Exhibit 10.4 to Chicago Mercantile Exchange Inc.'s Form S-4, filed with the SEC on February 24, 2000, File No. 33-95561).
10.5**	Chicago Mercantile Exchange Inc. Supplemental Executive Retirement Trust, including First Amendment thereto, dated September 7, 1993 (incorporated by reference to Exhibit 10.5 to Chicago Mercantile Exchange Inc.'s Form S-4, filed with the SEC on February 24, 2000, File No. 33-95561).
10.6**	Agreement, dated February 7, 2000, between Chicago Mercantile Exchange Holdings Inc. and James J. McNulty, including the First Amendment thereto, dated November 28, 2000 and Second Amendment thereto, dated November 13, 2002 (incorporated by reference to Exhibit 10.6 to Chicago Mercantile Exchange Inc.'s Form S-1, filed with the SEC on December 2, 2002, File No. 333-90106).
10.7*	License Agreement, effective as of September 24, 1997, between Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., and Chicago Mercantile Exchange Inc. (incorporated by reference to Exhibit 10.13 to Chicago Mercantile Exchange Inc.'s Form S-4, filed with the SEC on March 10, 2000, File No. 33-95561).
10.8*	Amendments to the License Agreement, effective as of September 24, 1997, between Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., and Chicago Mercantile Exchange Inc., including Letter Agreement, dated March 1, 1999; Letter Agreement dated April 14, 1999; Letter Agreement, dated December 26, 2001; Letter Agreement, dated January 17, 2002; Letter Agreement, dated April 22, 2002; and Amendment, effective April 22, 2002 (incorporated by reference to Exhibit 10.8 to Chicago Mercantile Exchange Holdings Inc. Form 10-K, filed with the SEC on March 21, 2003).
10.9***	License Agreement, effective as October 9, 2003, between The Nasdaq Stock Market, Inc., a subsidiary of National Association of Securities Dealers, Inc., and Chicago Mercantile Exchange Inc.
10.10*	Central Services System (NSC) Software License and Development Agreement, effective June 5, 1997, including First Amendment thereto, effective February 24, 1998, Second Amendment thereto, effective July 13, 1998, and Third Amendment thereto, effective January 30, 2001, between SBF Bourse de Paris and Chicago Mercantile Exchange Inc. (incorporated by reference to Exhibit 10.10 to Chicago Mercantile Exchange Holdings Inc.'s Form S-4, filed with the SEC on August 7, 2001, File No. 33-66988).

Exhibit Number	Description of Exhibit
10.11*	Amendment, dated December 26, 2002, to the Central Services System (NSC) Software License and Development Agreement, effective June 5, 1997, between SBF Bourse de Paris and Chicago Mercantile Exchange Inc. (incorporated by reference to Exhibit 10.11 to Chicago Mercantile Exchange Holdings Inc. Form 10-K, filed with the SEC on March 21, 2003).
10.12*	CLEARING 21 Software Marketing and Distribution Agreement Restatement, effective January 30, 2001, between Societe Des Bourses Francaises, and its successor, Euronext-Paris, and Chicago Mercantile Exchange Inc. and New York Mercantile Exchange Inc. (incorporated by reference to Exhibit 10.12 to Chicago Mercantile Exchange Holdings Inc.'s Form S-4, filed with the SEC on August 7, 2001, File No. 33-66988).
10.13*	Non-Termination Agreement, effective December 26, 2002, Regarding the CLEARING 21 Software Marketing and Distribution Agreement Restatement, effective January 30, 2001, between Societe Des Bourses Francaises, and its successor, Euronext-Paris, and Chicago Mercantile Exchange Inc. and New York Mercantile Exchange Inc. and Amendment No. 1, dated December 26, 2002, to the CLEARING 21 Software Marketing and Distribution Agreement Restatement, effective January 30, 2001, between Societe Des Bourses Francaises, and its successor, Euronext-Paris, and Chicago Mercantile Exchange Inc. and New York Mercantile Exchange Inc. (incorporated by reference to Exhibit 10.13 to Chicago Mercantile Exchange Holdings Inc. Form 10-K, filed with the SEC on March 21, 2003).
10.14	Lease, dated as of November 11, 1983, between Chicago Mercantile Exchange Trust (successor to CME Real Estate Co. of Chicago, Illinois) and Chicago Mercantile Exchange Inc., including amendment thereto, dated as of December 6, 1989 (incorporated by reference to Exhibit 10.14 to Chicago Mercantile Exchange Inc.'s Form S-4 dated February 24, 2000, File No. 33-95561).
10.15	Lease, dated March 31, 1988, between EOP—10 & 30 South Wacker, L.L.C., as beneficiary of a land trust, dated October 1, 1997, and known as American National Bank and Trust Company of Chicago Trust No. 123434 (as successor in interest to American National Bank and Trust Company of Chicago, not individually but solely as trustee under Trust Agreement dated June 2, 1981 and known as Trust No. 51234) and Chicago Mercantile Exchange Inc. relating to 10 South Wacker Drive, including First Amendment thereto, dated as of November 1, 1999 (incorporated by reference to Exhibit 10.15 to Chicago Mercantile Exchange Inc.'s Form S-4, filed with the SEC on February 24, 2000, File No. 33-95561), second amendment thereto, dated January 7, 2002, Third Amendment thereto, dated May 3, 2002, Fourth Amendment thereto, dated August 22, 2002 and Fifth Amendment thereto, dated October 1, 2002 (incorporated by reference to Exhibit 10.12 to Chicago Mercantile Exchange Holdings Inc.'s Form S-1, filed with the SEC on December 2, 2002, File No. 333-90106).
10.16	Lease, dated May 11, 1981, between EOP—10 & 30 South Wacker, L.L.C., as beneficiary of a land trust, dated October 1, 1997, and known as American National Bank and Trust Company of Chicago Trust No. 123434-06 (as successor in interest to American National Bank and Trust Company of Chicago, not individually but solely as trustee under Trust Agreement dated March 20, 1980 and known as Trust No. 48268) and Chicago Mercantile Exchange Inc. relating to 30 South Wacker Drive, including First Amendment thereto, dated as of February 1, 1982, Second Amendment thereto, dated as of April 26, 1982, Third Amendment thereto, dated as of June 29, 1982, Fourth Amendment thereto, dated as of July 28, 1982, Fifth Amendment thereto, dated as of October 7, 1982, Sixth Amendment thereto, dated as of July 5, 1983, Seventh Amendment thereto, dated as of September 19, 1983, Eighth Amendment thereto, dated as of October 17, 1983, Ninth Amendment thereto, dated as of December 3, 1984, Tenth Amendment thereto, dated as of March 16, 1987, Eleventh Amendment thereto, dated as of January 1, 1999, Twelfth Amendment thereto, dated as of June 30, 1999 (incorporated by reference to Exhibit 10.16 to Chicago Mercantile Exchange Inc.'s Form S-4, filed with the SEC on February 24, 2000, File No. 33-95561).
10.17	Credit Agreement, dated as of October 18, 2002, among Chicago Mercantile Exchange Inc., each of the banks from time to time party thereto and the Bank of New York, as collateral agent (incorporated by reference to Exhibit 10.14 to Chicago Mercantile Exchange Holdings Inc.'s Registration on Form S-1 filed with SEC on November 12, 2002, File No. 333-90106).
10.18**	Agreement, dated November 7, 2003 between Chicago Mercantile Exchange Inc. and Craig S. Donohue.
10.19**	Agreement, dated November 7, 2003 between Chicago Mercantile Exchange Inc. and Phupinder Gill.
10.20**	Chicago Mercantile Exchange Holdings Inc. Annual Incentive Plan (incorporated by reference to Exhibit 10.1 to Chicago Mercantile Exchange Holdings Inc.'s Form 10-Q filed with the SEC on August 11, 2003).

Exhibit Number	Description of Exhibit
10.21***	Clearing Services Agreement, dated April 16, 2003, between Chicago Mercantile Exchange Inc. and The Board of Trade of the City of Chicago, Inc. (incorporated by reference to Exhibit 10.3 to Chicago Mercantile Exchange Holdings Inc.'s Form 10-Q filed with the SEC on August 11, 2003).
10.22**	Agreement, dated as of July 10, 2003, between Chicago Mercantile Exchange Inc. and David G. Gomach (Incorporated by reference to Exhibit 10.4 to Chicago Mercantile Exchange Holdings Form 10-Q filed with the SEC on August 11, 2003).
10.23**	Agreement, dated November 21, 2003, between Chicago Mercantile Exchange Inc. and James Krause.
13.1	Specified portions of Chicago Mercantile Exchange Holdings Inc.'s annual report to shareholders for the year ended December 31, 2003.
21.1	List of Subsidiaries of Chicago Mercantile Exchange Holdings Inc. (incorporated by reference to Exhibit 21.1 to Chicago Mercantile Exchange Holdings Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001, filed with SEC on March 28, 2002).
23.1	Consent of Ernst & Young LLP.
23.2	Consent of Ernst & Young LLP
31.1	Section 302 Certification – Craig S. Donohue, Chief Executive Officer.
31.2	Section 302 Certification – David G. Gomach – Managing Director and Chief Financial Officer.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Confidential treatment pursuant to Rule 406 of the Securities Act has been previously granted by the SEC.

** Management contract or compensatory plan or arrangement.

*** Portions of this exhibit have been omitted and filed separately with the SEC pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Exchange Act.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago and State of Illinois on the 10th day of March, 2004.

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.

By: /s/ DAVID G. GOMACH

David G. Gomach
Managing Director and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 10, 2004.

Signature	Title
/s/ CRAIG S. DONOHUE Craig S. Donohue	Chief Executive Officer and Director
/s/ TERRENCE A. DUFFY Terrence A. Duffy	Chairman of the Board and Director
/s/ DAVID G. GOMACH David G. Gomach	Managing Director and Chief Financial Officer
/s/ NANCY W. GOBLE Nancy W. Goble	Managing Director and Chief Accounting Officer
/s/ TIMOTHY R. BRENNAN Timothy R. Brennan	Director
/s/ MARTIN J. GEPSMAN Martin J. Gepsman	Director
/s/ DANIEL R. GLICKMAN Daniel R. Glickman	Director
/s/ SCOTT GORDON Scott Gordon	Director
/s/ BRUCE F. JOHNSON Bruce F. Johnson	Director
/s/ GARY M. KATLER Gary M. Katler	Director

/s/ PATRICK B. LYNCH	Director
Patrick B. Lynch	
/s/ LEO MELAMED	Director
Leo Melamed	
/s/ WILLIAM P. MILLER II	Director
William P. Miller II	
/s/ JOHN D. NEWHOUSE	Director
John D. Newhouse	
/s/ JAMES E. OLIFF	Director
James E. Oliff	
/s/ WILLIAM G. SALATICH	Director
William G. Salatich	
/s/ JOHN F. SANDNER	Director
John F. Sandner	
/s/ TERRY L. SAVAGE	Director
Terry L. Savage	
/s/ WILLIAM R. SHEPARD	Director
William R. Shepard	
/s/ HOWARD J. SIEGEL	Director
Howard J. Siegel	
/s/ DAVID J. WESCOTT	Director
David J. Wescott	

Exhibit 10.9

Portions of this exhibit have been omitted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission. The omissions have been indicated by asterisks ("*****"), and the omitted text has been filed separately with the Securities and Exchange Commission.

CONFIDENTIAL

Agreement for Nasdaq-100 Index®
and Nasdaq Composite Index® Futures Products

THIS "AGREEMENT" is made as of October 9, 2003 (the "Effective Date") by and between The Nasdaq Stock Market, Inc. ("Nasdaq"), a Delaware Corporation (Nasdaq and its subsidiaries and affiliates are collectively referred to as the "Corporations"), whose principal place of business is located at One Liberty Plaza, 165 Broadway, New York, NY 10006, and Chicago Mercantile Exchange Inc., a Delaware Corporation ("CME"), whose principal place of business is located at 30 S. Wacker Drive, Chicago, Illinois 60606.

WHEREAS, Nasdaq possesses certain rights in the **Nasdaq-100 Index®** and the **Nasdaq Composite Index®** (each an "Index" and, collectively, the "Indexes");

WHEREAS, Nasdaq and CME are parties to a Licensing Agreement for the Nasdaq-100 Index for Nasdaq-100-Related Financial Products Traded on Organized Markets entered into as of April 3, 1996, as amended on May 6, 1996 and as further amended on October 13, 1999 (the "Prior License Agreement");

WHEREAS, Nasdaq possesses certain rights to Nasdaq®, Nasdaq-100®, Nasdaq-100 Index®, Nasdaq Composite® and Nasdaq Composite Index® as trade names, trademarks or service marks ("Marks");

WHEREAS, Nasdaq determines the components of the Indexes, calculates, maintains, and disseminates the Indexes;

WHEREAS, CME desires to use and Nasdaq desires to license the right to use the Indexes and Marks solely in connection with (i) the creation, listing, trading, clearing, settlement, marketing, and promotion of Futures Products (as defined in Section 2.2 below) overlying the Indexes and (ii) making disclosure about such contracts under applicable law, rules and regulations in order to indicate that Nasdaq is the source of the Indexes; and

WHEREAS, CME is legally authorized to engage in such activities and will do so in accordance with applicable law;

NOW THEREFORE, in consideration of the premises and the mutual covenants and conditions herein contained, CME and Nasdaq, intending to be legally bound, agree as follows:

Section 1. Term and Life of Agreement.

1.1. Term. The "Term" of this Agreement shall be as set forth in Attachment II.

1.2. Life. The "Life" of this Agreement is until one (1) year after the date of the expiration or cancellation of the last Futures Product listed under this Agreement.

Section 2. License Grant.

2.1. Scope. Nasdaq hereby grants CME an exclusive, non-transferable and non-sub-licenseable license to use the Indexes in connection with the creation, listing, trading, clearing, settlement, marketing, and promotion of Futures Products (as defined in Section 2.2 below) overlying the Indexes that are listed for trading by CME during the Term of this Agreement. Through this Agreement, Nasdaq further grants CME the right to use the Marks solely in materials referring or relating to Futures Products during the Life of this Agreement. No license is granted to use the Indexes or Marks for any other use, except as may be specifically authorized under this Agreement or as expressly permitted with the Consent of Nasdaq.

2.2 Futures Products. "Futures Products" shall mean "Futures Contracts" and "Options on Futures Contracts" as defined below. As used in this Agreement, Futures Products, Futures Contracts and Options on Futures Contracts shall mean those that are based upon an Index, as defined above and as further defined in Attachment I, unless the context otherwise requires.

(a) "Futures Contracts" shall mean all instruments: (i) the listing and/or trading of which is within (or would have been within, with respect to new product formats) the exclusive regulatory jurisdiction of the Commodity Futures Trading Commission ("CFTC") as of the Effective Date (assuming for this purpose that the instruments were traded in the United States regardless of where they actually are traded); (ii) that are (or would have been) regulated by the CFTC as futures contracts as of the Effective Date (assuming for this purpose that the instruments were traded in the United States regardless of where they actually are traded); and (iii) that CME has or will have the authority under its articles, by-laws, and rules to list and/or trade. For the avoidance of doubt, the parties agree that "Futures Contracts" as used in this Agreement shall not include (x) unlisted or unregistered instruments or (y) underwritten or privately placed instruments.

(b) "Options on Futures Contracts" shall mean options to purchase or sell Futures Contracts.

2.3 Prior License Agreement Superseded. As of the Effective Date, the Prior License Agreement is superseded and replaced with this Agreement.

Section 3. Fees and Marketing Commitment.

3.1. Payment of Fees. During the Life of this Agreement, CME shall pay Nasdaq the fees specified in Attachment III ("Fees"), in immediately available United States funds. Fees established as due by a particular date are due by that date. All other Fees are due within thirty (30) days of the date established for the production of the report or date of the invoice upon which the Fee is based. Any amount not paid within thirty (30) days after its due date is subject to interest at the rate of one and one-half percent (1.5%) per month (or the highest rate permitted by law) until paid, plus costs of collection, including reasonable attorneys' fees. CME shall also assume full and complete responsibility for the payment of any taxes, charges or assessments imposed on CME or the Corporations by any foreign or domestic national, state, provincial, local or other government bodies, or subdivisions thereof, and any penalties or interest, (other than personal property or income taxes imposed on Nasdaq) relating to this Agreement. In addition, if CME is required by applicable law to deduct or withhold any such tax, charge or assessment from the amounts due Nasdaq, then such amounts due shall be increased so that the net amount actually received by Nasdaq after the deduction or withholding of any such tax, charge or assessment, will equal one hundred percent (100%) of the charges specified. Notwithstanding the foregoing, if CME is obligated to assume responsibility for the payment of any such taxes, charges or assessments imposed upon the Corporations, CME may terminate this Agreement by delivering Notice to Nasdaq within sixty (60) days after receiving notice of the imposition, provided that such termination shall not relieve CME of its obligation to pay any such taxes, charges or assessments that are assessed during the remaining Life of the Agreement.

3.2. Marketing Commitment. During the Term of this Agreement, CME shall market the Indexes and Futures Products in accordance with the provisions set forth in Attachment III.

Section 4. Audit Rights. During the Life of this Agreement, Nasdaq shall have the right, with reasonable Notice to CME, during normal business hours, to audit on a confidential basis, any relevant books and records of CME to ensure that: (a) the type and amount of Fees calculated or stated to be payable to Nasdaq are complete and accurate, and (b) CME has fulfilled its marketing commitments as set forth in Attachment III. CME shall bear the reasonable costs of such audit (including accountant and attorneys' fees, if incurred) if (x) CME has not paid, calculated, and/or reported Fees of more than five percent (5%) of that due Nasdaq under this Agreement, or (y) CME has under-performed on its marketing obligations by greater than five percent (5%) of the amount it is obligated to spend.

Section 5. Review of Materials.

5.1. CME shall submit to Nasdaq for review a copy of any material submitted to any regulatory body or governmental agency that is required in order to obtain approval for the listing of any Futures Product. To the extent practicable, such materials or a copy of the then best draft shall be given to Nasdaq at least three (3) business days before their submittal to the body or agency (but in any event, a copy of the final document shall be sent by Notice to Nasdaq no later than three (3) business days after submittal to the agency or body).

5.2. CME shall give Nasdaq a copy, within three (3) business days of receipt, of any notice, correspondence, process, or other material received from any regulatory body, governmental agency, or any court, during or after the approval process which indicates that any Futures Product is or might be in violation of, or otherwise not subject to approval because of, any law, or any rule, regulation, or order of any applicable body or agency.

5.3. CME shall provide Nasdaq with a copy of any informational or promotional materials referring or relating to the listing for trading of any Futures Product, including any prospectus, offering memorandum, registration statement, circular, advertisement or brochure at least three (3) business days prior to its initial dissemination to third parties. CME need not resupply a copy of any material which is substantially like material previously submitted to Nasdaq and is identical as it describes the Corporations or their operations, the markets operated by the Corporations, the Indexes or the Marks, or the authorization, review, or endorsement of the Corporations of the Futures Product.

5.4. If Nasdaq reasonably objects by Notice or fax transmission to CME to any material as it describes the Corporations or their operations, the markets operated by the Corporations, the Indexes or the Marks, or the authorization, review, or endorsement of the Corporations of the Futures Products, CME shall alter or withdraw such material to Nasdaq's satisfaction within thirty (30) days of receipt of Nasdaq objection. If CME refuses to so alter or withdraw, Nasdaq may terminate the Term of this License with regard to that Futures Product, upon thirty (30) days Notice to CME, with an opportunity to cure within that period.

Section 6. Protection of Marks. Nasdaq will use reasonable efforts to maintain and protect the value of the Indexes and the Marks. However, nothing shall obligate Nasdaq to undertake an action or settlement, or refrain from an action or settlement with respect to any particular potential, threatened, or actual infringement of its Indexes or Marks. CME shall cooperate with Nasdaq in maintenance, registrations, and policing of Nasdaq's rights in the Indexes and the Marks. Such cooperation is not a waiver of nor shall it require violation of its attorney/client, work product, or other privilege.

Section 7. Calculation of Index.

7.1 At no cost to CME other than the Fees, Nasdaq or its agent shall (a) compute and provide to CME the value of each Index ***** during Nasdaq's normal trading hours; and (b) shall compute and disseminate to CME's communications center the "Opening Settlement Value" of each Index on each trading day that is the last scheduled day of trading in the securities comprising each Index prior to the expiration of any Futures Product traded on CME's market. The term "Opening Settlement Value" shall mean the Index Value derived using the Volume-Weighted Opening Prices of the securities in the Index. The "Volume-Weighted Opening Price" for a particular Index-component security shall be calculated based on *****, except that if an Index-component security does not open for trading on The Nasdaq Stock Market on that day, then the reported sale price for the security last received and processed by Nasdaq shall be used to calculate the Opening Settlement Value. In the event that Nasdaq implements a Unitary Opening Price Procedure, the Opening Settlement Value may be calculated using such unitary opening process instead of Volume-Weighted Prices. The term "Unitary Opening Price Procedure" shall mean a methodology, practice, procedure, or mechanism used by Nasdaq to generate opening prices for Index-component securities that involves gathering, processing and executing buying and selling interest in Index-component securities at one price at the opening of trading on The Nasdaq Stock Market. Nasdaq or its agent shall maintain a back-up computer system and use its best efforts to resume promptly the calculation of each Index in the event of a failure of the primary computer system used for such calculations.

7.2. CME agrees that the Indexes are the product of the selection, coordination, arrangement, and editing of Nasdaq and that such efforts involve the considerable expenditure by Nasdaq of time, effort, and judgment. As between the parties, CME recognizes that Nasdaq is the rightful licensor of the Indexes and the Marks. No license is granted to CME to calculate the Indexes. While Nasdaq will use reasonable efforts based on sources deemed reliable in calculating the Indexes, **NASDAQ DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF THE INDEXES OR OF THE DATA USED TO CALCULATE THE INDEXES OR DETERMINE INDEX COMPONENTS, OR THE UNINTERRUPTED OR UN-DELAYED CALCULATION OR DISSEMINATION OF THE INDEXES. NASDAQ DOES NOT GUARANTEE THAT THE INDEXES ACCURATELY REFLECTS PAST, PRESENT, OR FUTURE MARKET PERFORMANCE. NASDAQ IS NOT RESPONSIBLE FOR ANY MANIPULATION OR ATTEMPTED MANIPULATION OF THE INDEXES BY MEMBERS OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS ("NASD").** Nasdaq is free to pick and alter the components and method of calculation of the Indexes without Consent of CME.

7.3. Nasdaq shall give CME ***** Notice of the cessation of public calculation or dissemination of any Index. However, Nasdaq shall either continue to provide CME with a calculation of each Index for the Life of this Agreement, or, on a Confidential basis, provide CME with the then applicable method of calculation of each Index. CME may terminate the Term of this Agreement with respect to an Index on the date Noticed by Nasdaq for the cessation or dissemination of such Index. Without regard to whether CME terminates the Term of this Agreement with respect to an Index, if CME begins calculating an Index in accordance with this Section 7.3, CME may deduct from Fees owed with respect to such Index its reasonable, incremental and direct costs associated with the requirement that it (rather than Nasdaq or its agent) is calculating the Index.

7.4. Upon receipt of any Notice of termination of the calculation or dissemination of an Index by Nasdaq, CME may also elect, by written Notice to Nasdaq, to redesignate such Index and Futures Products based thereon as CME's index (a "Substitute Index") and continue to trade Futures Products based upon such Substitute Index ("CME Substitute Products"), except that, from the time of receipt of such Notice of election until termination of the Life of this Agreement, such Substitute Index shall be described in a manner to clearly differentiate it from the applicable Index. In the event of such election, CME shall have no obligation to make any payment to Nasdaq based upon the trading of CME Substitute Products. After such election, CME may promote CME Substitute Products based upon the Substitute Index provided that the Marks are not utilized by CME in such promotion and the CME prominently disclaims any relationship with Nasdaq in respect of the Substitute Index or CME Substitute Products. Upon CME's written request pursuant to this Section 7.4, Nasdaq shall, for the purpose of facilitating CME's compilation and use of its own Substitute Index, provide CME, on a confidential basis under Section 16 of this Agreement, a one-time, comprehensive disclosure of the information and methodologies necessary for calculating the relevant Index, including without limitation a current and accurate list of the companies, shares outstanding and divisors for the Index in question, and Nasdaq hereby grants CME a non-exclusive and royalty-free license to use any proprietary information so disclosed for purposes relating to the Substitute Index and CME Substitute Products until October 9, 2012.

7.5. With respect to the Nasdaq-100 Index®, CME may continue to disseminate, only to its members (and incidental invitees) while on its trading floor, a "Quick Cash Value" that is an unofficial value of the Nasdaq-100 Index. CME must provide notice to its members that the Quick Cash Value is an unofficial calculation of the Index, that it may or may not accurately reflect the value of the Index, and that Nasdaq has no responsibility or liability for the creation, calculation, accuracy or dissemination of the Quick Cash Value.

Section 8. <u>Marking of CME's Use</u>.

8.1. CME shall include the following language in its rules at or prior to the time that Futures Products start to trade on CME's market (in conspicuous type, such as at least 11 point type and the second paragraph in bold) so as to be enforceable under applicable local law(s):

> [Insert name of relevant Futures Products] are not sponsored, endorsed, sold or promoted by The Nasdaq Stock Market, Inc. (including its affiliates) (Nasdaq, with its affiliates, are referred to as the *Corporations*). The Corporations have not passed on the legality or suitability of, or the accuracy or adequacy of descriptions and disclosures relating to, [Insert name of relevant Futures Products]. The Corporations make no representation or warranty, express or implied to the owners of [Insert name of relevant Futures Products] or any member of the public regarding the advisability of investing in securities generally or in [Insert name of relevant Futures Products] particularly, or the ability of the Nasdaq [Insert Proper Name of Index]® to track general stock market performance. Nasdaq has no obligation to take the needs of the CME or the owners of [Insert name of relevant Futures Products] into consideration in determining, composing or calculating the Nasdaq [Insert Proper Name of Index]®. The Corporations are not responsible for and have not participated in the determination of the timing of, prices at, or quantities of [Insert name of relevant Futures Products] to be issued or in the determination or calculation of the equation by which [Insert name of relevant Futures Products] are to be converted into cash. The Corporations have no liability in connection with the administration, marketing or trading of [Insert name of relevant Futures Products].
>
> **THE CORPORATIONS DO NOT GUARANTEE THE ACCURACY AND/OR UNINTERRUPTED CALCULATION OF THE NASDAQ [INSERT PROPER NAME OF INDEX]® OR ANY DATA INCLUDED THEREIN. THE CORPORATIONS MAKE NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY CME, OWNERS OF [INSERT NAME OF RELEVANT FUTURES PRODUCTS], OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE**

NASDAQ [INSERT PROPER NAME OF INDEX]® OR ANY DATA INCLUDED THEREIN. THE CORPORATIONS MAKE NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIM ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE NASDAQ [INSERT PROPER NAME OF INDEX]® OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL THE CORPORATIONS HAVE ANY LIABILITY FOR ANY LOST PROFITS OR SPECIAL, INCIDENTAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES, EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

8.2. In all other materials relating or referring to a Futures Product, except for materials specifically covered by Section 8.3 below, CME shall include at least this much of the above language, or similar formulation:

Nasdaq®, [Insert Appropriate Nasdaq Index Marks] are trademarks of The Nasdaq Stock Market, Inc. (which with its affiliates are the *Corporations*) and are licensed for use by Chicago Mercantile Exchange Inc. The [Insert name of relevant Futures Products] have not been passed on by the Corporations as to their legality or suitability. The [Insert name of relevant Futures Products] are not issued, endorsed, sold, or promoted by the Corporations. **THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE [INSERT NAME OF RELEVANT FUTURES PRODUCTS].**

8.3. In materials that identify Nasdaq Index Futures Products by name, but do not describe the products in detail or identify particular mechanisms for trading Nasdaq Index Futures Products, CME shall include the following language, or similar formulation:

"Nasdaq®, [Insert Appropriate Nasdaq Index Marks] are trademarks of The Nasdaq Stock Market, Inc., used under license."

Section 9. Sub-Licensees. [Intentionally Omitted].

Section 10. Limited Warranty. Nasdaq warrants that it will calculate each Index in accordance with its then applicable method for calculation of such Index. **CME'S SOLE REMEDY IN EVENT OF A FAILURE OF THIS WARRANTY IS TO HAVE NASDAQ RECALCULATE THE INDEX FOR THE AFFECTED TIMES ACCORDING TO NASDAQ'S APPLICABLE METHOD FOR CALCULATION OF THE INDEX AT THE AFFECTED TIME(S). NASDAQ WILL ONLY BE LIABLE FOR BREACH OF THE WARRANTY SET FORTH IN THIS SECTION IF NASDAQ IS UNABLE OR UNWILLING TO REASONABLY CALCULATE AN INDEX FOR AN AFFECTED PERIOD OF OVER SEVEN (7) CONSECUTIVE BUSINESS DAYS, AND THEN NASDAQ WILL BE LIABLE ONLY TO CME AND ONLY TO THE EXTENT SET FORTH IN SECTION 13. THE CORPORATIONS DO NOT REPRESENT OR WARRANT THAT THE INDEXES OR THE MEANS BY WHICH NASDAQ CALCULATES THE INDEXES ARE FREE OF DEFECTS. THE CORPORATIONS DO NOT REPRESENT OR WARRANT THE TIMELINESS, SEQUENCE, ACCURACY OR COMPLETENESS OF THE CALCULATION OF THE INDEXES, OR THAT THE INDEXES WILL MEET CME'S REQUIREMENTS. THE FOREGOING WARRANTIES ARE IN LIEU OF ALL CONDITIONS OR WARRANTIES, EXPRESS, IMPLIED OR STATUTORY, INCLUDING BUT NOT**

LIMITED TO, ANY IMPLIED CONDITIONS OR WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE OR PURPOSE, ANY IMPLIED WARRANTY ARISING FROM TRADE USAGE, COURSE OF DEALING, OR COURSE OF PERFORMANCE, AND OF ANY OTHER WARRANTY OR OBLIGATION ON THE PART OF THE CORPORATIONS.

Section 11. Refunds. [Intentionally Omitted.]

Section 12. Indemnification.

12.1. Nasdaq warrants and represents that it has the right to grant the rights to use the Indexes and Marks specified in this Agreement and that the license shall not infringe the title or any patent, copyright, trade secret, trademark, service mark, or other proprietary ("Intellectual Property") right of any third party. Nasdaq will as its sole and entire liability and obligation to CME (and any third party): defend, indemnify, and hold harmless ("Indemnify") CME (including its officers, directors, employees, and agents) against any and all claims, demands, actions, suits, or proceedings ("Disputes"), except to the extent covered by Section 12.2 below, asserting that any Index or any Mark infringes any Intellectual Property right of any third party and Nasdaq will pay the third party the total amount of any award, judgment, or settlement (including all damages however designated) awarded to such third party resulting from the Dispute to the extent caused by failure of Nasdaq's warranty.

12.2. CME agrees to Indemnify the Corporations (including their officers, directors, employees, and agents) from any and all Disputes as the result of CME's failure to fulfill its obligations under this Agreement, any use by CME of any Index or any Mark that is not expressly permitted by this Agreement, claims relating to or arising from a Futures Contract, or any other matter relating or arising out of this Agreement, except to the extent directly caused by actions of the Corporations or covered by Section 12.1 above. CME will pay any third party the total amount of any award, judgment, or settlement (including all damages however designated) awarded to such third party resulting from such Dispute in which CME is obligated to Indemnify the Corporations. Notwithstanding anything to the contrary in this Agreement, CME shall not Indemnify the Corporations against any and all judgments, damages, costs or losses of any kind (including reasonable attorneys' fees) as a result of any claim, action or proceeding that arises out of or relates to (i) the willful or intentional misconduct of any of the Nasdaq parties, (ii) miscalculation or errors in an Index or any data included therein originated by Nasdaq or its agents acting within the scope of their authority, or (iii) any breach by Nasdaq of its representations, warranties or agreements made in this Agreement.

12.3. The right to be Indemnified shall apply to a Dispute only if:

(a) the party seeking indemnification promptly, and within no more than five (5) calendar days of its receipt of notice of such Dispute, gives Notice to the other party of the Dispute;

(b) the party seeking to be Indemnified cooperates fully with the other in the defense thereof (such cooperation does not require and is without waiver by either party of attorney/client, work product, or other privilege);

(c) the Indemnifying party has sole control of the defense and all related settlement negotiations.

12.4. In the event of a Dispute involving infringement or if in Nasdaq's opinion such a Dispute is likely to occur, or if the use of any Index or Mark is enjoined, Nasdaq may, at its sole option and expense, procure for CME the right to continue using the relevant Index or Mark, replace or modify the Index or Mark to become non-infringing, or terminate the Term of the Agreement.

Section 13. Limitation of Liability. EXCEPT FOR LIABILITY RESULTING FROM THE WILLFUL MISCONDUCT OR GROSS NEGLIGENCE OF THE CORPORATIONS AND EXCEPT TO THE EXTENT STATED IN SECTIONS 12, OR 16, THE TOTAL AMOUNT OF THE CORPORATIONS' LIABILITY FOR CLAIMS OR LOSSES BASED UPON, ARISING OUT OF, RESULTING FROM OR IN ANY WAY CONNECTED WITH THE PERFORMANCE OR BREACH OF THIS AGREEMENT, WHETHER BASED UPON CONTRACT, TORT, WARRANTY, OR OTHERWISE, SHALL IN NO CASE EXCEED THE GREATER OF ONE YEAR'S AVERAGE ANNUAL FEES FOR FUTURES PRODUCTS BASED UPON THE RELEVANT INDEX OR $20,000. THE ESSENTIAL PURPOSE OF THIS PROVISION IS TO LIMIT THE CORPORATIONS' LIABILITY UNDER THIS AGREEMENT. BOTH PARTIES UNDERSTAND AND AGREE THAT THE TERMS OF THIS AGREEMENT REFLECT A NEGOTIATED AND REASONABLE ALLOCATION OF RISK AND LIMITATIONS GIVEN COMMERCIAL REALITIES OF THE TRANSACTION.

Section 14. Consequential Damages. EXCEPT AS NOTED IN SECTION 12 AND EXCEPT FOR A BREACH OF SECTION 16, THE CORPORATIONS SHALL NOT BE LIABLE TO THE CME, OR ANY OTHER PERSON, FOR ANY LOST PROFITS, ANTICIPATED PROFITS, LOSS BY REASON OF SHUTDOWN IN OPERATION OR INCREASED EXPENSES OF OPERATION, LOSS OF GOODWILL, FOR LOSS CAUSED IN SALE OF, PURCHASE OF, OR BY A FUTURES PRODUCT, CONSEQUENTIAL, INCIDENTAL, INDIRECT, PUNITIVE, OR SPECIAL DAMAGES, EVEN IF THE CORPORATIONS HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

Section 15. Force Majeure. Notwithstanding any other term or condition of this Agreement, neither Nasdaq nor CME shall be obligated to perform or observe its obligations undertaken in this Agreement (except for obligations to make payments hereunder) if prevented or hindered from doing so by any circumstances beyond its control, including, without limitation, acts of God, perils of the sea and air, fire, flood, drought, war, explosion, sabotage, terrorism, embargo, civil commotion, acts of any governmental body, supplier delays, communications, or power failure, equipment or software malfunction, and labor disputes.

Section 16. <u>Confidentiality</u>. Each party shall protect information declared by the other to be CONFIDENTIAL, OR PROPRIETARY. In fulfilling its confidentiality obligations, each party shall use a reasonable standard of care, at least the same standard of care that it uses to protect its own similar confidential or proprietary information. The parties shall use reasonable efforts to mark all confidential or proprietary information must be conspicuously marked CONFIDENTIAL or PROPRIETARY. Information revealed orally becomes subject to protection when related to marked written materials or when designated as CONFIDENTIAL or PROPRIETARY as long as the designation is confirmed in writing within 10 calendar days of the designation. Either party (including the Corporations) may disclose information to the extent demanded by a court, revealed to a government agency with regulatory jurisdiction over the party (including the Corporations), or in the party's regulatory responsibilities over its members, associated persons, issuers, or others under the Exchange Act of 1934, or similar applicable law. The obligation of non-disclosure shall not extend to information: (a) then already in the possession of the party (including the Corporations) while not under a duty of non-disclosure; (b) generally known or revealed to the public or within the applicable industry; (c) revealed to the party (including the Corporations) by a third party—unless the party (including the Corporations) knows that such third party is under a duty of non-disclosure; or (d) which that party (including the Corporations) develops independently of the disclosure. Each copy, including its storage media, shall be marked with all notices that appear on the original. The obligation of non-disclosure shall survive for a period of three (3) years from the date of disclosure.

The parties agree that the terms of this Agreement, together with any correspondence or other communications relating to this Agreement shall be preserved as confidential information within the meaning of this Section 16. In the event that this Agreement is required to be filed with the SEC, the CFTC or any other regulatory agency with jurisdiction over the activities of the parties, the party filing the Agreement shall (i) use its best efforts to secure confidential treatment of the Agreement and its material terms to the greatest extent possible and (ii) notify the other party prior to filing and of the results of the confidential treatment request.

Section 17. <u>Non-Use Of Nasdaq Name and Marks</u>. Except as may otherwise be provided hereunder, CME shall not use the name of The Nasdaq Stock Market, Inc., "The Nasdaq Stock Market", "Nasdaq" or any other of the Corporations' trademarks, service marks, copyrights, or patents, registered or unregistered, in any advertising or promotional media of CME, without the prior written consent of Nasdaq.

Section 18. <u>Survival Of Provisions</u>. The terms of this Agreement shall apply to any rights that survive through the Life of this Agreement, and the cancellation, termination, or rescission of this Agreement, namely— Indemnification, Confidentiality, Non-Use of Nasdaq Name and Marks, and all warranties.

Section 19. Cancellation.

19.1. Either party may elect, without prejudice to any other rights or remedies, to (i) terminate the Term of this Agreement or (ii) terminate the Term of this Agreement with respect to an Index, as applicable, upon ***** notice with an opportunity to cure within the stated period, if the other party has failed to perform any material obligation under this Agreement, including any obligation set forth in any Attachment to this Agreement.

19.2. Either party may elect, without prejudice to any other rights or remedies, to terminate the Term of this Agreement without notice, if a petition in bankruptcy has been filed by or against the other party or the other party has made an assignment for the benefit of creditors, or a receiver has been appointed for the other party or any substantial portion of other party’s property, or the other party’s or its officers or directors takes action approving or makes an application for any of the above.

19.3. CME represents and warrants that at each time that it lists a Futures Product for trading, that it and any other involved entity shall have all applicable authority to list such Futures Product for trading and that each such Futures Product will be listed for trading in accordance with all applicable legal requirements. Nasdaq may elect, without prejudice to any other rights or remedies, to terminate the Term of this Agreement with respect to an Index, with reasonable Notice with an opportunity to cure within such period, if Nasdaq reasonably believes that any Futures Product based upon such Index is illegal or has been illegally listed for trading, or if the CME or any involved entity does not have the power to list such Futures Product for trading.

19.4. Either party may elect, without prejudice to any other rights or remedies, to (i) terminate the Term of this Agreement or (ii) terminate the Term of this Agreement with respect to an Index, as applicable, with ***** Notice (or in the event of an emergency, with such Notice as is practicable) and an opportunity to cure within such period if the relevant defect reasonably may be cured, if either party’s ability to perform its obligations under this Agreement is substantially impaired by any new statute, or new rule, regulation, order, opinion, judgment, or injunction of the SEC, CFTC, a court, an arbitration panel, or governmental body or Self-Regulatory Organization with jurisdiction over the party.

Section 20. Subsequent Parties; Limited Relationship. The Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective permitted successors, or assigns. CME shall not assign this Agreement (including by operation of law) without the written consent of Nasdaq, which shall not unreasonably be withheld. Nothing in the Agreement, express or implied, is intended to or shall (a) confer on any person other than the parties hereto (and any of the Corporations), or their respective permitted successors or assigns, any rights to remedies under or by reason of this Agreement; (b) constitute the parties hereto partners or participants in a joint venture; or (c) appoint one party the agent of the other.

Section 21. <u>Entire Agreement</u>. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof, and supersedes all prior negotiations, communications, writings, and understandings.

Section 22. <u>Governing Law</u>. This Agreement shall be deemed to have been made in the United States, in the State of New York, and shall be construed and enforced in accordance with, and the validity and performance hereof shall be governed by, the laws of the State of New York, without reference to principles of conflicts of laws thereof. CME hereby consents to submit to the jurisdiction of the courts for or in the City and State of New York in connection with any action or proceeding instituted relating to this Agreement.

Section 23. <u>Authorization</u>. This Agreement shall not be binding upon a party unless executed by an authorized officer of that party. CME, Nasdaq, and the persons executing this Agreement represent that such persons are duly authorized by all necessary and appropriate corporate or other action to execute the Agreement on behalf of Nasdaq or CME.

Section 24. <u>Headings</u>. Section Headings are included for convenience only and are not to be used to construe or interpret this Agreement.

Section 25. <u>Notices</u>. All notices, invoices, and other communications required to be given in writing under this Agreement shall be directed to the persons identified in subsections (a) and (b) below and shall be deemed to have been duly given upon actual receipt by the parties, or upon constructive receipt if sent by certified mail, return receipt requested (as of the date of signature or of first refusal of the return receipt), or by any other delivery method which obtains a signed delivery receipt, addressed to the person named below to the following addresses or to such other address as any party hereto shall hereafter specify by written notice to the other party or parties hereto:

(a) if to CME:

Name:	Craig S. Donohue
Title:	Office of the CEO
Address:	Chicago Mercantile Exchange Inc.
	30 S. Wacker Drive
	Chicago, Illinois 60606
	Telephone #: 312.930.8275

In all cases with required copies to:

Rick Redding	Kathleen Cronin
Managing Director, Equity Products	General Counsel, Legal Department
Chicago Mercantile Exchange Inc.	Chicago Mercantile Exchange Inc.
30 S. Wacker Drive	30 S. Wacker Drive
Chicago, Illinois 60606	Chicago, Illinois 60606

(b) if to Nasdaq:

Name:	John L. Jacobs
Title:	Executive Vice President
Address:	The Nasdaq Stock Market, Inc. 9513 Key West Avenue Rockville, MD 20850 Telephone #: 301.978.8278

With, in the event of notices of Dispute or default, a required copy to:

The Nasdaq Stock Market, Inc.
1801 K Street, N.W.
Washington, D.C. 20006
Attn: Office of General Counsel - Nasdaq Contracts Group

Section 26. Amendment, Waiver, and Severability. Except as otherwise provided herein, no provision of this Agreement may be amended, modified, or waived, unless by an instrument in writing executed by a duly authorized officer of the party against whom enforcement of such amendment, modification, or waiver is sought ("Consent").

26.1. No failure on the part of Nasdaq or CME to exercise, no delay in exercising, and no course of dealing with respect to any right, power, or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power, or privilege preclude any other or further exercise thereof or the exercise of any other right, power, or privilege under this Agreement.

26.2. If any of the provisions of this Agreement, or application thereof to any person or circumstance, shall to any extent be held invalid or unenforceable, the remainder of this Agreement, or the application of such terms or provisions to persons or circumstances other than those as to which they are held invalid or unenforceable, shall not be affected thereby and each such term and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

Section 27. Counterparts. The Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and such counterparts together shall constitute but one and the same instrument.

Section 28. **Schedule of Attachment(s).** The following Attachment is referred to in this Agreement and is incorporated as if set forth in full herein. In the event of a conflict between the Attachment and this Agreement, the provisions of the Attachment shall govern:

Attachment I	–	Covered Indexes & Product Formats
Attachment II	–	Term of the Agreement & Performance Requirement
Attachment III	–	Fees and Marketing Commitment

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers.

Chicago Mercantile Exchange Inc. ("CME")		**The Nasdaq Stock Market, Inc. ("Nasdaq")**	
By:	/S/ CRAIG S. DONOHUE	By:	/S/ JOHN L. JACOBS
Name:	Craig S. Donohue	Name:	John L. Jacobs
Title:	Executive Vice President and Chief Administrative Officer	Title:	Executive Vice President
Date:	October 16, 2003	Date:	October 9, 2003

Portions of this exhibit have been omitted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission. The omissions have been indicated by asterisks ("*****"), and the omitted text has been filed separately with the Securities and Exchange Commission.

CONFIDENTIAL

ATTACHMENT I

Covered Indexes & Product Formats

A. Covered Indexes. The Nasdaq-100 Index®, the Nasdaq Composite Index® and any new index on which CME exercises a right of first refusal, as described in Paragraph B of this Attachment I, shall be deemed "Indexes" under this Agreement unless and until the Term of this Agreement is terminated with respect to such Index, as set forth in this Agreement.

B. CME Right of First Refusal for Certain New Nasdaq Indexes. If Nasdaq proposes to license a new Nasdaq index for futures products that meets the criteria described below, CME shall have a right-of-first-refusal ("RFR") to license the new index as an "Index" within the meaning of this Agreement. CME's RFR shall apply *only* to:

*****

C. New Futures Product Formats. CME shall have an RFR to use any Index or Indexes (including a new Nasdaq index that would be covered by section B, above, unless CME is offered the opportunity to exercise its RFR and CME declines to do so) in connection with Futures Products that are based on new or unique product formats and that meet the following criteria:

*****

D. Presumption Relating to CME's RFR. *****

Portions of this exhibit have been omitted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission. The omissions have been indicated by asterisks ("*****"), and the omitted text has been filed separately with the Securities and Exchange Commission.

CONFIDENTIAL

ATTACHMENT II

Term of the Agreement & Performance Requirements
for Futures Contracts Based Upon the Nasdaq Composite Index®

A. Nasdaq-100 Index®. The initial term of this Agreement with respect to the Nasdaq-100 Index® shall be from the Effective Date until the fourth anniversary of the Effective Date (the "Initial Term"), unless earlier terminated with respect to this Index in accordance with any specific provision of this Agreement authorizing such termination. Following the Initial Term, this Agreement shall automatically be renewed for one additional four-year term (a "Renewal Term") with respect to this Index unless CME provides Notice to Nasdaq of its intent to terminate this Agreement with respect to the Nasdaq-100 Index® not less than ***** prior to the end of the Initial Term.

B. Nasdaq Composite Index®. The Initial Term of this Agreement with respect to the Nasdaq Composite Index® shall be from the Effective Date until the fourth anniversary of the Effective Date, unless earlier terminated with respect to this Index (i) in accordance with any specific provision of this Agreement authorizing such termination or (ii) because of *****, as described in Section C, below.

Following the Initial Term, this Agreement shall automatically be renewed for one additional four-year Renewal Term with respect to this Index unless (i) CME provides Notice to Nasdaq of its intent to terminate this Agreement with respect to the Nasdaq Composite Index® not less than ***** prior to the end of the Initial Term, or (ii) Nasdaq provides Notice to CME of its intent to terminate this Agreement with respect to this Index, not less than ***** nor greater than ***** prior to the end of the Initial Term, because *****.

C. *****. During the Initial Term and the Renewal Term, if any, for the Nasdaq Composite Index®, Nasdaq shall have the right, as of each anniversary of the launch date of Futures Contracts based upon the Nasdaq Composite Index®, *excluding* the first anniversary, to terminate the Term or to terminate CME's exclusivity with respect to the Nasdaq Composite Index® if, *****. If Nasdaq elects to terminate the Term or terminate CME's exclusivity with respect to the Nasdaq Composite Index® because of *****, Nasdaq shall provide Notice to CME of such decision within ***** following the relevant anniversary. Nasdaq's decision not to terminate because of ***** prior to a particular anniversary shall not be deemed to limit Nasdaq's right to terminate because of ***** prior to any subsequent anniversary.

If Nasdaq elects to terminate CME's exclusivity with respect to the Nasdaq Composite Index®, this Agreement shall continue in full force and effect according to its terms, except that *****.

D. Launch of Trading in Nasdaq Composite Index Futures Contracts. CME shall list Futures Contracts based upon the Nasdaq Composite Index® for trading on its GLOBEX electronic trading system no later than October 31, 2003, unless (i) CME and Nasdaq mutually agree (with confirmation in writing) to delay the launch or (ii) factors beyond CME's reasonable control prevent a timely launch. For the avoidance of doubt, factors beyond CME's reasonable control may include, without limitation, major market disruptions and regulatory actions, but do not include failures of electronic trading or clearing technology controlled by CME. If CME fails to launch Futures Contracts based upon the Nasdaq Composite Index® for trading as required by this paragraph, then Nasdaq may terminate this Agreement in its entirety by providing Notice to CME within ten (10) business days following October 31, 2003. <u>If this Agreement is terminated under this paragraph because of CME's failure to launch Futures Contracts based upon the Nasdaq Composite Index®, the Prior License Agreement shall be reinstated in full force and effect and shall continue according to its terms</u>.

E. *****.

ATTACHMENT III

Fees and Marketing Commitment

*****

Exhibit 10.18

AGREEMENT

THIS AGREEMENT, made and entered into this 7th day of November 2003, by and between CHICAGO MERCANTILE EXCHANGE Inc. ("Employer" or "CME"), a Delaware Business Corporation, having its principal place of business at 30 South Wacker Drive, Chicago, Illinois, and Craig S. Donohue ("Employee").

R E C I T A L S:

WHEREAS, Employer wishes to retain the services of Employee in the capacity of Chief Executive Officer upon the terms and conditions hereinafter set forth and Employee wishes to accept such employment;

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties mutually agree as follows:

1) **Employment.** Subject to the terms of the Agreement, Employer hereby agrees to employ Employee during the Agreement Term as Chief Executive Officer and Employee hereby accepts such employment. Employee shall report to the Employer's Board of Directors, or any successor to the Board of Directors (hereinafter, "Board" shall mean the Board of Directors of Employer and/or any successor thereto). The duties of Employee shall include, but not be limited to, the performance of all duties associated with executive oversight and management of the Employer. Employee will provide such business and professional services in the performance of his duties that are consistent with Employee's position as Chief Executive Officer, and as shall reasonably be assigned to him by the Board. Employee shall devote his full time, ability and attention to the business of Employer during the Agreement Term.

   Notwithstanding anything to the contrary contained herein, nothing in the Agreement shall preclude Employee from participating in the affairs of any governmental, educational or other charitable institution, engaging in professional speaking and writing activities, and serving as a member of the board of directors of a publicly held corporation (except for a competitor of Employer), provided Employee notifies the Board prior to his participating in any such activities and as long as the Board does not determine that any such activities interfere with or diminish Employee's obligations under the Agreement. Employee shall be entitled to retain all fees, royalties and other compensation derived from such activities, in addition to the compensation and other benefits payable to him under the Agreement, but shall disclose such fees to Employer.

2) **Agreement Term.** Employee shall be employed hereunder for a term commencing on January 1, 2004, and expiring on December 31, 2006, unless sooner terminated as herein provided ("Agreement Term"). The Agreement Term may be extended or renewed only by the mutual written agreement of the parties.

3) **<u>Compensation</u>.**

(a) <u>Annual Base Salary</u>. Effective January 1, 2004, and continuing through December 31, 2006, Employer shall pay to Employee a base salary at a rate not less than $700,000.00 per year (“Base Salary”), payable in accordance with the Employer’s normal payment schedule.

(b) <u>Bonuses.</u> Employee shall be eligible to participate in the Employer’s Annual Incentive Plan (the “AIP”) as in existence or as amended from time to time in accordance with its terms as applicable to Employee.

(c) <u>Equity Compensation</u>. Employee shall be eligible to participate in the Employer’s Equity Incentive Plan, as in existence or as amended from time to time, in accordance with the terms of the Plan for executives in the Office of the CEO. In the event of a “Change of Control” (as defined in Employer’s Amended and Restated Omnibus Stock Plan (“Plan”)) that occurs prior to the Employee’s termination of employment with the Employer, all options and shares previously granted to Employee, whether pursuant to this Agreement or otherwise, will have vesting accelerated so as to become 100% vested. Thereafter, the options will continue to be subject to the terms, definitions and provisions of the Plan and any related option agreement. If Employee is involuntarily terminated without Cause within sixty (60) days prior to a Change of Control, all unvested options and shares which would have been outstanding had the Employee been employed on the date of Change of Control become granted and 100% vested.

4) **<u>Benefits</u>.** Employee shall be entitled to insurance, vacation and other employee benefits commensurate with his position in accordance with Employer’s policies for executives in effect from time to time. Employee acknowledges receipt of a summary of Employer’s employee benefits policies in effect as of the date of this Agreement.

5) **<u>Expense Reimbursement</u>.** During the Agreement Term, Employer shall reimburse Employee, in accordance with Employer’s policies and procedures, for all proper expenses incurred by him in the performance of his duties hereunder.

6) **<u>Termination</u>.**

a) <u>Death</u>. Upon the death of Employee, this Agreement shall automatically terminate and all rights of Employee and his heirs, executors and administrators to compensation and other benefits under this Agreement shall cease, except for compensation which shall have accrued to the date of death, including accrued Base Salary, and other employee benefits to which Employee is entitled upon his death, in accordance with the terms of the plans and programs of CME.

b) <u>Disability</u>. Employer may, at its option, terminate this Agreement upon written notice to Employee if Employee, because of physical or mental incapacity or disability, fails to perform the essential functions of his position required of him hereunder for a continuous period of 90 days or any 120 days within any 12-month period. Upon such termination, all obligations of Employer hereunder shall cease, except for payment of accrued Base Salary, and other employee benefits to which Employee is entitled upon his termination hereunder, in accordance with the terms of the plans and programs of CME. In the event of any dispute regarding the existence of Employee's disability hereunder, the matter shall be resolved as follows: (1) by the determination of a physician selected by the Board; (2) Employee shall have the right to challenge that determination by presenting a contrary determination from a physician of his choice; (3) in such event, a physician selected by agreement of the Employee and the Board will make the final determination. The Employee shall submit to appropriate medical examinations for purposes of making the medical determinations hereunder.

c) Cause. Employer may, at its option, terminate Employee's employment under this Agreement for Cause. As used in this Agreement, the term "Cause" shall mean any one or more of the following:

(1) any refusal by Employee to perform his duties and responsibilities under this Agreement or violation of any rule, regulation or guideline imposed by a regulatory or self regulatory body having jurisdiction over Employer, as determined after investigation by the Board. Employee, after having been given written notice by Employer, shall have seven (7) days to cure such refusal or violation;

(2) any intentional act of fraud, embezzlement, theft or misappropriation of Employer's funds by Employee, as determined after investigation by the Board, or Employee's admission or conviction of a felony or of any crime involving moral turpitude, fraud, embezzlement, theft or misrepresentation;

(3) any gross negligence or willful misconduct of Employee resulting in a financial loss or liability to the Employer or damage to the reputation of Employer, as determined after investigation by the Board;

(4) any breach by Employee of any one or more of the covenants contained in Section 7, 8 or 9 hereof.

The exercise of the right of CME to terminate this Agreement pursuant to this Section 6(c) shall not abrogate any other rights or remedies of CME in respect of the breach giving rise to such termination.

If Employer terminates Employee's employment for Cause, he shall be entitled to accrued Base Salary through the date of the termination of his employment, other employee benefits to which Employee is entitled upon his termination of employment with Employer, in accordance with the terms of the plans and programs of CME. Upon termination for cause, Employee will forfeit any unvested or unearned compensation or long-term incentives, unless otherwise provided herein or specified in the terms of the plans and programs of CME.

d) Termination Without Cause. Upon 30 days prior written notice to Employee, Employer may terminate this Agreement for any reason other than a reason set forth in sections (a), (b) or (c) of this Section 6. If, during the Agreement Term, Employer terminates the employment of Employee hereunder for any reason other than a reason set forth in subsections (a), (b) or (c) of this Section 6:

(1) Employee shall be entitled to receive accrued Base Salary through the date of the termination of his employment, and other employee benefits to which Employee is entitled upon his termination of employment with Employer, in accordance with the terms of the plans and programs of Employer; and

(2) a one time lump sum severance payment equal to 2 times his Base Salary as of the date of Employee's termination for the remaining term of the Agreement, but not more than 24 months of his Base Salary as of the date of the Employee's termination, subject to Employee's execution of a general release in a form and of a substance satisfactory to CME.

e) Voluntary Termination. Upon 60 days prior written notice to CME (or such shorter period as may be permitted by CME), Employee may voluntarily terminate his employment with CME prior to the end of the Agreement Term for any reason. If Employee voluntarily terminates his employment pursuant to this subsection (e), he shall be entitled to receive accrued Base Salary through the date of the termination of his employment and other employee benefits to which Employee is entitled upon his termination of employment with CME, in accordance with the terms of the plans and programs of CME.

7) **Confidential Information and Non-Compete.** Employee acknowledges that the successful development of CME's services and products, including CME's trading programs and systems, current and potential customer and business relationships, and business strategies and plans requires substantial time and expense. Such efforts generate for CME valuable and proprietary information ("Confidential Information") which gives CME a business advantage over others who do not have such information. Confidential information includes, but is not limited to the following: trade secrets, technical, business, proprietary or financial information of CME not generally known to the public, business plans, proposals, past and current prospect and customer lists, trading methodologies, systems and programs, training materials, research data bases and computer software; but shall not include information or ideas acquired by Employee prior to his employment with CME if such pre-existing information is generally known in the industry and is not proprietary to CME.

(a) Employee shall not at anytime during the Agreement Term *or thereafter*, make use of or disclose, directly or indirectly to any competitor or potential competitor of CME, or divulge, disclose or communicate to any person, firm, corporation, or other legal entity in any manner whatsoever, or for his own benefit and that of any person or entity other than Employer, any Confidential Information. This subsection shall not apply to the extent Employee remains employed by Employer and is required to disclose Confidential Information to any regulatory agency or as otherwise required by law. This subsection shall not apply following termination for any reason to the extent Employee is required by law to testify in a legislative, judicial or regulatory proceeding, or is otherwise required by law to disclose Confidential Information; provided, however, that following termination for any reason, Employee will promptly notify Employer if Employee is requested by any entity or person to divulge Confidential Information, and will use his best efforts to ensure that Employer has sufficient time to intervene and/or object to such disclosure or otherwise act to protect its interests. Employee shall not disclose any Confidential Information while any such objection is pending.

(b) Employee agrees that while employed and for a period of one (1) year following the termination of his employment with CME for any reason, the Employee will not accept employment with or act or provide services as an independent contractor or consultant for or on behalf of any derivatives exchange or for any person, organization or entity providing clearing services. Employee acknowledges that such restriction is necessary to protect the Confidential Information he learned through his employment with Employer.

(c) Upon termination for any reason, Employee shall return to Employer all records, memoranda, notes, plans, reports, computer tapes and equipment, software and other documents or data which constitute Confidential Information which he may then possess or have under his control (together with all copies thereof) and all credit cards, keys and other materials and equipment which are Employer's property that he has in his possession or control.

(d) If, at any time of enforcement of this Section 7, a court holds that the restrictions stated herein are unreasonable, the parties hereto agree that a maximum period, scope or geographical area reasonable under the circumstances shall be substituted for the stated period, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law.

8) **Non-solicitation**.

a) General. Employee acknowledges that Employer invests in recruiting and training, and shares Confidential Information with, it employees. As a result, Employee acknowledges that Employer's employees are of special, unique and extraordinary value to Employer.

b) Non-solicitation. Employee further agrees that for a period of one (1) year following the termination of his employment with CME for any reason he shall not in any manner, directly or indirectly, induce or attempt to induce any employee of CME to terminate or abandon his or her employment with CME for any purpose whatsoever.

c) Reformation. If, at any time of enforcement of this Section 8, a court holds that the restrictions stated herein are unreasonable, the parties hereto agree that the maximum period, scope or geographical area reasonable under the circumstances shall be substituted for the stated period, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law.

9) **Intellectual Property.** During the Agreement Term, Employee shall disclose to CME and treat as confidential information all ideas, methodologies, product and technology applications that he develops during the course of his employment with CME that relates directly or indirectly to CME's business. Employee hereby assigns to CME his entire right, title and interest in and to all discoveries and improvements, patentable or otherwise, trade secrets and ideas, writings and copyrightable material, which may be conceived by Employee or developed or acquired by him during his employment with CME, which may pertain directly or indirectly to the business of the CME. Employee shall at any time during or after the Agreement Term, upon CME's request, execute, acknowledge and deliver to CME all instruments and do all other acts which are necessary or desirable to enable CME to file and prosecute applications for, and to acquire, maintain and enforce, all patents, trademarks and copyrights in all countries with respect to intellectual property developed or which was being developed during Employee's employment with CME.

10) **Remedies.** Employee agrees that given the nature of CME's business, the scope and duration of the restrictions in paragraphs 7, 8 and 9 are reasonable and necessary to protect the legitimate business interests of CME and do not unduly interfere with Employee's career or economic pursuits. Employee recognizes and agrees that a breach of any or all of the provisions of Sections 7, 8 and 9 will constitute immediate and irreparable harm to CME's business advantage, for which damages cannot be readily calculated and for which damages are an inadequate remedy. Accordingly, Employee acknowledges that CME shall therefore be entitled to seek an injunction or injunctions to prevent any breach or threatened breach of any such section. Employee agrees to reimburse CME for all costs and expenses, including reasonable attorney's fees and costs, incurred by CME in connection with the enforcement of its rights under Sections 7, 8 and 9 of this Agreement.

11) **Survival.** Sections 7, 8, 9 and 10 of this Agreement shall survive and continue in full force and effect in accordance with their respective terms, notwithstanding any termination of the Agreement.

12) **Arbitration.** Except with respect to Sections 7, 8, and 9, any dispute or controversy between CME and Employee, whether arising out of or relating to this Agreement, the breach of this Agreement, or otherwise, shall be settled by arbitration in Chicago, Illinois, in accordance with the following:

(a) Arbitration hearings will be conducted by the American Arbitration Association (AAA). Except as modified herein, arbitration hearings will be conducted in accordance with AAA's rules.

(b) State and federal laws contain statues of limitation which prescribe the time frames within which parties must file a law suit to have their disputes resolved through the court system. These same statutes of limitation will apply in determining the time frame during which the parties must file a request for arbitration.

(c) If Employee seeks arbitration, Employee shall submit a filing fee to the AAA in an amount equal to the lesser of the filing fee charged in the state or federal court in Chicago, Illinois. The AAA will bill Employer for the balance of the filing and arbitrator's fees.

(d) The arbitrator shall have the same authority to award (and shall be limited to awarding) any remedy or relief that a court of competent jurisdiction could award, including compensatory damages, attorney fees, punitive damages and reinstatement. Employer and Employee may be represented by legal counsel or any other individual at their own expense during an arbitration hearing.

(e) Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

(f) Except as necessary in court proceedings to enforce this arbitration provision or an award rendered hereunder, or to obtain interim relief, neither a party nor an arbitrator may disclose the existence, content or results of any arbitration hereunder without the prior written consent of CME and Employee.

13) **Notices.** All notices and other communications required or permitted hereunder shall be in writing and shall be deemed given when (i) delivered personally or by overnight courier to the following address of the other party hereto (or such other address for such party as shall be specified by notice given pursuant to this Section) or (ii) sent by facsimile to the following facsimile number of the other party hereto (or such other facsimile number for such party as shall be specified by notice given pursuant to this Section), with the confirmatory copy delivered by overnight courier to the address of such party pursuant to this Section 14:

If to CME, to:

Terry Duffy
Chairman, Chicago Mercantile Exchange Inc.
Chicago Mercantile Exchange Inc.
30 South Wacker Drive
Chicago, IL 60606
(312) 930-3100

With a copy to:
Kathleen M. Cronin
Managing Director, General Counsel and Corporate Secretary
Chicago Mercantile Exchange Inc.
30 South Wacker Drive
Chicago, IL 60606
(312) 930-3488

If to Employee, to:

Craig S. Donohue
2600 Shannon Road
Northbrook, IL 60062
(847)-272-3265

14) **Severability.** Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of any other provision of this Agreement or the validity, legality or enforceability of such provision in any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

15) **Entire Agreement.** This Agreement constitutes the entire Agreement and understanding between the parties with respect to the subject matter hereof and supersedes and preempts any prior understandings, agreements or representations by or between the parties, written or oral, which may have related in any manner to the subject matter hereof. No other agreement or amendment to this Agreement shall be binding upon either party including, without limitation, any agreement or amendment made hereafter unless in writing, signed by both parties.

16) **<u>Successors and Assigns</u>.** This Agreement shall be enforceable by Employee and his heirs, executors, administrators and legal representatives, and by CME and its successors and assigns.

17) **<u>Governing Law</u>.** This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Illinois without regard to principles of conflict of laws.

18) **<u>Acknowledgment</u>.** Employee acknowledges that he has read, understood, and accepts the provisions of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

	Chicago Mercantile Exchange		Craig S. Donohue
By:	/s/ TERRENCE A. DUFFY		/s/ CRAIG S. DONOHUE
	Terrence A. Duffy		Craig S. Donohue
Date:	11/7/03	Date:	11/7/03

AGREEMENT

THIS AGREEMENT, made and entered into this 7th day of November 2003, by and between CHICAGO MERCANTILE EXCHANGE Inc. ("Employer" or "CME"), a Delaware Business Corporation, having its principal place of business at 30 South Wacker Drive, Chicago, Illinois, and Phupinder Gill ("Employee").

R E C I T A L S:

WHEREAS, Employer wishes to retain the services of Employee in the capacity of President and Chief Operating Officer, upon the terms and conditions hereinafter set forth and Employee wishes to accept such employment;

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties mutually agree as follows:

1) **Employment.** Subject to the terms of the Agreement, Employer hereby agrees to employ Employee during the Agreement Term as President and Chief Operating Officer, and Employee hereby accepts such employment. Employee shall report to the Employer's Chief Executive Officer. The duties of Employee shall include, but not be limited to, the performance of all duties associated with managing and overseeing the day to day functions of all CME-wide operations including specifically Trading Floor Operations, the Clearing House, the Globex Control Center (GCC) and Technology. Employee will provide such business and professional services in the performance of his duties that are consistent with Employee's position as Chief Operating Officer, and as shall reasonably be assigned to him by the Board. Employee shall devote his full time, ability and attention to the business of Employer during the Agreement Term.

   Notwithstanding anything to the contrary contained herein, nothing in the Agreement shall preclude Employee from participating in the affairs of any governmental, educational or other charitable institution, engaging in professional speaking and writing activities, and serving as a member of the board of directors of a publicly held corporation (except for a competitor of Employer), provided Employee notifies the Employer's Board of Directors ("Board") prior to his participating in any such activities and as long as the Board does not determine that any such activities interfere with or diminish Employee's obligations under the Agreement. Employee shall be entitled to retain all fees, royalties and other compensation derived from such activities, in addition to the compensation and other benefits payable to him under the Agreement, but shall disclose such fees to Employer.

2) **Agreement Term.** Employee shall be employed hereunder for a term commencing on January 1, 2004, and expiring on December 31, 2007, unless sooner terminated as herein provided ("Agreement Term"). The Agreement Term may be extended or renewed only by the mutual written agreement of the parties.

3) **Compensation.**

(a) Annual Base Salary. Effective January 1, 2004, and continuing through December 31, 2007, Employer shall pay to Employee a base salary at a rate not less than $600,000.00 per year (“Base Salary”), payable in accordance with the Employer’s normal payment schedule.

(b) Bonuses. Employee shall be eligible to participate in the Employer’s Annual Incentive Plan (the “AIP”) as in existence or as amended from time to time in accordance with its terms as applicable to Employee.

(c) Equity Compensation. Employee shall be eligible to participate in the Employer’s Equity Incentive Plan, as in existence or as amended from time to time, in accordance with the terms of the Plan for executives in the Office of the CEO. In the event of a “Change of Control” (as defined in Employer’s Amended and Restated Omnibus Stock Plan (“Plan”)) that occurs prior to the Employee’s termination of employment with the Employer, all options and shares previously granted to Employee, whether pursuant to this Agreement or otherwise, will have vesting accelerated so as to become 100% vested. Thereafter, the options will continue to be subject to the terms, definitions and provisions of the Plan and any related option agreement. If Employee is involuntarily terminated without Cause within sixty (60) days prior to a Change of Control, all unvested options and shares which would have been outstanding had the Employee been employed on the date of Change of Control become granted and 100% vested.

4) **Benefits.** Employee shall be entitled to insurance, vacation and other employee benefits commensurate with his position in accordance with Employer’s policies for executives in effect from time to time. Employee acknowledges receipt of a summary of Employer’s employee benefits policies in effect as of the date of this Agreement.

5) **Expense Reimbursement.** During the Agreement Term, Employer shall reimburse Employee, in accordance with Employer’s policies and procedures, for all proper expenses incurred by him in the performance of his duties hereunder.

6) **Termination.**

a) Death. Upon the death of Employee, this Agreement shall automatically terminate and all rights of Employee and his heirs, executors and administrators to compensation and other benefits under this Agreement shall cease, except for compensation which shall have accrued to the date of death, including accrued Base Salary, and other employee benefits to which Employee is entitled upon his death, in accordance with the terms of the plans and programs of CME.

b) Disability. Employer may, at its option, terminate this Agreement upon written notice to Employee if Employee, because of physical or mental incapacity or disability, fails to perform the essential functions of his position required of him hereunder for a continuous period of 90 days or any 120 days within any 12-month period. Upon such termination, all obligations of Employer hereunder shall cease, except for payment of accrued Base Salary, and other employee benefits to which Employee is entitled upon his termination hereunder, in accordance with the terms of the plans and programs of CME. In the event of any dispute regarding the existence of Employee's disability hereunder, the matter shall be resolved as follows: (1) by the determination of a physician selected by the Chief Executive Officer of the Employer; (2) Employee shall have the right to challenge that determination by presenting a contrary determination from a physician of his choice; (3) in such event, a physician selected by agreement of the Employee and the Chief Executive Officer of the Employer will make the final determination. The Employee shall submit to appropriate medical examinations for purposes of making the medical determinations hereunder.

c) Cause. Employer may, at its option, terminate Employee's employment under this Agreement for Cause. As used in this Agreement, the term "Cause" shall mean any one or more of the following:

(1) any refusal by Employee to perform his duties and responsibilities under this Agreement, as determined after investigation by the Board. Employee, after having been given written notice by Employer, shall have seven (7) days to cure such refusal;

(2) any intentional act of fraud, embezzlement, theft or misappropriation of Employer's funds by Employee, as determined after investigation by the Board, or Employee's admission or conviction of a felony or of any crime involving moral turpitude, fraud, embezzlement, theft or misrepresentation;

(3) any gross negligence or willful misconduct of Employee resulting in a financial loss or liability to the Employer or damage to the reputation of Employer, as determined after investigation by the Board;

(4) any breach by Employee of any one or more of the covenants contained in Section 7, 8 or 9 hereof;

(5) any violation of any rule, regulation or guideline imposed by CME or a regulatory or self regulatory body having jurisdiction over Employer, as determined after investigation by the Board.

The exercise of the right of CME to terminate this Agreement pursuant to this Section 6(c) shall not abrogate any other rights or remedies of CME in respect of the breach giving rise to such termination.

If Employer terminates Employee's employment for Cause, Employee shall be entitled to accrued Base Salary through the date of the termination of his employment, other employee benefits to which Employee is entitled upon his termination of employment with Employer, in accordance with the terms of the plans and programs of CME. Upon termination for Cause, Employee will forfeit any unvested or unearned compensation or long-term incentives, unless otherwise provided herein or specified in the terms of the plans and programs of CME.

d) Termination Without Cause. Upon 30 days prior written notice to Employee, Employer may terminate this Agreement for any reason other than a reason set forth in sections (a), (b) or (c) of this Section 6. If, during the Agreement Term, Employer terminates the employment of Employee hereunder for any reason other than a reason set forth in subsections (a), (b) or (c) of this Section 6:

(1) Employee shall be entitled to receive accrued Base Salary through the date of the termination of his employment, and other employee benefits to which Employee is entitled upon his termination of employment with Employer, in accordance with the terms of the plans and programs of Employer; and

(2) a one time lump sum severance payment equal to 2 times his Base Salary as of the date of Employee's termination for the remaining term of the Agreement, but not more than 24 months of his Base Salary as of the date of the Employee's termination**,** subject to Employee's execution of a general release in a form and of a substance satisfactory to CME.

e) Voluntary Termination. Upon 60 days prior written notice to CME (or such shorter period as may be permitted by CME), Employee may voluntarily terminate his employment with CME prior to the end of the Agreement Term for any reason. If Employee voluntarily terminates his employment pursuant to this subsection (e), he shall be entitled to receive accrued Base Salary through the date of the termination of his employment and other employee benefits to which Employee is entitled upon his termination of employment with CME, in accordance with the terms of the plans and programs of CME.

7) **Confidential Information and Non-Compete.** Employee acknowledges that the successful development of CME's services and products, including CME's trading programs and systems, current and potential customer and business relationships, and business strategies and plans requires substantial time and expense. Such efforts generate for CME valuable and proprietary information ("Confidential Information") which gives CME a business advantage over others who do not have such information. Confidential information includes, but is not limited to the following: trade secrets, technical, business, proprietary or financial information of CME not generally known to the public, business plans, proposals, past and current prospect and customer lists, trading methodologies, systems and programs, training materials, research data bases and computer software; but shall not include information or ideas acquired by Employee prior to his employment with CME if such pre-existing information is generally known in the industry and is not proprietary to CME.

(a) Employee shall not at anytime during the Agreement Term *or thereafter*, make use of or disclose, directly or indirectly to any competitor or potential competitor of CME, or divulge, disclose or communicate to any person, firm, corporation, or other legal entity in any manner whatsoever, or for his own benefit and that of any person or entity other than Employer, any Confidential Information. This subsection shall not apply to the extent Employee is required to disclose Confidential Information to any regulatory agency or as otherwise required by law; provided, however, that Employee will promptly notify Employer if Employee is requested by any entity or person to divulge Confidential Information, and will use his best efforts to ensure that Employer has sufficient time to intervene and/or object to such disclosure or otherwise act to protect its interests. Employee shall not disclose any Confidential Information while any such objection is pending.

(b) Employee agrees that while employed and for a period of one (1) year following the termination of his employment with CME for any reason, the Employee will not accept employment with or act or provide services as an independent contractor or consultant for or on behalf of any derivatives exchange or for any person, organization or entity providing clearing services. Employee acknowledges that such restriction is necessary to protect the Confidential Information he learned through his employment with Employer.

(c) Upon termination for any reason, Employee shall return to Employer all records, memoranda, notes, plans, reports, computer tapes and equipment, software and other documents or data which constitute Confidential Information which he may then possess or have under his control (together with all copies thereof) and all credit cards, keys and other materials and equipment which are Employer's property that he has in his possession or control.

(d) If, at any time of enforcement of this Section 7, a court holds that the restrictions stated herein are unreasonable, the parties hereto agree that a maximum period, scope or geographical area reasonable under the circumstances shall be substituted for the stated period, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law.

8) **Non-solicitation**.

(a) General. Employee acknowledges that Employer invests in recruiting and training, and shares Confidential Information with, its employees. As a result, Employee acknowledges that Employer's employees are of special, unique and extraordinary value to Employer.

(b) Non-solicitation. Employee further agrees that for a period of one (1) year following the termination of his employment with CME for any reason he shall not in any manner, directly or indirectly, induce or attempt to induce any employee of CME to terminate or abandon his or her employment with CME for any purpose whatsoever.

(c) Reformation. If, at any time of enforcement of this Section 8, a court holds that the restrictions stated herein are unreasonable, the parties hereto agree that the maximum period, scope or geographical area reasonable under the circumstances shall be substituted for the stated period, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law.

9) **Intellectual Property.** During the Agreement Term, Employee shall disclose to CME and treat as confidential information all ideas, methodologies, product and technology applications that he develops during the course of his employment with CME that relates directly or indirectly to CME's business. Employee hereby assigns to CME his entire right, title and interest in and to all discoveries and improvements, patentable or otherwise, trade secrets and ideas, writings and copyrightable material, which may be conceived by Employee or developed or acquired by him during his employment with CME, which may pertain directly or indirectly to the business of the CME. Employee shall at any time during or after the Agreement Term, upon CME's request, execute, acknowledge and deliver to CME all instruments and do all other acts which are necessary or desirable to enable CME to file and prosecute applications for, and to acquire, maintain and enforce, all patents, trademarks and copyrights in all countries with respect to intellectual property developed or which was being developed during Employee's employment with CME.

10) **Remedies.** Employee agrees that given the nature of CME's business, the scope and duration of the restrictions in paragraphs 7, 8 and 9 are reasonable and necessary to protect the legitimate business interests of CME and do not unduly interfere with Employee's career or economic pursuits. Employee recognizes and agrees that a breach of any or all of the provisions of Sections 7, 8 and 9 will constitute immediate and irreparable harm to CME's business advantage, for which damages cannot be readily calculated and for which damages are an inadequate remedy. Accordingly, Employee acknowledges that CME shall therefore be entitled to seek an injunction or injunctions to prevent any breach or threatened breach of any such section. Such injunctive relief shall not be Employer's sole remedy. Employee agrees to reimburse CME for all costs and expenses, including reasonable attorney's fees and costs, incurred by CME in connection with the successful enforcement of its rights under Sections 7, 8 and 9 of this Agreement.

11) **Survival.** Sections 7, 8, 9 and 10 of this Agreement shall survive and continue in full force and effect in accordance with their respective terms, notwithstanding any termination of the Agreement.

12) **Arbitration.** Except with respect to Sections 7, 8, and 9, any dispute or controversy between CME and Employee, whether arising out of or relating to this Agreement, the breach of this Agreement, or otherwise, shall be settled by arbitration in Chicago, Illinois, in accordance with the following:

(a) Arbitration hearings will be conducted by the American Arbitration Association (AAA). Except as modified herein, arbitration hearings will be conducted in accordance with AAA's rules.

(b) State and federal laws contain statues of limitation which prescribe the time frames within which parties must file a law suit to have their disputes resolved through the court system. These same statutes of limitation will apply in determining the time frame during which the parties must file a request for arbitration.

(c) If Employee seeks arbitration, Employee shall submit a filing fee to the AAA in an amount equal to the lesser of the filing fee charged in the state or federal court in Chicago, Illinois. The AAA will bill Employer for the balance of the filing and arbitrator's fees.

(d) The arbitrator shall have the same authority to award (and shall be limited to awarding) any remedy or relief that a court of competent jurisdiction could award, including compensatory damages, attorney fees, punitive damages and reinstatement. Employer and Employee may be represented by legal counsel or any other individual at their own expense during an arbitration hearing.

(e) Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

(f) Except as necessary in court proceedings to enforce this arbitration provision or an award rendered hereunder, or to obtain interim relief, neither a party nor an arbitrator may disclose the existence, content or results of any arbitration hereunder without the prior written consent of CME and Employee.

13) **Notices.** All notices and other communications required or permitted hereunder shall be in writing and shall be deemed given when (i) delivered personally or by overnight courier to the following address of the other party hereto (or such other address for such party as shall be specified by notice given pursuant to this Section) or (ii) sent by facsimile to the following facsimile number of the other party hereto (or such other facsimile number for such party as shall be specified by notice given pursuant to this Section), with the confirmatory copy delivered by overnight courier to the address of such party pursuant to this Section 14:

If to CME, to:

Craig S. Donohue
Chief Executive Officer
Chicago Mercantile Exchange Inc.
30 South Wacker Drive
Chicago, IL 60606
(312) 930-3100

With a copy to:
Kathleen M. Cronin
Managing Director, General Counsel and Corporate Secretary
Chicago Mercantile Exchange Inc.
30 South Wacker Drive
Chicago, IL 60606
(312) 930-3488

If to Employee, to:

Phupinder Gill
1833 Portsmouth
Westchester, IL 60154

14) **<u>Severability</u>** Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of any other provision of this Agreement or the validity, legality or enforceability of such provision in any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

15) **<u>Entire Agreement</u>.** This Agreement constitutes the entire Agreement and understanding between the parties with respect to the subject matter hereof and supersedes and preempts any prior understandings, agreements or representations by or between the parties, written or oral, which may have related in any manner to the subject matter hereof. No other agreement or amendment to this Agreement shall be binding upon either party including, without limitation, any agreement or amendment made hereafter unless in writing, signed by both parties. Employee acknowledges that each of the parties has participated in the preparation of this Agreement and for purposes of principles of law governing the construction of the terms of this Agreement, no party shall be deemed to be the drafter of the same.

16) **<u>Successors and Assigns</u>.** This Agreement shall be enforceable by Employee and his heirs, executors, administrators and legal representatives, and by CME and its successors and assigns.

17) **<u>Governing Law</u>.** This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Illinois without regard to principles of conflict of laws.

18) **Acknowledgment.** Employee acknowledges that he has read, understood, and accepts the provisions of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

	Chicago Mercantile Exchange Inc.	**Phupinder Gill**
By:	/s/ CRAIG S. DONOHUE	/s/ PHUPINDER GILL
	Craig S. Donohue	Phupinder Gill
Date:	11/7/03	Date: 11/7/03

Exhibit 10.23

AGREEMENT

THIS AGREEMENT, made and entered into this 21st day of November 2003, by and between CHICAGO MERCANTILE EXCHANGE INC. ("Employer" or "CME"), a Delaware Business Corporation, having its principal place of business at 30 South Wacker Drive, Chicago, Illinois, and James Krause ("Employee").

R E C I T A L S:

WHEREAS, Employer wishes to retain the services of Employee in the capacity of Managing Director, Operations and Enterprise Computing, upon the terms and conditions hereinafter set forth and Employee wishes to accept such employment;

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties mutually agree as follows:

1) **Employment.** Subject to the terms of the Agreement, Employer hereby agrees to employ Employee during the Agreement Term as Managing Director, Operations and Enterprise Computing, and Employee hereby accepts such employment. Employee shall report to the Employer's Chief Executive Officer. The duties of Employee shall include, but not be limited to, the performance of all duties associated with executive oversight and management of the Employer's trading floor operations, specifically as relates to supporting the open outcry trading environment. Employee shall devote his full time, ability and attention to the business of Employer during the Agreement Term, subject to the direction of the Chief Executive Officer.

   Notwithstanding anything to the contrary contained herein, nothing in the Agreement shall preclude Employee from participating in the affairs of any governmental, educational or other charitable institution, engaging in professional speaking and writing activities, and serving as a member of the board of directors of a publicly held corporation (except for a competitor of Employer), provided Employee notifies the Employer's Board of Directors ("Board") prior to his participating in any such activities and as long as the Board does not determine that any such activities interfere with or diminish Employee's obligations under the Agreement. Employee shall be entitled to retain all fees, royalties and other compensation derived from such activities, in addition to the compensation and other benefits payable to him under the Agreement, but shall disclose such fees to Employer.

2) **Agreement Term.** Employee shall be employed hereunder for a term commencing on January 1, 2003, and expiring on December 31, 2005, unless sooner terminated as herein provided ("Agreement Term"). The Agreement Term may be extended or renewed only by the mutual written agreement of the parties.

3) **Compensation.**

(a) Base Salary. Beginning February 23, 2003 and during the remainder of the Agreement Term, the Employer shall pay to Employee a base salary at a rate of not less than $250,000.00 per annum (“Base Salary”), payable in accordance with the Employer’s normal payment schedule.

(b) Bonuses. Any bonus during the Agreement Term shall be provided at the sole discretion of the Employer and in accordance with applicable bonus plans in effect from time to time.

4) **Benefits.** Employee shall be entitled to insurance, vacation and other employee benefits commensurate with his position in accordance with Employer’s policies and plans in for executives in effect from time to time. Employee acknowledges receipt of a summary of Employer’s employee benefits policies in effect as of the date of this Agreement.

5) **Expense Reimbursement.** During the Agreement Term, Employer shall reimburse Employee, in accordance with Employer’s policies and procedures, for all proper expenses incurred by him in the performance of his duties hereunder.

6) **Termination.**

a) Death. Upon the death of Employee, this Agreement shall automatically terminate and all rights of Employee and his heirs, executors and administrators to compensation and other benefits under this Agreement shall cease, except for compensation which shall have accrued to the date of death, including accrued Base Salary, and other employee benefits to which Employee is entitled upon his death, in accordance with the terms of the plans and programs of CME.

b) Disability. Employer may, at its option, terminate this Agreement upon written notice to Employee if Employee, because of physical or mental incapacity or disability, fails to perform the essential functions of his position required of him hereunder for a continuous period of 90 days or any 120 days within any 12-month period. Upon such termination, all obligations of Employer hereunder shall cease, except for payment of accrued Base Salary, and other employee benefits to which Employee is entitled upon his termination hereunder, in accordance with the terms of the plans and programs of CME. In the event of any dispute regarding the existence of Employee’s disability hereunder, the matter shall be resolved as follows: (1) by the determination of a physician selected by the Chief Executive Officer of the Employer; (2) Employee shall have the right to challenge that determination by presenting a contrary determination from a physician of his choice; (3) in such event, a physician selected by agreement of the Employee and the Chief Executive Officer of the Employer will make the final determination. The Employee shall submit to appropriate medical examinations for purposes of making the medical determinations hereunder.

c) Cause. Employer may, at its option, terminate Employee's employment under this Agreement for Cause. As used in this Agreement, the term "Cause" shall mean any one or more of the following:

(1) any refusal by Employee to perform his duties and responsibilities under this Agreement, as determined after investigation by the Board. Employee, after having been given written notice by Employer, shall have seven (7) days to cure such refusal;

(2) any intentional act of fraud, embezzlement, theft or misappropriation of Employer's funds by Employee, as determined after investigation by the Board, or Employee's admission or conviction of a felony or of any crime involving moral turpitude, fraud, embezzlement, theft or misrepresentation;

(3) any gross negligence or willful misconduct of Employee resulting in a financial loss or liability to the Employer or damage to the reputation of Employer, as determined after investigation by the Board;

(4) any breach by Employee of any one or more of the covenants contained in Section 7, 8 or 9 hereof;

(5) any violation of any rule, regulation or guideline imposed by CME or a regulatory or self regulatory body having jurisdiction over Employer, as determined after investigation by the Board.

The exercise of the right of CME to terminate this Agreement pursuant to this Section 6(c) shall not abrogate any other rights or remedies of CME in respect of the breach giving rise to such termination.

If Employer terminates Employee's employment for Cause, Employee shall be entitled to accrued Base Salary through the date of the termination of his employment, other employee benefits to which Employee is entitled upon his termination of employment with Employer, in accordance with the terms of the plans, policies, and programs of CME then in effect. Upon termination for cause, Employee will forfeit any unvested or unearned compensation or long-term incentives, unless otherwise provided herein or specified in the terms of the plans and programs of CME.

d) Termination Without Cause. Upon 30 days prior written notice to Employee, Employer may terminate this Agreement for any reason other than a reason set forth in sections (a), (b) or (c) of this Section 6. If, during the Agreement Term, Employer terminates the employment of Employee hereunder for any reason other than a reason set forth in subsections (a), (b) or (c) of this Section 6:

(1) Employee shall be entitled to receive accrued Base Salary through the date of the termination of his employment, and other employee benefits to which Employee is entitled upon his termination of employment with

Employer, in accordance with the terms of the plans and programs of Employer; and

(2) a one time lump sum severance payment equal to 24 months of his Base Salary, as defined herein, as of the date of the Employee's termination.

e) Voluntary Termination. Upon 60 days prior written notice to CME (or such shorter period as may be permitted by CME), Employee may voluntarily terminate his employment with CME prior to the end of the Agreement Term for any reason. If Employee voluntarily terminates his employment pursuant to this subsection (e), he shall be entitled to receive accrued Base Salary through the date of the termination of his employment and other employee benefits to which Employee is entitled upon his termination of employment with CME, in accordance with the terms of the plans and programs of CME.

f) No Mitigation of Payments. Employee will not be required to mitigate or pay back any amounts otherwise payable to him pursuant to this paragraph 6 if Employee finds subsequent employment or other income. Notwithstanding the foregoing, this provision shall not limit CME's right to seek damages, which may include payments received hereunder, in the event Employee breaches this Agreement.

7) **Confidential Information.** Employee acknowledges that the successful development of CME's services and products, including CME's trading programs and systems, current and potential customer and business relationships, and business strategies and plans requires substantial time and expense. Such efforts generate for CME valuable and proprietary information ("Confidential Information") which gives CME a business advantage over others who do not have such information. Confidential Information includes, but is not limited to the following: trade secrets, technical, business, proprietary or financial information of CME not generally known to the public, business plans, proposals, past and current prospect and customer lists, trading methodologies, systems and programs, training materials, research data bases and computer software; but shall not include information or ideas acquired by Employee prior to his employment with CME if such pre-existing information is generally known in the industry and is not proprietary to CME.

(a) Employee shall not at anytime during the Agreement Term *or thereafter*, make use of or disclose, directly or indirectly to any competitor or potential competitor of CME, or divulge, disclose or communicate to any person, firm, corporation, or other legal entity in any manner whatsoever, or for his own benefit and that of any person or entity other than Employer, any Confidential Information. This subsection shall not apply to the extent Employee is required to disclose Confidential Information to any regulatory agency or as otherwise required by law; provided, however, that Employee will promptly notify Employer if Employee is requested by any entity or person to divulge Confidential Information, and will use his best efforts to ensure that Employer has sufficient time to intervene and/or object to such disclosure or otherwise act to protect its interests. Employee shall not disclose any Confidential Information while any such objection is pending.

(b) Employee agrees that while employed and for a period of one year following the termination of his employment with CME for any reason, the Employee will not accept employment in the operations department of any exchange which competes directly or indirectly with CME without the express prior written consent of CME, which consent shall not be unreasonably withheld. Employee acknowledges that such restriction is necessary to protect the Confidential Information he learned through his employment with Employer.

(c) Upon termination for any reason, Employee shall return to Employer all records, memoranda, notes, plans, reports, computer tapes and equipment, software and other documents or data which constitute Confidential Information which he may then possess or have under his control (together with all copies thereof) and all credit cards, keys and other materials and equipment which are Employer's property that he has in his possession or control.

(d) If, at any time of enforcement of this Section 7, a court holds that the restrictions stated herein are unreasonable, the parties hereto agree that a maximum period, scope or geographical area reasonable under the circumstances shall be substituted for the stated period, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law.

8) **Non-solicitation**.

(a) General. Employee acknowledges that Employer invests in recruiting and training, and shares Confidential Information with, its employees. As a result, Employee acknowledges that Employer's employees are of special, unique and extraordinary value to Employer.

(b) Non-solicitation. Employee further agrees that for a period of one year following the termination of his employment with CME for any reason he shall not in any manner, directly or indirectly, induce or attempt to induce any employee of CME to terminate or abandon his or her employment with CME for any purpose whatsoever.

(c) Reformation. If, at any time of enforcement of this Section 8, a court holds that the restrictions stated herein are unreasonable, the parties hereto agree that the maximum period, scope or geographical area reasonable under the circumstances shall be substituted for the stated period, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law.

9) **Intellectual Property.** During the Agreement Term, Employee shall disclose to CME and treat as confidential information all ideas, methodologies, product and technology

applications that he develops during the course of his employment with CME that relates directly or indirectly to CME's e-commerce business or any other CME business. Employee hereby assigns to CME his entire right, title and interest in and to all discoveries and improvements, patentable or otherwise, trade secrets and ideas, writings and copyrightable material, which may be conceived by Employee or developed or acquired by him during his employment with CME, which may pertain directly or indirectly to the business of the CME. Employee shall at any time during or after the Agreement Term, upon CME's request, execute, acknowledge and deliver to CME all instruments and do all other acts which are necessary or desirable to enable CME to file and prosecute applications for, and to acquire, maintain and enforce, all patents, trademarks and copyrights in all countries with respect to intellectual property developed or which was being developed during Employee's employment with CME.

10) **Remedies.** Employee agrees that given the nature of CME's business, the scope and duration of the restrictions in paragraphs 7, 8 and 9 are reasonable and necessary to protect the legitimate business interests of CME and do not unduly interfere with Employee's career or economic pursuits. Employee recognizes and agrees that a breach of any or all of the provisions of Sections 7, 8 and 9 will constitute immediate and irreparable harm to CME's business advantage, for which damages cannot be readily calculated and for which damages are an inadequate remedy. Accordingly, Employee acknowledges that CME shall therefore be entitled to seek an injunction or injunctions to prevent any breach or threatened breach of any such section. Such injunctive relief shall not be Employer's sole remedy. Employee agrees to reimburse CME for all costs and expenses, including reasonable attorney's fees and costs, incurred by CME in connection with the successful enforcement of its rights under Sections 7, 8 and 9 of this Agreement. Similarly, CME agrees to reimburse Employee for all costs and expenses, including reasonable attorney's fees and costs, incurred by CME in connection with the successful enforcement of his rights under this Agreement.

11) **Survival.** Sections 7, 8, 9 and 10 of this Agreement shall survive and continue in full force and effect in accordance with their respective terms, notwithstanding any termination of the Agreement.

12) **Arbitration.** Except with respect to Sections 7, 8, and 9, any dispute or controversy between CME and Employee, whether arising out of or relating to this Agreement or the breach of this Agreement shall be settled by arbitration in Chicago, Illinois, in accordance with the following:

(a) Arbitration hearings will be conducted by the American Arbitration Association (AAA). Except as modified herein, arbitration hearings will be conducted in accordance with AAA's rules.

(b) State and federal laws contain statues of limitation which prescribe the time frames within which parties must file a law suit to have their disputes resolved through the court system. These same statutes of limitation will apply in determining the time frame during which the parties must file a request for arbitration.

(c) If Employee seeks arbitration, Employee shall submit a filing fee to the AAA in an amount equal to the lesser of the filing fee charged in the state or federal court in Chicago, Illinois. The AAA will bill Employer for the balance of the filing and arbitrator's fees.

(d) The arbitrator shall have the same authority to award (and shall be limited to awarding) any remedy or relief that a court of competent jurisdiction could award, including compensatory damages, attorney fees, punitive damages and reinstatement. Employer and Employee may be represented by legal counsel or any other individual at their own expense during an arbitration hearing.

(e) Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

(f) Except as necessary in court proceedings to enforce this arbitration provision or an award rendered hereunder, or to obtain interim relief, neither a party nor an arbitrator may disclose the existence, content or results of any arbitration hereunder without the prior written consent of CME and Employee.

13) **Notices.** All notices and other communications required or permitted hereunder shall be in writing and shall be deemed given when (i) delivered personally or by overnight courier to the following address of the other party hereto (or such other address for such party as shall be specified by notice given pursuant to this Section) or (ii) sent by facsimile to the following facsimile number of the other party hereto (or such other facsimile number for such party as shall be specified by notice given pursuant to this Section), with the confirmatory copy delivered by overnight courier to the address of such party pursuant to this Section 13:

If to CME, to:

Craig S. Donohue
Chief Executive Officer
Chicago Mercantile Exchange
30 S. Wacker
Chicago, IL 60606
(312) 930-3100

If to Employee, to:

James Krause
c/o Martin P. Marta
D'Ancona & Pflaum
111 East Wacker Drive
Suite 2800
Chicago, IL 60601
(312) 602-2029

14) **Severability.** Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under applicable law

or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of any other provision of this Agreement or the validity, legality or enforceability of such provision in any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

15) **Entire Agreement.** This Agreement constitutes the entire Agreement and understanding between the parties with respect to the subject matter hereof and supersedes and preempts any prior understandings, agreements or representations by or between the parties, written or oral, which may have related in any manner to the subject matter hereof. No other agreement or amendment to this Agreement shall be binding upon either party including, without limitation, any agreement or amendment made hereafter unless in writing, signed by both parties. Employee acknowledges that each of the parties has participated in the preparation of this Agreement and for purposes of principles of law governing the construction of the terms of this Agreement, no party shall be deemed to be the drafter of the same.

16) **Successors and Assigns.** This Agreement shall be enforceable by Employee and his heirs, executors, administrators and legal representatives, and by CME and its successors and assigns.

17) **Governing Law.** This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois without regard to principles of conflict of laws.

18) **Acknowledgment.** Employee acknowledges that he has read, understood, and accepts the provisions of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

	Chicago Mercantile Exchange Inc.	James Krause
By:	/s/ CRAIG S. DONOHUE	/s/ JAMES KRAUSE
	Craig S. Donohue	James Krause
Date:	12/3/03	Date: 11/21/03

SELECTED FINANCIAL DATA

The following selected income statement and balance sheet data for the years 1999 through 2003 was derived from the consolidated financial statements of Chicago Mercantile Exchange Holdings Inc. and subsidiaries and should be read in conjunction with the audited financial statements, related notes and other financial information included elsewhere herein.

	FOR YEAR ENDED OR AT DECEMBER 31				
(in thousands, except per share data)	2003	2002	2001	2000	1999
Income Statement Data:					
Net revenues[1]	$ 536,041	$ 453,177	$ 387,153	$ 226,552	$ 210,602
Expenses	329,916	298,948	261,387	241,814	203,958
Limited partners' interest in earnings of PMT Limited Partnership	—	—	—	(1,165)	(2,126)
Net income (loss)	122,132	94,067	75,108	(10,496)	2,663
Earnings (loss) per share:[2]					
Basic	$ 3.74	$ 3.24	$ 2.61	$ (0.36)	$ 0.09
Diluted	3.60	3.13	2.57	—	0.09
Balance Sheet Data:					
Shareholders' equity	$ 562,995	$ 446,139	$ 248,366	$ 166,262	$ 168,663
Total assets	4,872,636	3,355,016	2,066,878	384,035	303,467
Other Data:					
Total trading volume (round turn trades)	640,210	558,448	411,712	231,110	200,737
GLOBEX volume (round turn trades)	282,434	197,975	81,895	34,506	16,135
Open interest at year-end (contracts)	29,674	18,792	15,039	8,021	6,412

1 For the years ended December 31, 2003, 2002 and 2001, revenues are net of securities lending interest expense. Securities lending transactions began in June 2001.

2 Earnings per share are presented as if common stock issued on December 3, 2001 as part of our reorganization into a holding company structure had been outstanding for all periods presented. For 2000, diluted loss per share is not presented, since shares issuable for stock options would have an anti-dilutive effect.

CORPORATE STRUCTURE

We are the largest futures exchange in the United States and the second largest in the world for the trading of futures and options on futures, as measured by 2003 annual trading volume. Our international marketplace brings together buyers and sellers on our trading floors, as well as through our GLOBEX electronic trading platform and privately negotiated transactions. We offer market participants the opportunity to trade futures contracts and options on futures contracts primarily in four product areas: interest rates, stock indexes, foreign exchange and commodities.

Our exchange was organized in 1898 as a not-for-profit membership organization. On November 13, 2000, we became the first U.S. financial exchange to become a for-profit corporation by converting membership interests into shares of common stock. As a result of our conversion into a for-profit corporation, individuals and entities who, at the time, owned trading privileges on our exchange became the owners of all of the outstanding equity of CME. As part of our demutualization, we also purchased all of the assets and liabilities of P-M-T Limited Partnership, or PMT, an Illinois limited partnership that operated the GLOBEX electronic trading platform.

On December 3, 2001, we completed our reorganization into a holding company structure. As a result of the reorganization, CME became a wholly owned subsidiary of CME Holdings. In our reorganization, CME shareholders exchanged their shares for shares of CME Holdings. After the reorganization, these shareholders owned the same percentage of CME Holdings common stock that they previously owned of CME common stock. CME shareholders retained their trading privileges in CME. Prior to the reorganization, CME Holdings had no significant assets or liabilities. Our financial statements have been prepared as if the holding company structure had been in place for all periods presented.

On December 11, 2002, CME Holdings completed the initial public offering of its Class A common stock. CME Holdings' Class A common stock is now listed on the New York Stock Exchange under the ticker symbol "CME." All 5,463,730 shares of Class A common stock, including an aggregate of 712,660 shares of Class A common stock covered by an over-allotment option granted by CME Holdings to the underwriters, were sold at a price to the public of $35.00 per share. Of the 5,463,730 shares sold in the offering, 3,712,660 shares were sold by CME Holdings and 1,751,070 shares were sold by selling shareholders. The net proceeds to CME Holdings from the offering were approximately $117.5 million, after deducting underwriting discounts and commissions paid to the underwriters and other expenses incurred in connection with the offering. CME Holdings did not receive any proceeds from the sale of shares by the selling shareholders.

On June 24, 2003 and November 19, 2003, CME Holdings completed secondary offerings of Class A common stock. These offerings were conducted as guided sales in accordance with CME Holdings' Certificate of Incorporation in connection with the termination of transfer restrictions on shares of our Class A-1 and Class A-2 common stock, respectively. All 1,220,635 shares of Class A common stock sold in the June offering were sold by selling shareholders at a price to the public of $69.60 per share. All 2,366,069 shares of Class A common stock sold in the November offering were sold by selling shareholders at a price to the public of $67.00 per share. CME Holdings did not receive any proceeds from the sale of shares by the selling shareholders in these offerings.

Prior to our conversion to a for-profit corporation in November 2000, our business strategy and fee structure as a not-for-profit membership organization were designed to offer profit opportunities for our members and to limit our profits beyond that necessary to provide for sufficient working capital and infrastructure investment. Membership provided individuals and clearing firms with exclusive direct access to our markets, allowing them to profit from proprietary trading and customer execution. We provided some infrastructure services at a significant discount or as a membership benefit and, on occasion, offered fee holidays or fee rebates. As a result, our financial results for periods prior to our demutualization may not be indicative of such results in subsequent periods. Consequently, comparisons of periods before and after demutualization may not be meaningful.

In conjunction with our demutualization and corporate reorganization, we adopted a for-profit business strategy that has been integrated into our operations. As part of this integration process, we have examined and will continue to examine the fees we charge for our products in order to increase revenues and profitability, provide incentives for members and non-members to use our markets and enhance the liquidity of our markets. To improve trading volume and promote new products, we offer discounts, some of which may be significant, to our members and non-members to use our markets. In the fourth quarter of 2000 and first quarter of 2001, we implemented changes to our fee structure. These changes included: increasing clearing fees for some products; increasing the daily maximum on GLOBEX fees for our E-mini products; implementing fees for order routing, delivery of agricultural products and a surcharge for trades executed by one firm and cleared by another clearing firm, or give ups; increasing fees for access to our trading floor by members and their employees; increasing fees for the use of certain facilities on our trading floor; reducing GLOBEX fees for interest rate products; and implementing reduced clearing fees for customers achieving certain volume levels in our interest rate products. In addition, we increased the number of GLOBEX access choices, altered the pricing for existing GLOBEX access choices, changed the type of market data offered through our non-professional service offering and increased the price of our professional market data service offering. In contrast to the fee rebates and other fee reductions implemented prior to our demutualization, this new approach to fees has had a significant positive impact on our revenues and profitability. In addition, we maintained a focus on expense discipline and specifically focused expenditures on projects designed to enhance our profitability. The net impact of these factors contributed to the growth in our net income from $2.7 million in 1999 to $122.1 million in 2003.

OVERVIEW

As the largest futures exchange in the United States, our revenue is derived primarily from the clearing and transaction fees we assess on each contract traded through our trading venues or using our clearing house. As a result, revenues fluctuate significantly with volume changes, and thus our profitability is tied directly to the trading volume generated. Clearing and transaction fees are assessed based on the product traded, the membership status of the individual executing the trade and whether the trade is completed on our trading floor, through our GLOBEX electronic trading platform or as a privately negotiated transaction. On November 24, 2003, we began to provide clearing and transaction processing services of some products to the Chicago Board of Trade (CBOT) in connection with our Common Clearing Link (CCL) agreement. We began to clear all CBOT products on January 2, 2004. Revenue from these services is now included as part of clearing and transaction services. In addition to clearing and transaction fees and services, revenues include, quotation data fees, access fees, communication fees, investment income, including securities lending activities, and other revenue. Our securities lending activities generate interest income and related interest expense. We present securities lending interest expense as a reduction of total revenues on our consolidated statements of income to arrive at net revenues.

Net revenues increased from $210.6 million in 1999 to $536.0 million in 2003. As a result of the increase in trading volume during this time period and the fee changes implemented primarily in connection with our demutualization, the percentage of our revenues derived from clearing and transaction fees increased and represented 80.0% of our net revenues in 2003, compared to 66.6% in 1999.

While volume has a significant impact on our clearing and transaction fees revenue, there are four other factors that also influence this source of revenue: rate structure; mix of products traded; method of trade; and the percentage of trades executed by customers who are members compared to non-member customers. Our clearing and transaction fee revenues increase or decrease if there is a change in any of these factors. Trades executed through GLOBEX are charged fees for using the electronic trading platform in addition to the clearing fees assessed on all transactions executed on our exchange. Trades executed as privately negotiated transactions also incur additional charges beyond the clearing fees assessed on all transactions. In addition, non-member customers are charged higher fees than customers who are members. Our revenue decreases if the percentage of trades executed by customers who are members increases, and increases if the percentage of trades executed by non-member customers increases, even when our fee structure remains unchanged. As a result, there are multiple factors that can change over time, and these changes all potentially impact our revenue from clearing and transaction fees.

Clearing and transaction services revenue includes fees derived from providing clearing and settlement services under the CCL agreement, listing new crude oil and natural gas futures products on GLOBEX for the New York Mercantile Exchange (NYMEX) and processing single stock futures trades for certain CME clearing firms that execute trades at OneChicago, LLC (OneChicago), our joint venture in single stock futures and futures on narrow-based stock indexes that initiated trading in November 2002. Reclassifications have been made for 2003 and 2002 to include these NYMEX and OneChicago revenues as part of clearing and transaction services. Previously, these revenues were included in other revenue.

Our quotation data fees represent our second largest source of revenue. Revenue from these fees has increased a total of 23.6% from 1999 to 2003. In 2003, these fees represented 9.9% of our net revenues. Revenue from fees assessed for access to our GLOBEX electronic trading platform have grown as a result of more customers choosing to trade electronically. Revenue derived from communication fees has remained relatively constant from 1999 to 2003. Investment income has increased modestly as a result of the higher cash and cash equivalent and marketable securities balances during 2003 offset by the decline in interest rates since 2000. In June 2001, we began to engage in securities lending activities, which have contributed modestly to our net revenues. In general, other revenue has increased in a manner consistent with our net revenues from 1998 to 2003.

Expenses increased from $204.0 million in 1999 to $329.9 million in 2003. This represents a compound annual growth rate in expenses of 12.8% from 1999 to 2003 compared to a 26.3% compound annual growth rate in net revenues for the same period. The majority of our expenses fall into three categories: compensation and benefits; communications and computer and software maintenance; and depreciation and amortization. Additional expenses also are incurred for occupancy, professional fees, marketing, advertising and public relations and other expenses. Our compensation and benefits expense has increased

74.2% from 1999 to 2003 and represented 42.7% of our total expenses in 2003. A component of the increase in compensation and benefits expense, stock-based compensation, began in 2000 and is a non-cash expense that results primarily from the option granted to our former Chief Executive Officer as well as other stock-based compensation resulting from stock grants to certain other employees. In addition, in 2000, we incurred $9.8 million of expenses associated with restructuring of management, our demutualization and the write-off of certain internally developed software that could not be utilized as intended. Also, in 2002, we incurred $13.7 million of expense in the third quarter to settle the Wagner patent litigation that was partially offset by a $7.5 million reimbursement for this settlement from Euronext-Paris in the fourth quarter of 2002. This resulted in $6.2 million of net expense associated with this litigation for the year 2002.

With the exception of license fees paid for the trading of our stock index contracts and a component of our trading facility rent that is related to open outcry trading volume, most of our expenses do not vary directly with changes in trading volume. The number of transactions processed, rather than the number of contracts traded, tends to impact expenses as a result of technology expenses required to process additional transactions. A trade executed on our exchange represents one transaction, regardless of the number of contracts included in that trade. Therefore, total contract trading volume is greater than the number of transactions processed.

Revenues

Our net revenues have grown from $210.6 million in 1999 to $536.0 million in 2003. Our clearing and transaction fees revenue is tied directly to volume and underlying market uncertainty. We attempt to mitigate the downside of unpredictable volume swings through various means, such as increasing clearing fees, creating volume incentives, opening access to new markets and further diversifying the range of products and services we offer, such as the recently launched CCL. The annual growth in daily trading volume from 1999, when average daily volume was 793,425 contracts, to 2003 is summarized as follows:

	YEAR ENDED DECEMBER 31			
(in round turn trades)	**2000**	**2001**	**2002**	**2003**
Average Daily Volume	917,120	1,640,288	2,216,063	2,540,514
Increase from Previous Year	123,695	723,168	575,775	324,451
Percentage Increase from Previous Year	15.6%	78.9%	35.1%	14.6%

Total trading volume growth from 1999 to 2003 was driven primarily by our interest rate and equity product areas. The trading volume increase in our interest rate products from 1999 to 2003 occurred primarily in our Eurodollar contract. This growth was the result of interest rate volatility beginning with the Federal-funds rate decreases during 2001 and the continued interest rate uncertainty through 2003 as a result of global and national economic and geopolitical factors. The trading volume increase in our equity products from 1999 to 2003 occurred primarily in the E-mini version of the S&P 500 and NASDAQ-100 stock index contracts which were introduced in 1997 and 1999, respectively. E-mini contracts are one-fifth the size of the standard contract and are traded only through GLOBEX, our electronic trading platform. The equity trading volume increase was a result of concern and uncertainty about the global and national economy, interest rates and the performance of U.S. stocks, combined with increased distribution to customers through the available access choices to our GLOBEX platform and marketing efforts to increase awareness of our product offerings. The trading volume increase in our foreign exchange products from 2002 to 2003 was greater than the growth realized during the period from 2000 to 2002. The increase in 2003 was the result of increased foreign exchange volatility, led by the weakening U.S. dollar, coupled with increased distribution of our GLOBEX platform and increased marketing efforts. In general, global and national economic and political uncertainty results in increased trading activity, as our customers seek to hedge, manage or speculate on the risks associated with fluctuations in interest rates, equities, foreign exchange and commodities. Our ability to provide the facility and products for risk management to our customers has increased with the distribution of our GLOBEX platform. A comparison of our average daily trading volume by venue and the related percentage of clearing and transaction fees associated with each venue are illustrated in the table below:

	AVERAGE DAILY VOLUME			APPROXIMATE PERCENTAGE OF CLEARING AND TRANSACTION FEES REVENUE	
(in round turn trades)	1999	2003	Increase	1999	2003
Method of Trade:					
Open Outcry	698,011	1,381,859	683,848	62%	45%
GLOBEX	63,782	1,120,770	1,056,988	15	46
Privately Negotiated	31,632	37,885	6,253	23	9
Total	793,425	2,540,514	1,747,089	100%	100%

While the increase in clearing and transaction fees has resulted primarily from increased trading volume, additional significant factors contributing to the increase in clearing and transaction fees from 1999 to 2000 were the rate increases and new transaction fees implemented in the fourth quarter of 2000, after our demutualization. Additional revenue was also generated in 2000 by the 15.1% increase in total trading volume and an increase in the percentage of trades executed through GLOBEX. Partially offsetting these increases was a decrease in the percentage of trades attributable to non-member customers, who are charged higher fees than members, and a decrease in the percentage of total volume attributable to our standard equity products, from which we earn higher clearing fees than other contracts. By contrast, the increase in clearing and transaction fees from 2000 to 2001 resulted primarily from the increase in trading volume and was augmented by the rate increases and new transaction fees implemented in the fourth quarter of 2000 and first quarter of 2001. Our revenues from clearing and transaction fees would have been higher in 2001 if the percentage of trading volume attributable to interest rate products, which are charged lower clearing fees than some of the other products offered through our exchange, had not increased compared to other products. However, management believes this pricing structure contributed to increased volume and enhanced the liquidity of these products. The increase in trading volume was the primary reason for the increase in revenues from clearing and transaction fees in 2002 when compared to 2001. Partially offsetting this 2002 volume increase was the impact of certain volume discounts, fee limits and a decrease in the percentage of trades executed by non-member customers. The increase in electronic trading volume of our equity and foreign exchange products was the primary reason for the increase in clearing and transaction fees in 2003 when compared to 2002. In addition, we increased the volume thresholds and reduced the amount of the discount in the pricing structure of our interest rate products on March 1, 2003, which increased revenues when compared to 2002.

Our clearing and transaction fees revenue, stated as an average rate per contract, is illustrated in the table below:

	YEAR ENDED DECEMBER 31				
(in thousands, except rate per contract)	1999	2000	2001	2002	2003
Clearing and Transaction Revenue	$ 140,305	$ 156,649	$ 292,459	$ 356,396	$ 428,802
Total Contracts Traded	200,737	231,110	411,712	558,448	640,210
Average Rate per Contract	$ 0.699	$ 0.678	$ 0.710	$ 0.638	$ 0.670

While the average rate per contract has decreased from 1999 to 2003, it has fluctuated from its peak of $0.710 in 2001 to its lowest amount of $0.638 in 2002. The fluctuation in the average rate per contract from 1999 to 2003 is primarily a result of pricing changes implemented in the fourth quarter of 2000 and first quarter of 2001, after our demutualization, as well as growth in the percentage of trades executed through GLOBEX. Despite the pricing changes in the fourth quarter of 2000, there was a decrease in the average rate per contract in 2000 that resulted primarily from an increase in the percentage of total volume from Eurodollar products, as these products have a lower average rate per contract, and a decline in the percentage of trades for non-member customers. The decline in the average rate per contract from 2001 to 2002 resulted primarily from volume discounts on certain products, limits on some fees associated with trading on the GLOBEX platform and a decrease in the percentage of trades attributed to non-members. We believe our lower fee structure for members has resulted in the acquisition of the trading rights associated with our Class B shares by parties intending to trade significant volumes on our exchange, creating an increase in member volume and a decrease in non-member volume. In addition, in 2002, our clearing and transaction fees were reduced by $4.8 million as a result of payments to clearing firms relating to our fee adjustment policy and clearing firm account management errors. The increase in average rate per contract from 2002 to 2003 resulted primarily from an increase in the percentage of trades executed through GLOBEX and a shift in volume to more equity products from interest rate products. Additional fees are charged for trades executed electronically and the average rate per contract is higher for equity products than for interest rate products.

Our volume discounts for Eurodollar contracts changed effective March 1, 2003. The discount for Eurodollar contracts is $0.04 per contract for daily trading volume in excess of 10,000 contracts. Volume for futures and options on futures is calculated separately for purposes of applying this discount. Prior to March 1, 2003, the discount was $0.05 per contract for trading volume in excess of 7,500 contracts per day, with the discount increasing to $0.07 per contract for trading volume in excess of 15,000 contracts per day. Volume on futures and options on futures was combined for purposes of calculating this discount. Also, effective March 1, 2003, we implemented an incentive plan for the remainder of 2003 to promote liquidity in the back months of our Eurodollar complex by offering incentives for high volume traders. These incentives, representing a reduction of revenues, totaled $3.3 million.

Effective September 2, 2003, we reduced GLOBEX electronic trading customer fees that are associated with calendar spread “rolls” in our E-mini stock index contracts for customer accounts from $0.50 to $0.10 per contract. As a result, the overall customer rate for these roll trades, when executed as a spread, was reduced from $1.14 to $0.74 per contract. A roll occurs when a position in an expiring contract is replaced by a similar position in the new front-month contract. On that same date we also reduced GLOBEX electronic trading system fees for Eurodollar contracts and other interest rate products from $0.25 per side to $0.10 per side for our members, clearing firms and their affiliates.

Additionally, to further increase the appeal of electronic trading of our benchmark products, we have established a market maker program for Eurodollar futures traded on GLOBEX during non-floor trading hours. The electronic Eurodollar market maker program is open to our members, lessees and those who trade proprietary accounts at member firms. In order to participate in the market maker program, individuals or firms will be required to post sizable bids and offers in designated Eurodollar futures contracts during non-floor trading hours, or between 2:00 p.m. and 7:20 a.m. Central Time Monday through Thursday and Sunday from 5:30 p.m. until 7:20 a.m. on Monday. As of December 31, 2003, we had six market makers participating in the program, five in the United States and one in London.

On November 10, 2003, we introduced a European incentive pricing plan for certain customers. Under this program, total transaction fees (including GLOBEX charges and clearing fees) for any product traded on GLOBEX was reduced to $0.44 per side. Proprietary trading groups and trading arcades located in Europe are eligible for the reduced fees for 18 months upon achieving GLOBEX connectivity. Entities that act as brokers for third parties are not eligible. In addition, CME intends to establish telecommunication hubs in six major European financial centers similar to the hub we already operate in London. The hubs, which will further reduce connectivity costs, will house direct electronic connections between Europe and our GLOBEX electronic trading platform. Customers will have the flexibility to select a CME-approved local telecommunications vendor and determine the bandwidth size for their connections, as well as the number and type of circuits. All necessary telecommunications hardware and network equipment will be stored at the local hub facilities.

Future changes in fees, volume discounts, limits on fees and member discounts, including some that may be significant, may occur periodically based on management's review of our operations and business environment.

Our clearing and transaction services revenue includes revenue from the Common Clearing Link that began November 24, 2003 and NYMEX and OneChicago related fees for providing clearing and transaction processing services. We cleared 9.5 million matched contracts for the CBOT in 2003. On January 2, 2004, we began clearing all CBOT products.

Our second largest source of revenue is quotation data fees, which we receive from the sale of our market data. Revenues from market data products totaled $43.0 million in 1999 and $53.2 million in 2003, when it represented 9.9% of our net revenues. In general, our market data service is provided to two types of customers. Subscribers to our professional service receive market data on all our products on a real-time streaming basis. Fees for the professional service are higher than for the non-professional service. Professional customers pay one price for the first device, or screen, at each physical location displaying our market data and a lower price for each additional screen displaying our market data at the same location. Since March 2001, our non-professional service has been provided to customers who typically only require market data provided in one-minute snapshots or on a limited group of products, such as our E-mini products. The fee for this service is relatively nominal and is a flat rate per month. Pricing for our market data services is based on the value of the service provided, our cost structure for the service and the price of comparable services offered by our competitors. The pricing of market data services was increased on March 1, 2001 as part of the pricing changes implemented in 2001. Increases or decreases in our quotation data revenue will be influenced by changes in our price structure for existing market data offerings, introduction of new market data services and changes in the number of subscribers. In addition, general economic factors will influence revenue from our market data fees. For example, the recent downsizing in the financial services industry has contributed to a decline in the number of screens displaying our market data and has adversely affected the growth in our quotation data revenue in both 2002 and 2003.

At year-end 2003, approximately 60,000 subscribers displayed our data on 174,000 screens worldwide, compared to approximately 54,000 subscribers and 175,000 screens at year-end 2002. With the exception of 2000, revenues from quotation data fees have grown each year for the last five years. In 2000, we began to offer a lower-priced non-professional service that increased the number of subscribers but adversely affected revenue as some of our existing customers switched to this lower-priced service. When this service was changed from real-time streaming to one-minute snapshots of market data in 2001, the number of subscribers to this service declined. Partially offsetting this decrease was the effect of some subscribers to our previous non-professional service switching to our professional service to obtain real-time streaming of market data. In addition, we began to offer a new non-professional service late in 2001 to allow subscribers to obtain market data limited to our E-mini products. At December 31, 2003, there were approximately 26,000 subscribers to this E-mini market data service. The combined effect of these changes was a net increase in the total number of non-professional subscribers from nearly 25,000 at December 31, 2000 to approximately 28,000 at year-end 2003. In addition, one of the major resellers of our quotes declared bankruptcy in February 2001. This reduced our revenue from quotation data fees by $1.4 million in 2000 and $0.5 million in 2001.

In 2003, the two largest resellers of our market data represented nearly 50% of our quotation data fees revenue. Should one of these vendors no longer subscribe to our market data, we believe the majority of that firm's customers would likely subscribe to our market data through another reseller. Therefore, we do not believe we are exposed to significant risk from a loss of revenue received from any particular market data reseller.

Effective January 1, 2004, we modified our market data pricing to a flat fee structure. Users of the professional service will be charged $30 per month for each market data screen, or device. There no longer is a different charge for the first screen at each location. In addition, we will begin working with our largest market data users to sell exchange data directly and on a discounted basis to those customers through enterprise licensing arrangements.

Access fees are the connectivity charges to customers of our electronic trading platform that are also used by our market data vendors and customers. The fee each customer is charged varies depending on the type of connection provided. There is a corresponding communication expense associated with providing these connections that varies based on the type of connection selected by the customer. Increases or decreases in revenue from access fees are influenced by changes in the price structure for our existing access choices, the introduction of new access choices and our ability to attract new users to our electronic trading platform. In addition, access fees are affected by some of the same factors that influence the general level of activity in electronic trading and market data, including the products offered, quality of execution services and general economic conditions affecting our markets.

In July 2003, we announced an expanded telecommunications alternative, Client DIRECTLink, for users of GLOBEX, our CLEARING 21 system and market data. This program allows participants to coordinate intercompany connectivity to us through existing connections to major telecommunications vendors, giving them the option to order connections to us with greater capacity than the existing T-1 line offered through us. Through this program, customers now manage their own equipment and network. We charge $200 a month per 0.5 megabyte bandwidth, and the telecommunications company selected charges an access fee that varies by customer. In addition, we introduced an expanded Internet connectivity solution, Client INTERNETLink. This program allows participants to connect through the Internet at high-bandwidth capabilities. We charge $500 a month per 0.5 megabyte bandwidth and the Internet service provider charges an access fee that varies by customer. To the extent that existing customers switch to one of these alternatives, we will experience a decrease in access fees as well as in communications expense. To date, only a small number of customers have switched to these alternatives.

Communication fees consist of charges to members and firms that utilize our various telecommunications networks and communications services. Revenue from communication fees is dependent on open outcry trading, as a significant portion relates to telecommunications on the trading floor. There is a corresponding variable expense associated with providing these services.

Investment income represents interest income and net realized gains and losses from our marketable securities, from the trading securities in our non-qualified deferred compensation plans, and from income generated by the short-term investment of clearing firms' cash performance bonds and security deposits. Investment income is influenced by our operating results, market interest rates and changes in the levels of cash performance bonds deposited by clearing firms. The total cash performance bonds deposited by clearing firms is a function of the type of collateral used to meet performance bond requirements, the number of open positions held by clearing firms and volatility in our markets. As a result, the amount of cash deposited by clearing firms is subject to significant fluctuation. For example, cash performance bonds and security deposits totaled $156.0 million at December 31, 2000, compared to $855.2 million at December 31, 2001, $1.8 billion at December 31, 2002 and $2.8 billion at December 31, 2003. In addition, clearing firms may choose to deposit cash in a foreign currency. Our ability to generate investment income from clearing firms' cash performance bonds and security deposits is impacted by the currency received and the interest rates prevailing in the country for that particular currency. The investment results of our non-qualified deferred compensation plans that are included in investment income do not affect net income, as there is an equal and offsetting impact to our compensation and benefits expense. In addition, as of July 1, 2003, our investment income includes the earnings of our first Interest Earning Facility program, or IEF, which currently consists of overnight investments managed by third party investment managers. The consolidation of these entities is required by Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities–An Interpretation of Accounting Research Bulletin (ARB) No. 51." This consolidation has no effect on our net income as the increase in investment income is offset by similar increases in our expenses to reflect fees paid for managing these IEFs and the distribution of the net earnings to the participants.

In the third quarter of 2002, we changed our investment policy and converted our marketable securities to short-term investments. Therefore, from the fourth quarter of 2002 through the second quarter of 2003, all investments were short-term in nature, and consisted of institutional money market funds and U.S. Government agency securities that matured within seven days of purchase. In the third quarter of 2003, we implemented a new investment policy whereby we have expanded our investment choices and extended the maturity of our investments. Investment choices now include primarily U.S. Treasury and Government agency securities, investment grade corporate obligations and municipal securities escrowed by U.S. Treasury securities. Maturities may be extended to a maximum of 60 months.

Beginning late in the second quarter of 2001, we entered into securities lending transactions utilizing a portion of the securities that clearing firms deposited to satisfy their proprietary performance bond requirements. Securities lending interest income is presented separately in the consolidated statements of income. Substantial interest expense is incurred as part of this securities lending activity and is presented as a deduction from total revenues to arrive at net revenues.

Other revenue is composed of fees for trade order routing and various services to members, as well as fees for administering our IEF® program. We offer clearing firms the opportunity to invest cash performance bonds in our IEF. These clearing firms receive interest income, and we receive a fee based on total funds on deposit. We implemented additions to our IEF program in 2001 and again in 2003, called IEF2 and IEF3, respectively. IEF2 allows clearing firms to invest directly in public money market mutual funds through a special facility provided by us. IEF3 provides a facility for clearing firms to deposit securities at the end of the day and receive cash previously deposited. Securities are then returned to the clearing firm on the following day and cash is returned to us. Other revenue also includes trading revenue generated by GFX, our wholly owned subsidiary that trades in foreign exchange and Eurodollar futures contracts to enhance liquidity in our markets for these products, fines assessed to members for violations of exchange rules and revenue from the licensing of our SPAN and CLEARING 21 software. In 2001, we entered into a joint venture, OneChicago, to trade single stock futures and futures on narrow-based stock indexes. We currently have a 40% ownership interest in the joint venture. Our share of the net loss from this joint venture is included in other revenue as well as revenue we receive for providing certain regulatory and technology services to OneChicago.

A substantial portion of our clearing and transaction fees, telecommunications fees and various service charges included in other revenue are billed to the clearing firms of the exchange. The majority of clearing and transaction fees received from clearing firms represent charges for trades executed on behalf of the customers of the various clearing firms. There are currently approximately 80 clearing firms. In 2003, one firm, with a significant portion of customer revenue, represented nearly 10% of our net revenues. Should a clearing firm withdraw from the exchange, we believe the customer portion of that firm's trading activity would likely transfer to another clearing firm of the exchange. Therefore, we do not believe we are exposed to significant risk from the loss of revenue earned from any particular clearing firm.

Expenses

Our expenses have grown from $204.0 million in 1999 to $329.9 million in 2003. The increase in total annual expenses since 1999 is illustrated in the table below:

	YEAR ENDED DECEMBER 31			
(in thousands)	**2000**	**2001**	**2002**	**2003**
Total Expenses	$ 241,814	$ 261,387	$ 298,948	$ 329,916
Increase from Previous Year	37,856	19,573	37,561	30,968
Percentage Increase from Previous Year	18.6%	8.1%	14.4%	10.4%

Compensation and benefits expense is our most significant expense and includes employee wages, stock-based compensation, bonuses, related benefits and employer taxes. Changes in this expense are driven by increases in wages as a result of inflation or labor market conditions, the number of employees, rates for employer taxes and price increases affecting benefit plans. In addition, this expense is affected by the composition of our work force, which includes a growing percentage of technology-related employees. This expense, including stock-based compensation, accounted for $118.7 million, or 39.7% of total expenses, for 2002 and $141.0 million, or 42.7% of total expenses, for 2003. Annual bonus payments also vary from year to year and have a significant impact on total compensation and benefits expense. This expense increased each year for the years 1999 to 2001, remained relatively constant from 2001 to 2002 and increased in 2003. The number of employees increased from 1,056 at December 31, 1999 to 1,221 at December 31, 2003.

In April 2003, our shareholders approved our annual incentive plan, and as a result our compensation and benefits expense will now be based on our financial performance. Under the performance criteria established for 2003, if we achieved the cash earnings target established by our Board of Directors, the bonus pool funded under the plan would have been $17.5 million, which is equal to the bonus pool paid to employees under our discretionary bonus program for 2002. We refer to this $17.5 million incentive bonus pool as the “target incentive pool.” Under the plan, if our actual cash earnings equal 80% of the target for 2003, the bonus pool will be $9.0 million, or approximately half of the target incentive pool. There will be no bonus pool if our cash earnings are less than 80% of the target (other than for non-exempt employees who may receive a bonus under our discretionary bonus program). If our actual cash earnings equal 120% of the target or higher, the bonus pool would have been $27.3 million, which is the maximum amount that may be funded under the plan. If our performance is somewhere between the threshold performance level of 80% of the cash earnings target and the maximum performance level of 120% of the cash earnings target, the incentive pool funding will be calculated based on the level of performance achieved. Our Board of Directors may make adjustments to the target level of performance for material, unplanned revenue, expense or capital expenditures for intermediate to long-term growth opportunities.

Stock-based compensation is a non-cash expense related to stock options and restricted stock grants. The most significant portion of this expense relates to our former CEO's stock option, granted in February 2000 for 5% of all classes of our common stock outstanding at the date of demutualization. For accounting purposes, the option was treated as a stock appreciation right prior to our demutualization. At year-end 2002, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, “Accounting for Stock-Based Compensation,” as amended by SFAS No. 148 and elected the retroactive restatement method of adoption. As a result, all prior periods presented have been restated to reflect stock-based compensation expense that would have been recognized had the provisions of SFAS No. 123 been applied to all options granted to employees during those periods. Stock-based compensation expense totaled $8.2 million in 2000, $6.2 million in 2001, $3.8 million in 2002 and $1.5 million in 2003 and did not occur prior to 2000. The expense related to our former CEO's option was $8.2 million, $3.5 million and $1.8 million for the years ended December 31, 2000, 2001 and 2002, respectively. Our former CEO stepped down when his contract expired on December 31, 2003. Due to the vesting provisions of his stock option, the remaining 20% of the shares subject to the option that were not yet vested were forfeited. As a result, in 2003 stock-based compensation expense relating to our former CEO's option was reduced by $2.6 million in the fourth quarter, resulting in a net credit of $2.0 million related to this option for the year ended December 31, 2003. No further expense will be incurred for this option. Beginning in the second quarter of 2001, restricted stock grants and options were awarded to certain employees. The portion of stock-based compensation expense related to these awards was $2.7 million for the year ended December 31, 2001, $2.0 million for the year ended December 31, 2002 and $3.5 million for the year ended December 31, 2003.

Occupancy costs consist primarily of rent, maintenance and utilities for our offices, trading facilities and remote data center. Our office space is primarily in Chicago, and we have smaller offices in Washington, D.C., London and Tokyo. Occupancy costs are relatively stable, although our trading floor rent fluctuates to a limited extent based on open outcry trading volume and cannot exceed $2.5 million per year. In 2002, our occupancy costs increased primarily as a result of the addition of the remote data center. In 2002, we also signed an extension of our Chicago office lease. As a result, this office lease now expires in November 2008. Our occupancy costs increased in 2003 primarily as a result of increased operating expenses, insurance costs and additional space leased at our main location.

Professional fees, outside services and licenses expense consists primarily of consulting services provided for major technology initiatives, license fees paid as a result of trading volume in stock index products and legal and accounting fees. This expense fluctuates primarily as a result of changes in requirements for consultants to complete technology initiatives, stock index product trading volume changes that impact license fees and other undertakings that require the use of professional services.

Communications and computer and software maintenance expense consists primarily of costs for network connections with GLOBEX and some market data customers; maintenance of the hardware and software required to support our technology; telecommunications costs of our exchange; and fees paid for access to market data. This expense is affected primarily by the growth of electronic trading. Our computer and software maintenance costs are driven by the number of transactions processed, not the volume of contracts traded. We processed nearly 80% of total transactions electronically in 2003 compared to approximately 75% in 2002, which represented 44.1% and 35.5%, respectively, of total contracts traded.

Depreciation and amortization expense results from the depreciation of fixed assets purchased and acquired under capitalized leases, as well as amortization of purchased and internally developed software. This expense increased as a result of significant technology investments in equipment and software that began in late 1998 and has led to additional depreciation and amortization in the following years.

Effective January 1, 2004, we decreased the depreciable life for new technology equipment purchases to three years and for new personal computer purchases to two years. Previously, the depreciable lives of these assets were four years and three years, respectively.

Marketing, advertising and public relations expense consists primarily of media, print and other advertising expenses, as well as expenses incurred to introduce new products and promote our existing products and services. Also included are seminar, conference and convention expenses for attending trade shows. Expenses of this nature have increased from $7.7 million in 1999 to $11.9 million in 2003. During this time, the emphasis of our promotion efforts shifted from print advertising and brochures to direct contact with our primary customers and Internet availability of our promotional materials. In 1999, additional expenses were incurred to promote the introduction of our E-mini stock index products and the introduction of daytime electronic trading in our Eurodollar contracts on a limited basis. These products were introduced to increase our trading volume as well as to respond to increased competition. The increase in this expense in 2003 was directly related to our $6.2 million brand advertising campaign. While we do not expect the brand awareness effort to continue in 2004, we expect to expand upon our product promotion efforts and maintain our 2003 spending level.

Other expense consists primarily of insurance, travel, staff training, fees incurred in providing product delivery services to customers, stipends for our Board of Directors, interest for equipment purchased under capital leases, meals and entertainment, fees for our credit facility, supplies, postage and various state and local taxes. Other expense fluctuates, in part, due to changes in demand for our product delivery services and decisions regarding the manner in which to purchase capital equipment. Certain expenses, such as those for travel and entertainment, are more discretionary in nature and can fluctuate from year to year as a result of management decisions. In 2002 and 2003, we experienced an increase in certain insurance expenses when compared to prior years. This is the result of increased provisions and rates for certain coverage, including directors and officers liability insurance. In addition, as a result of the adoption of FIN No. 46 in the third quarter of 2003, other expense includes $1.1 million for the distribution of the net earnings to the participants of our first IEFs. Our investment income has also increased to reflect the earnings of these IEFs and, therefore, this consolidation had no effect on our net income.

Net Income

Net income for 1999 was $2.7 million, declined to a loss of $10.5 million in 2000 and rebounded to net income of $75.1 million in 2001, $94.1 million in 2002 and $122.1 million in 2003. The net loss in 2000 resulted primarily from our management restructuring, the expense associated with the stock option granted to our former CEO, demutualization and the write-off of certain internally developed software that could not be used as intended. Increased volume combined with the change in our pricing structure following our demutualization drove the change in operating results from 2000 to 2003.

Net income from 1999 through 2000 was adversely affected by the limited partners’ interest in the earnings of PMT. Prior to our demutualization, PMT owned all rights to electronic trading of our products, received the revenue generated from electronic trading and was charged for our services to support electronic trading. The limited partners were entitled to a portion of the income of PMT, which totaled $2.1 million in 1999 and $1.2 million in 2000. We purchased PMT’s net assets as part of our demutualization.

Our initial public offering was completed in December 2002 and resulted in the issuance of an additional 3.7 million shares of Class A common stock. As a result, our earnings per share in 2003 has been adversely impacted by the increase in the number of shares outstanding.

CRITICAL ACCOUNTING POLICIES

The notes to our consolidated financial statements include disclosure of our significant accounting policies. In establishing these policies within the framework of accounting principles generally accepted in the United States, management must make certain assessments, estimates and choices that will result in the application of these principles in a manner that appropriately reflects our financial condition and results of operations. Critical accounting policies are those policies that we believe present the most complex or subjective measurements and have the most potential to impact our financial position and operating results. While all decisions regarding accounting policies are important, we believe there are four accounting policies that could be considered critical. These critical policies, which are presented in detail in the notes to our consolidated financial statements, relate to income taxes, clearing and transaction fees, internal use software costs and stock-based compensation.

Calculation of the income tax provision includes an estimate of the income taxes that will be paid for the year as well as an estimate of income tax liabilities or benefits deferred into future years as determined in accordance with SFAS No. 109, “Accounting for Income Taxes.” As required by the provisions of SFAS No. 109, our deferred tax assets are reviewed to determine if all assets will be realized in future periods. To the extent that it is determined some deferred tax assets will not be fully realized, the assets must be reduced by a valuation allowance. We expect to realize the benefit of all deferred tax assets based on expectations of future taxable income and, therefore, no valuation allowance has been established. The calculation of our tax provision involves dealing with uncertainties in the application of complex tax regulations. We recognize potential liabilities for anticipated tax audit issues in the United States and other applicable tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes may be due. If payment of these amounts varies from our estimate, our income tax provision would be reduced or increased at the time the determination is made. This determination may not be known for several years. Past tax audits have not resulted in tax adjustments that would result in a material change to the income tax provision in the year the audit was completed. The effective tax rate (defined as the income tax provision as a percentage of income before income taxes) will vary from year-to-year based on changes to tax rates and regulations, changes to income that is not subject to income tax, such as municipal interest income, and changes in expenses that are not deductible, such as costs associated with our secondary offerings in 2003 and certain lobbying expenses. The effective tax rate was 40.7%, 39.0%, and 40.3% for the years ended December 31, 2003, 2002 and 2001, respectively.

Clearing and transaction fees are recorded as revenue and collected from clearing firms on a monthly basis. Several factors affect the fees charged for a trade, including whether the individual making the trade has trading privileges on our exchange. In the event inaccurate information provided by the clearing firm has resulted in an incorrect fee, the clearing firm has a period of three months following the month in which the trade occurred to submit the correction and have the fee adjusted. When preparing financial statements for a reporting period, an estimate is made of anticipated fee adjustments applicable to the three months prior to the end of the reporting period. This estimate is recorded as a liability with a corresponding reduction to clearing and transaction fees revenue and is based on historical trends for such adjustments. Our estimate of anticipated fee adjustments was $2.0 million at December 31, 2003 and $3.1 million at December 31, 2002. Historically, the difference between the anticipated fee adjustments and those actually processed has not had a material impact on the operating results of the subsequent year.

Certain costs for CME personnel and consultants that are related to work on internal use software are capitalized in accordance with the American Institute of Certified Public Accountants Statement of Position 98-1 (SOP 98-1), “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.” Costs capitalized are for application development, as required by SOP 98-1, for significant software projects that will result in significant new functionality where these costs are generally expected to exceed $0.5 million. The amount capitalized is determined based on the time spent by the individuals completing the eligible development-related activity and the compensation and benefits or consulting fees incurred for these activities. Projects are monitored during the development cycle to assure that they continue to meet the capitalization criteria of SOP 98-1 and that the project will be completed and placed in service as intended. Any previously capitalized costs are expensed at the time a decision is made to abandon a software project. Work-in-progress for internal use software, as well as completed projects, are included as part of property in the consolidated balance sheets. Once completed, the accumulated costs for the development of a particular software project are amortized over the anticipated life of the software, generally three years. Costs capitalized for internal use software will vary from year-to-year based on the technology-related business requirements of the exchange. Included as property additions, capitalized costs related to internal use software totaled $6.8 million, $9.7 million and $5.0 million for 2003, 2002 and 2001, respectively, and amortization of completed projects totaled $7.9 million, $7.8 million and $7.1 million for 2003, 2002 and 2001, respectively.

The accounting for stock-based compensation is complex, and under certain circumstances, accounting principles generally accepted in the United States allow for alternative methods. As permitted, through September 30, 2002, we elected to account for stock-based compensation using the intrinsic value method in accordance with APB Opinion No. 25 rather than the alternative fair value method prescribed in SFAS No. 123, "Accounting for Stock-Based Compensation." As a result, variable accounting was required for the options granted to our former CEO as a result of certain provisions of the option agreement. Through September 30, 2002, the expense related to this option fluctuated based on the change in the value of our Class A shares and the underlying trading rights on our exchange associated with our Class B common stock. At year-end 2002, we adopted the fair value method for expensing stock options under the provisions of SFAS No. 123, as amended, and elected the retroactive restatement method of adoption. All prior periods presented have been restated to reflect stock-based compensation expense that would have been recognized had the provisions of SFAS No. 123 been applied to all stock options granted to employees, including the option granted to our former CEO, during the periods presented. We have elected the accelerated method for recognizing the expense related to stock grants. As a result of this election and the vesting provisions of our stock grants, a greater percentage of the total expense is recognized in the first year of the vesting period than would be recorded if we used the straight-line method.

KEY STATISTICAL INFORMATION

The following table presents key information on volume of contracts traded, expressed in round turn trades, as well as information on open interest and notional value of contracts traded:

	YEAR ENDED DECEMBER 31				
	2003	2002	2001	2000	1999
Average Daily Volume					
Product Areas:					
Interest Rate	1,234,190	1,226,343	1,091,846	550,810	475,023
Equity	1,135,734	863,271	425,149	258,120	189,984
Foreign Exchange	134,988	96,289	89,290	76,615	94,747
Commodity	35,602	30,160	34,003	31,575	33,671
Total Average Daily Volume	2,540,514	2,216,063	1,640,288	917,120	793,425
Method of Trade:					
Open Outcry	1,381,859	1,398,698	1,282,147	754,049	698,011
GLOBEX	1,120,770	785,615	326,274	136,928	63,782
Privately Negotiated	37,885	31,750	31,867	26,143	31,632
Total Average Daily Volume	2,540,514	2,216,063	1,640,288	917,120	793,425
Largest Daily Open Interest (contracts)	35,356,963	24,804,321	18,900,911	9,324,154	8,799,641
Total Notional Value (in trillions)	$ 333.7	$ 328.6	$ 293.9	$ 155.0	$ 138.3

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2003

COMPARED TO THE YEAR ENDED DECEMBER 31, 2002

Overview

Our operations for the year ended December 31, 2003 resulted in net income of $122.1 million compared to net income of $94.1 million for the year ended December 31, 2002. The increase in net income resulted primarily from an 18.3% improvement in net revenues that was only partially offset by a 10.4% increase in operating expenses. The change in net revenues was driven by a 20.3% increase in revenue from clearing and transaction fees that was attributed primarily to a 14.6% increase in total trading volume during 2003 when compared to 2002. This increase in clearing and transaction fees exceeded the percentage increase in trading volume primarily due to a higher volume of trades executed on our GLOBEX electronic trading platform. The increased GLOBEX trading resulted in a higher average rate per contract and a shift in the mix of products traded. Offsetting this increase in revenues was increased compensation and benefits expense of $22.6 million and $6.2 million of expenses related to our brand advertising campaign. Also impacting the comparison was the $13.7 million expense in the third quarter of 2002 to settle the Wagner patent litigation that was partially offset by a $7.5 million reimbursement for this settlement from Euronext-Paris in the fourth quarter of 2002. This resulted in $6.2 million of net expense associated with this litigation for the year 2002. There was no similar expense in 2003.

Trading volume for the year ended December 31, 2003 totaled 640.2 million contracts, representing average daily trading volume of 2.5 million contracts. This was a 14.6% increase over the 558.4 million contracts traded during the same period in 2002 representing average daily trading volume of 2.2 million contracts. Many volume trading records were established in 2003. Daily volume for the month of June 2003 averaged 3.0 million contracts per day, the highest in CME's history. Average daily volume in September 2003 was 2.8 million contracts per day, the second highest on record at CME. In addition, on March 17, 2003, 1.8 million contracts were traded on GLOBEX, the highest GLOBEX volume day on record, excluding TRAKRS volume.

Revenues

Total revenues increased $75.7 million, or 16.1%, from $469.1 million for the year ended December 31, 2002 to $544.8 million for the year ended December 31, 2003. Net revenues increased $82.9 million, or 18.3%, from the year ended 2002 when compared to the same period in 2003. The increase in net revenues was attributable primarily to the 14.6% increase in average daily trading volume for the year ended December 31, 2003, when compared to the year ended December 31, 2002. In 2003, electronic trading volume represented 44.1% of total trading volume, or 1.1 million contracts per day, a 42.7% increase over 2002. Increased trading volume levels resulted primarily from: GLOBEX system enhancements improving speed, reliability and distribution; continued volatility in currencies and U.S. stocks early in 2003; recent interest rate volatility and the reduction in the Federal-funds rate in June 2003 that resulted in increased volume in our interest rate products; geopolitical and economic uncertainty; increased customer demand for the liquidity provided by our markets; and product offerings that attracted new customers seeking to manage their risks. The additional clearing and transaction fees resulting from the increase in trading volume were augmented by increased revenue generated from our market data offerings, trading revenue from GFX, access fees, fees for managing our IEF program, fees for providing clearing services to the CBOT for the last six weeks of the year and investment income. Partially offsetting these increases in revenue was a decline in securities lending interest income, net of related interest expense, and losses incurred on the trade-in and write-off of certain technology equipment.

Clearing and Transaction Fees. Clearing and transaction fees, which include clearing fees, GLOBEX electronic trading fees and other volume-related charges increased $72.4 million, or 20.3%, from $356.4 million for the year ended December 31, 2002 to $428.8 million for the year ended December 31, 2003. A significant portion of the increase was attributable to the 14.6% increase in average daily trading volume. In addition to the increase in trading volume, there was a 42.7% increase in trading volume executed through GLOBEX. In 2003, GLOBEX volume represented 44.1% of total trading volume compared to

35.5% during 2002. Also, the product mix shifted to more equity product volume. For the year ended December 31, 2003, equity products represented 44.7% of trading volume, compared to 39.0% during 2002. By contrast, interest rates represented 48.6% of our volume in 2003, compared to 55.3% during 2002. Fees for interest rate products are lower than fees for equity products. In the normal course of business, we audit our clearing firms for compliance with our fee policies and assessments are issued for any deficiencies noted. Clearing and transaction fees revenue increased in 2003 as the result of clearing firm assessments for clearing and transaction fees resulting from these audits and included two assessments totaling $3.6 million. In addition, clearing and transaction fees for 2002 were reduced by $4.8 million as a result of a reserve established in June 2002 for a one-time payment to clearing firms relating to our fee adjustment policy and clearing firm account management errors. There was no similar reserve in 2003.

The average rate, or revenue, per contract increased from $0.638 for the year ended December 31, 2002 to $0.670 for the same period in 2003. The change was primarily the result of an increased percentage of trades executed through GLOBEX, which has a higher average rate per contract, and a product mix shift away from interest rate products. In addition, the tiered pricing for Eurodollar products was changed effective March 1, 2003. The thresholds for obtaining the tiered pricing discounts were increased, and the amount of the discount decreased. As a result, the average rate per contract during the year ended December 31, 2003 reflects a reduction of approximately $0.015 for the effect of tiered pricing compared to a $0.035 reduction in the year ended December 31, 2002. In addition, $3.6 million in clearing firm assessments for clearing and transaction fees added approximately $0.006 to our average rate per contract for the year ended December 31, 2003. In 2002, the average rate per contract was approximately $0.009 lower as a result of the $4.8 million reserve established in June 2002 to allow clearing firms to submit clearing fee adjustments for prior periods. Partially offsetting these factors that resulted in an increase in the average rate per contract in 2003, was the March 1, 2003 implementation of an incentive program to stimulate volume in the back months of the Eurodollar futures contract, or those contract months that trade three to 10 years into the future. This program reduced our average rate per contract approximately $0.006, or $3.3 million, for the year ended December 31, 2003. Finally, in July 2002, we began trading a new contract, Long-Short Technology TRAKRS which was followed by the launch of Select 50 TRAKRS, LMC TRAKRS, Commodity TRAKRS, Euro Currency TRAKRS and Gold TRAKRS in 2002 and 2003. Similar to limits on certain GLOBEX fees, transaction fees for this contract are limited based on the size of the order. The average rate per contract on these trades is approximately $0.007. As a result, TRAKRS volume has an adverse impact on our overall rate per contract. If volume and fees for TRAKRS were excluded for the years ended December 31, 2003 and 2002, our average rate per contract would have increased by approximately $0.021 to $0.691 in 2003 and by $0.011 to $0.649 in 2002.

The following table shows the average daily trading volume expressed in round turn contracts in our four product areas, the portion that was traded electronically through the GLOBEX platform, and clearing and transaction fee revenues expressed in total dollars and as an average rate per contract:

	YEAR ENDED DECEMBER 31		
	2003	**2002**	**Percentage Increase**
Product Area:			
Interest Rate	1,234,190	1,226,343	0.6%
Equity	1,135,734	863,271	31.6
Foreign Exchange	134,988	96,289	40.2
Commodity	35,602	30,160	18.0
Total Volume	2,540,514	2,216,063	14.6
GLOBEX Volume	1,120,770	785,615	42.7
GLOBEX Volume as a Percent of Total Volume	44.1%	35.5%	
Clearing and Transaction Fees Revenue (in thousands)	$ 428,802	$ 356,396	
Average Rate per Contract	$ 0.670	$ 0.638	

We experienced trading volume growth in each product area in 2003 when compared to 2002. With respect to interest rate products, in 2002 there was uncertainty related to interest rate levels that was not as evident in the first or third quarters of 2003 resulting in reduced trading volume. This reduction was offset in the second and fourth quarters of 2003 as a result of interest rate volatility and the 0.25% reduction in the Federal-funds rate announced by the U.S. Federal Reserve Board in June 2003. Overall, we experienced a modest gain in interest rate product volume in 2003. Our equity product volume growth was influenced by improvements in distribution, speed and reliability of the GLOBEX system and the volatility in U.S. equity markets that was evident in the first three months of 2003, primarily as a result of economic conditions and geopolitical uncertainty. The growth in foreign exchange volume was primarily due to improvements in our GLOBEX trading system, the declining value of the U.S. dollar and our central counterparty clearing which makes these products increasingly attractive to large banks and investment banks. Price levels and volatility patterns contributed to the increase in volume in our commodity products.

Clearing and Transaction Services. Clearing and transaction services increased $1.4 million from $0.4 million for the year ended December 31, 2002 to $1.8 million for the year ended December 31, 2003. The increase was a result of CCL activity commencing for specific products on November 24, 2003, as well as a full year of NYMEX transaction processing revenues. Our agreement with NYMEX began in June 2002.

Quotation Data Fees. Quotation data fees increased $4.5 million, or 9.1%, from $48.7 million for the year ended December 31, 2002 to $53.2 million for the year ended December 31, 2003. The increase resulted primarily from the change to our fee structure that was implemented on April 1, 2003. At that time, we changed the fees for our professional service by increasing the fee for additional screens from $12 per month to $20 per month and lowering the fee for first locations from $60 per month to $50 per month. At December 31, 2003, there were approximately 60,000 subscribers to our market data and the data was accessible from approximately 174,000 screens and included approximately 28,000 subscribers to our lower-priced non-professional service. This represented a decrease of approximately 1,000 screens from December 31, 2002 when the total was approximately 175,000 screens. While the number of subscribers has increased from approximately 54,000 subscribers at December 31, 2002, the increase occurred in our lower-priced non-professional E-mini market data service. The change in the number of subscribers, screens and locations from 2002 to 2003 is consistent with the trend experienced over the course of 2002, primarily as a result of contraction within the financial services industry.

Access Fees. Access fees increased $2.6 million, or 19.8%, from $12.9 million for the year ended December 31, 2002 to $15.5 million for the year ended December 31, 2003. This increase resulted primarily from an increase in the number of GLOBEX users, particularly those accessing GLOBEX through a T-1 connection, and those utilizing this access capability for some market data vendors and customers.

Communication Fees. Communication fees were relatively constant at $9.7 million for the years ended December 31, 2002 and 2003. The number of individuals and firms utilizing our communications services and the associated rates has not changed significantly.

Investment Income. Investment income increased $1.5 million, or 19.4%, from $7.7 million for the year ended December 31, 2002 to $9.2 million for the year ended December 31, 2003. The increase resulted primarily from an increase of approximately $4.1 million in interest income as a result of increased balances in short-term investments of available funds and cash performance bonds and security deposits as well as the investment of the net proceeds of our initial public offering that was completed in December 2002. In addition, during 2003 there was a $2.5 million increase in the investment results of our non-qualified deferred compensation plan that is included in investment income but does not affect our net income, as there is an equal increase in our compensation and benefits expense. As a result of the issuance of FIN No. 46 by the FASB in January 2003, the first IEFs that we initiated in 1997 have been determined to be variable interest entities and have been included in our consolidated financial statements beginning with the third quarter of 2003. While this consolidation has no effect on our net income, investment income for the year ended December 31, 2003 includes $1.4 million from the first IEFs with a similar increase in our expenses to reflect fees paid for managing these IEFs and the distribution of these IEF earnings to the participants. Partially offsetting these increases in investment income was a decrease in the average rate earned on all investments from 2.6% for the year ended December 31, 2002 to approximately 1.2% during the same period in 2003, representing a decrease in investment income of approximately $4.2 million. We changed our investment policy in the third quarter of 2002 whereby we converted our marketable securities to short-term investments, resulting in realized gains from the sale of these marketable securities of $2.7 million. As a result, for most of the year ended December 31, 2003, investments were short-term in nature and consisted primarily of institutional money market mutual funds.

In the third quarter of 2003, we began to implement a recently approved change to our investment policy that expanded our investment choices and extended the maturity of our investments relative to the investment policy that had been in effect since the third quarter of 2002. Investment choices now include primarily U.S. Treasury and Government agency securities, investment grade corporate obligations and municipal securities escrowed by U.S. Treasury securities. Maturities may extend to a maximum of 60 months. We expect this policy will be fully implemented for all investments by the end of the first quarter of 2004.

Securities Lending Interest Income and Expense. Securities lending interest income decreased $8.7 million, or 47.9%, from $18.2 million for the year ended December 31, 2002 to $9.5 million for the year ended December 31, 2003. The average daily balance of collateral received for securities lending activity was $924.1 million for 2002 and $723.2 million for 2003. Securities lending interest expense decreased $7.2 million, or 45.0%, from $15.9 million for 2002 to $8.7 million for 2003. This expense is an integral part of our securities lending program and is required to engage in securities lending transactions. Therefore, this expense is presented in the consolidated statements of income as a reduction of total revenues. The net revenue from securities lending represented a return of 0.25% on the average daily balance for 2002 compared to 0.10% for 2003. Beginning in 2003, we elected to make our daily offering of securities available for lending later in the business day. As a result, the number of investment choices and the related returns has decreased from 2002 to 2003.

Other Revenue. Other revenue increased $2.2 million, or 14.6%, from $15.0 million for the year ended December 31, 2002 to $17.2 million for the year ended December 31, 2003. This increase is attributed primarily to a $3.7 million increase in the trading revenue generated by GFX, a $0.6 million increase in fees associated with managing our IEF program and a $2.0 million increase in revenue for certain communication services provided to OneChicago, the joint venture established for the trading of single stock futures and narrow-based stock indexes. Partially offsetting these increases was a $2.1 million increase in our share of the OneChicago net loss and $1.3 million of losses incurred on certain technology equipment that was traded-in or written off during the year ended December 31, 2003.

Expenses

Total operating expenses increased $31.0 million, or 10.4%, from $298.9 million for the year ended December 31, 2002 to $329.9 million for the year ended December 31, 2003. This increase was primarily attributable to increases in compensation and benefits as well as the marketing expenses associated with our brand advertising campaign and depreciation and amortization expense. In addition, 2002 included $6.2 million of expense relating to the settlement of the Wagner patent litigation as well as legal fees incurred as a result of this litigation. There were no similar expenses for the year ended December 31, 2003.

Compensation and Benefits Expense. Compensation and benefits expense increased $22.3 million, or 18.8%, from $118.7 million for the year ended December 31, 2002 to $141.0 million for the year ended December 31, 2003. There were four significant components to this increase. The average number of employees increased approximately 8%, or by 85 employees, from the year ended December 31, 2002 to the year ended December 31, 2003. We had 1,221 employees at December 31, 2003. This increased headcount resulted in additional compensation and benefits, excluding bonuses, of approximately $8.4 million. Compensation and benefits increased approximately $7.5 million as a result of annual salary increases and related increases in employer taxes, pension and benefits. In addition, bonus expense increased $7.7 million from the year ended December 31, 2002 to the year ended December 31, 2003. As a result of an annual incentive plan approved by shareholders in 2003, bonus expense is now directly linked to cash earnings as defined in our annual incentive plan. Finally, the $2.5 million increase in the earnings of the deferred compensation plan resulted in increased compensation and benefits expense for the year ended December 31, 2003. These increases were partially offset by a $2.3 million reduction in stock-based compensation expense. The decrease is primarily a result of the forfeiture related to our former CEO's stock option. Due to the option's vesting provisions, the remaining 20% of the shares subject to the option that was unvested at December 31, 2003 was forfeited. As a result, stock-based compensation was reduced by $2.6 million in the fourth quarter of 2003 and no further expense will be incurred for this option. This decrease is partially offset by a $1.5 million increase in the expense related to employee stock options, primarily as a result of the accelerated expense recognition for the June 2003 grants. Finally, there was a $1.2 million reduction in compensation and benefits expense for the year ended December 31, 2003 as a result of the reimbursement provisions of the CCL agreement. There was no similar reimbursement arrangement during the year ended December 31, 2002.

Occupancy Expense. Occupancy expense increased $2.5 million, or 11.2%, from $22.4 million for the year ended December 31, 2002 to $24.9 million for the year ended December 31, 2003. Increased operating expenses and insurance costs resulted in $0.7 million of this increase. Rent expense has also increased as a result of additional space we now lease at our main location.

Professional Fees, Outside Services and Licenses Expense. Professional fees, outside services and licenses expense decreased $0.8 million, or 2.7%, from $32.5 million for the year ended December 31, 2002 to $31.7 million for the year ended December 31, 2003. The decrease was primarily the result of $3.2 million of legal fees incurred in 2002 for the settlement of the Wagner patent litigation. There was no similar expense in 2003. In addition, professional fees for technology initiatives, net of the portion that relates to the development of internal use software and is capitalized rather than expensed, also decreased $1.5 million. Finally, under the terms of our CCL agreement, our professional fees expense for the year ended December 31, 2003 was reduced by $0.9 million for amounts that were reimbursed by CBOT. No similar reimbursement existed during 2002. These declines were partially offset by increased legal and professional fees related to our two secondary offerings of stock that were completed in June and November of 2003, and legal fees incurred in 2003 to secure certain intellectual property rights. License fees also increased $1.0 million as a result of increased trading volume in our equity products. In addition, public relations and real estate development fees increased in 2003 when compared to 2002.

Communications and Computer and Software Maintenance Expense. Communications and computer and software maintenance expense decreased $0.8 million, or 1.7%, from $46.6 million for the year ended December 31, 2002 to $45.8 million for the year ended December 31, 2003. Communications expense decreased $3.0 million from 2002 to 2003 primarily as a result of $2.5 million in refunds from our telecommunications provider for billing errors in prior periods. In addition, we experienced decreases in other communications expense as a result of network consolidation and cost reduction efforts. Partially offsetting this decrease was a $2.5 million increase in our software, software maintenance, hardware rental and hardware maintenance expense for 2003 when compared to 2002, primarily as a result of the need to expand our capacity and improve reliability for processing transactions. In addition, communication expense for the remote data facility, which became operational in October 2002, increased in 2003.

Depreciation and Amortization Expense. Depreciation and amortization expense increased $4.5 million, or 9.3%, from $48.5 million for the year ended December 31, 2002 to $53.0 million for the year ended December 31, 2003. Capital expenditures totaled $56.9 million in 2002 and $63.0 million in 2003. Technology-related purchases represented approximately 90% of total purchases in 2002 and 76% in 2003. Equipment and software represent the greatest portion of these technology-related additions and were depreciated over a three- or four-year period. Therefore, these recent additions, which include the development of software for internal use, have resulted in the increased depreciation and amortization expense from 2002 to 2003.

Patent Litigation Settlement. Patent litigation settlement expense totaled $6.2 million for the year ended December 31, 2002. No similar expense occurred in the year ended December 31, 2003. This includes $13.7 million of expense in August 2002 to settle the Wagner patent litigation that was partially offset by a $7.5 million reimbursement for this settlement from Euronext-Paris in December 2002. The expense recorded in 2002 represents the present value of these payments.

Marketing, Advertising and Public Relations Expense. Marketing, advertising and public relations expense increased $5.4 million from $6.5 million for the year ended December 31, 2002 to $11.9 million for the year ended December 31, 2003. Our total brand advertising expense for the year ended December 31, 2003 was $6.2 million. There was no similar expense in the year ended 2002. Partially offsetting the increased brand advertising expense during the year ended 2003 was a reduction in product advertising when compared to 2002.

Other Expense. Other expense increased $4.2 million, or 24.2%, from $17.5 million for the year ended December 31, 2002 to $21.7 million for the year ended December 31, 2003. The primary factor in this increase was a $1.9 million increase in our insurance expense, which includes directors and officers and general liability coverage. In addition, as a result of the adoption of FIN No. 46 in the third quarter of 2003, other expense included $1.1 million for distributions to participants in our IEF program. This had no effect on our net income as the earnings of these IEFs are included in investment income. We also experienced increases in fees to our Board of Directors as a result of changes in the fee structure that were effective in the fourth quarter of 2002, as well as increases in currency delivery fees and general administrative costs during the year ended December 31, 2003 when compared to 2002.

Income Tax Provision

We recorded an income tax provision of $84.0 million for the year ended December 31, 2003 compared to $60.2 million for the same period in 2002. The effective tax rate was 40.7% for 2003, compared to 39.0% for 2002. The increase in the effective rate resulted primarily from certain expenses related to our secondary offerings, completed in June and November of 2003, which are not deductible for purposes of determining taxable income.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2002

COMPARED TO YEAR ENDED DECEMBER 31, 2001

Overview

Our operations for the year ended December 31, 2002 resulted in net income of $94.1 million compared to net income of $75.1 million for the year ended December 31, 2001. The increase in net income resulted primarily from a 17.1% increase in net revenues that was only partially offset by a 14.4% increase in operating expenses. The increase in net revenues was driven by a 35.6% increase in total trading volume during 2002 when compared to 2001. However, the percentage growth in volume did not result in an equal percentage growth in revenue as volume incentive programs, which include limits on GLOBEX fees for E-mini contracts and volume discounts for customers trading large volumes of our Eurodollar products, had a greater impact on revenue from clearing and transaction fees during 2002. Contributing to the overall increase in expenses was the settlement of the Wagner patent litigation in August 2002, and a subsequent agreement in December 2002 with Euronext-Paris for reimbursement of one-half of the settlement amount. The net result of these two agreements was a one-time expense of $6.2 million for 2002. Partially offsetting the overall increase in expenses was a decrease in stock-based compensation, a non-cash expense, from $6.2 million in 2001 to $3.8 million in 2002.

Trading volume for 2002 totaled a record 558.4 million contracts, representing an average daily trading volume of 2.2 million contracts. This was a 35.6% increase over the 411.7 million contracts traded during 2001, representing an average daily trading volume of 1.6 million contracts. On October 31, 2002, we experienced a new single-day total trading volume record of nearly 5.9 million contracts, surpassing the previous record of nearly 4.3 million contracts established on June 27, 2002. This volume record on October 31, 2002 included 2.6 million contracts from the launch of an additional TRAKRS contract (Total Return Assets Contracts), a product line developed with Merrill Lynch that first traded on July 31, 2002. The launch date of each new TRAKRS contract includes orders taken since the product was announced. In addition, the month of October 2002 represented our busiest month ever with total trading volume of 61.5 million contracts, and total trading volume excluding TRAKRS of 58.7 million contracts. GLOBEX volume exceeded one million contracts for a single day for the first time on June 12, 2002 and exceeded one million contracts on 42 days through the end of 2002. A new GLOBEX volume record was established on July 24, 2002, when 1.5 million contracts were traded. These GLOBEX volume records exclude the volume related to TRAKRS contracts.

Revenues

Total revenues increased $72.5 million, or 18.3%, from $396.6 million for 2001 to $469.1 million for 2002. Net revenues increased $66.0 million, or 17.1%, from 2001 to 2002. The increase in revenues was attributable primarily to a 35.1% increase in average daily trading volume in 2002. The increase represented our third consecutive year of record trading volume and marked the second year our exchange was the largest futures exchange in the United States, based on annual trading volume. In 2002, electronic trading volume represented 35.5% of total trading volume, or 785,615 contracts per day, a 140.8% increase over the year 2001. Open outcry trading volume averaged 1,398,698 contracts per day in 2002, a 9.1% increase over the year 2001. Increased trading volume levels resulted from continued volatility in U.S. stocks and currencies; the anticipation of possible changes in interest rates; increased customer demand for the liquidity provided by our markets; product offerings that allowed customers to manage their risks; and enhanced access choices to our products. Partially offsetting these volume increases, and the related increase in clearing and transaction fees, was a decline in investment income resulting primarily from a decrease in rates earned on our marketable securities, short-term investments and the short-term investment of clearing firms’ cash performance bonds and security deposits; a decrease in the trading revenue generated by our trading subsidiary, GFX; and our share of the net loss of OneChicago, our joint venture in single stock futures and futures on narrow-based stock indexes that initiated trading in November 2002.

Clearing and Transaction Fees. Clearing and transaction fees, which include clearing fees, GLOBEX electronic trading fees and other volume-related charges increased $63.9 million, or 21.9%, from $292.5 million in 2001 to $356.4 million in 2002. A significant portion of the increase was attributable to the 35.1% increase in average daily trading volume. Also, in 2002, 39.0% of our trading volume related to equity products, compared to 25.9% in 2001. This contrasts with our interest rate product volume, which represented 55.3% of our trading volume in 2002, a decline from 66.6% in 2001. This shift in product mix resulted in additional revenue in 2002 as the average rate per contract for equity products is greater than the average rate per contract for interest rate products. In 2002, the additional revenue resulting from these volume increases and product mix change was partially offset by a $4.8 million one-time payment to clearing firms relating to our fee adjustment policy and clearing firm account management errors.

Despite the increase in revenue from clearing and transaction fees, the average rate, or revenue, per contract decreased $0.072 from $0.710 in 2001 to $0.638 in 2002. Management believes the fee limits for our E-mini equity products and volume discounts offered to large users of our Eurodollar products contributed to increased overall trading volume but had a negative impact on our average rate per contract. While volume discounts and limits on certain GLOBEX fees were in effect during both 2001 and 2002, the average rate per contract for 2002 was more adversely impacted by these programs as increased trading volume resulted in more trades being executed at the discounted levels. In addition, the volume discounts for our Eurodollar products that were implemented in January 2001 were expanded in the third quarter of 2001. While volume in Eurodollar contracts has grown, the larger volume discounts have partially offset the additional revenue generated by the increased trading volume in this product. The average rate per contract was also affected by the lower percentage of trades attributed to non-member customers. The percentage of trades by non-members decreased to approximately 22% of total trading volume in 2002 compared to approximately 25% in 2001. We believe our lower fee structure for members has resulted in the acquisition of trading rights by parties intending to trade significant volumes on our exchange, creating an increase in member volume. In addition, on July 31, 2002, we began trading a new contract, Long-Short Technology TRAKRS, that was followed by two additional TRAKRS contracts in the fourth quarter of 2002. Similar to limits on certain GLOBEX fees, transaction fees for this contract are limited based on the size of the order and generally averaged $0.007 per contract. As a result, TRAKRS volume had an adverse impact on our overall rate per contract in 2002. If volume and fees for TRAKRS were excluded from the 2002 rate per contract calculation, our average rate per contract would have increased by approximately $0.011 to $0.649 from $0.638. Finally, the $4.8 million payment to clearing firms relating to our fee adjustment policy and clearing firm account management errors reduced our average rate per contract by $0.009 in 2002.

The following table shows the average daily trading volume in our four product areas, the portion that was traded electronically through the GLOBEX platform, and clearing and transaction fees revenue expressed in total dollars and as an average rate per contract:

	YEAR ENDED DECEMBER 31		
	2002	2001	Percentage Increase
Product Area:			
Interest Rate	1,226,343	1,091,846	12.3%
Equity	863,271	425,149	103.1
Foreign Exchange	96,289	89,290	7.8
Commodity	30,160	34,003	(11.3)
Total Volume	2,216,063	1,640,288	35.1
GLOBEX Volume	785,615	326,274	140.8
GLOBEX Volume as a Percent of Total Volume	35.5%	19.9%	
Clearing and Transaction Fees Revenue (in thousands)	$ 356,396	$ 292,459	
Average Rate per Contract	$ 0.638	$ 0.710	

During 2002, volatility in U.S. equity markets continued. This volatility, combined with increased distribution to customers through the available access choices to our GLOBEX platform and marketing efforts to increase awareness of our product offerings, drove the growth in volume in our equity products. Approximately 83% of our stock index product volume is traded through the GLOBEX platform. While the U.S. Federal Reserve Board left interest rates unchanged until the fourth quarter of 2002, compared to 11 interest rate reductions in 2001, we continued to experience increased volume in our interest rate products. Continued uncertainty over interest rates and volatility in U.S. stocks has led to increased use of our interest rate products. With respect to foreign exchange products, the increase in trading volume was attributable to the impact of instituting side-by-side trading of these products on our GLOBEX platform during open outcry trading hours in April 2001, and additional volatility in the foreign exchange markets during 2002. The decrease in average daily volume for the commodity products was primarily the result of the extensive long-term drought that has depressed trading activity in our livestock products.

Clearing and Transaction Services. Clearing and transaction services represented $0.4 million of revenue in 2002. Our agreement to provide cross-access to trading, order routing and clearing systems to the members and customers of NYMEX began in June 2002. There was no similar agreement or revenue in 2001.

Quotation Data Fees. Quotation data fees increased $0.4 million, or 1.0%, from $48.3 million in 2001 to $48.7 million in 2002. The increase principally reflects the effect of fee increases, implemented in March 2001, for the full year 2002 and an increase in the administrative fee for our quote vendor services, effective January 2002. These increases were partially offset by a decline in the number of users of our professional market data service that began in the second quarter of 2002, primarily as a result of recent downsizing at a number of major brokerage firms. As a result, the number of screens displaying our market data decreased from approximately 190,000 at December 31, 2001 to approximately 175,000 screens at December 31, 2002. This decline was partially offset by an increase in the number of subscribers from approximately 48,000 at December 31, 2001 to approximately 54,000 at December 31, 2002. The increase in subscribers occurred in our lower-priced non-professional E-mini market data service. Quotation data fees for 2001 were adversely impacted by $0.5 million as a result of the bankruptcy filing of a vendor that serves as a large distributor of our market data. There was no similar adverse event in 2002.

Access Fees. Access fees increased $0.9 million, or 8.0%, from $12.0 million in 2001 to $12.9 million in 2002. This increase resulted primarily from the additional monthly access fees generated by an increased number of GLOBEX users during 2002. Partially offsetting this increase was a $0.5 million decrease in installation revenue during 2002 when compared to 2001. When our pricing structure was changed in February 2001, we increased our installation charges for certain access choices. Many customers elected those access choices when they were first introduced. This resulted in an increase in installation revenue in the second and third quarters of 2001 that was not repeated during 2002. In addition, some new customers in 2002 selected access choices that did not require installation fees, such as our virtual private network.

Communication Fees. Communication fees increased $0.4 million, or 4.3%, from $9.3 million in 2001 to $9.7 million in 2002. The increase resulted primarily from an increase in telecommunication services and equipment provided on our trading floor and modest increases in fees for some of the wireless services we provide.

Investment Income. Investment income decreased $1.3 million, or 13.6%, from $9.0 million in 2001 to $7.7 million in 2002. The decline resulted primarily from a reduction in rates earned on our marketable securities, short-term investments of available funds and the investment of clearing firms' cash performance bonds and security deposits. Through the third quarter of 2002, a significant portion of these investments were short-term in nature. In the third quarter of 2002, we changed our investment policy and converted all of our marketable securities to short-term investments. Therefore, in the fourth quarter of 2002, all investments were short-term in nature. The average rate earned on all investments declined from approximately 3.8% in 2001 to approximately 2.6% in 2002, representing a decrease in investment income of approximately $6.3 million. The decrease in rates earned resulted from the actions taken by the Federal Reserve Board in 2001 and 2002 to lower the Federal-funds rate and the change in our investment policy in the third quarter of 2002. Another component of the decrease in investment income was the $0.6 million decrease in the investment results of our non-qualified deferred compensation plan that is included in investment income but does not affect our net income, as there is an equal decrease in our compensation and benefits expense. Partially offsetting these decreases in investment income was an increase of approximately $3.3 million in interest income as a result of increased balances in marketable securities, short-term investments of available funds and cash performance bonds and security deposits, as well as the investment of the net proceeds of our initial public offering that was completed in December 2002. In addition, as a result of the change in our investment policy in the third quarter of 2002, we sold the marketable securities owned at the time the investment policy was changed, resulting in one-time realized gains of $2.7 million, compared to realized gains of $0.2 million in 2001.

Securities Lending Interest Income and Expense. Securities lending interest income increased $7.5 million, or 69.1%, from $10.7 million in 2001 to $18.2 million in 2002. Our securities lending activity began late in June 2001. Therefore, the revenue generated in 2001 does not represent a full year of securities lending activity. Our securities lending is limited to a portion of the securities that clearing firms deposit to satisfy their proprietary performance bond requirements. The average daily balance of proceeds from securities lending activity was $924.1 million in 2002 and $632.6 million in 2001 from the time this activity began to the end of the year. In 2001, the securities from one clearing firm were used to launch this program. By year-end 2002, securities of four clearing firms were being utilized in the securities lending program. Securities lending interest expense increased $6.4 million, or 67.8%, from $9.5 million in 2001 to $15.9 million in 2002. This expense is an integral part of our securities lending program and is required to engage in securities lending transactions. Therefore, this expense is presented in the consolidated statements of income as a reduction of total revenues. The net revenue from securities lending represented a return of 0.25% on the average daily balance in 2002 compared to 0.20% in 2001.

Other Revenue. Other revenue increased $0.1 million, or 1.3%, from $14.9 million in 2001 to $15.0 million in 2002. This increase is attributed primarily to a $2.3 million increase in fees associated with managing our IEF program and $0.7 million of revenue for providing certain communication and regulatory services to OneChicago that began in the third quarter of 2002. In addition, two additional exchanges adopted CLEARING 21 in 2002, resulting in $0.3 million of revenue. Partially offsetting these increases was a $2.6 million increase in our share of the net loss of OneChicago. The increase in the net loss for 2002 represented an entire year of activity, whereas 2001 only represented activity from August 2001, the date of our initial capital contribution. OneChicago began trading operations in November 2002. However, fees for trades executed were waived for 2002. In addition, the trading revenue generated by GFX declined $0.6 million from 2001 to 2002.

Expenses

Total operating expenses increased $37.5 million, or 14.4%, from $261.4 million in 2001 to $298.9 million in 2002. This increase was primarily attributable to increases in depreciation resulting from recent capital expenditures, increases in salaries and benefits and professional fees, as well as the settlement of the Wagner patent litigation. These expense increases were partially offset by a reduction in stock-based compensation expense.

Compensation and Benefits Expense. Compensation and benefits expense increased $7.2 million, or 6.6%, from $111.5 million in 2001 to $118.7 million in 2002. The average number of employees increased approximately 7%, or by 70 employees, from 2001 to 2002. We had 1,152 employees at December 14, 2002.

This increased headcount resulted in increased salaries and benefits of approximately $6.3 million. In addition, salaries and benefits increased approximately $6.2 million as a result of annual salary increases and related increases in employer taxes, pension and benefits. These increases were partially offset by decreases in other factors. There was a $2.0 million increase in the capitalization of compensation and benefits relating to internally developed software and a $0.6 million increase in the losses experienced in our non-qualified deferred compensation plan during 2002 when compared to 2001. In addition, stock-based compensation, a non-cash expense, decreased $2.4 million, or 38.9%, from $6.2 million in 2001 to $3.8 million in 2002. The stock option granted in 2000 to our former CEO represents $1.8 million of stock-based compensation expense in 2002. Employee stock options, granted primarily in 2001, and restricted stock granted in 2001 comprise the balance of this expense. The total expense associated with a stock option is calculated at the date of grant based on its fair value. Since we have elected an accelerated method for recognizing this expense, a greater percentage of the total expense for all stock awards is recognized in the first year of the vesting period. The decline in expense in 2002 is a direct result of the time that has lapsed since the options were granted and the expense previously recognized in the year immediately following the date of grant.

Occupancy Expense. Occupancy expense increased $2.0 million, or 9.7%, from $20.4 million in 2001 to $22.4 million in 2002. This increase resulted primarily from the additional rent and utility expense incurred in 2002 for a remote data center leased in the fourth quarter of 2001 and an increase in rent for our trading floors. A portion of the trading floor rent is determined based on total open outcry trading volume, which increased 9.5% in 2002 when compared to 2001. In addition, the operating expenses related to our office space in Chicago increased during 2002.

Professional Fees, Outside Services and Licenses Expense. Professional fees, outside services and licenses increased $5.2 million, or 19.3%, from $27.3 million in 2001 to $32.5 million in 2002. This increase is attributed primarily to two factors. There was a $3.2 million increase in legal fees associated with our defense of the Wagner patent litigation in 2002 and a $2.2 million increase in license fees resulting from growth in our equity product trading volume. Additional expenses totaling $1.0 million also were incurred in 2002 for building security in response to the September 11, 2001 terrorist attacks, temporary employees, services to support our Web site and shareholder services. Partially offsetting these increases was a $0.6 million decrease in professional fees for technology initiatives, net of the portion that relates to development of internal use software and is capitalized rather than expensed. Total professional fees for technology increased $2.0 million; however, the nature of the projects requiring the use of professional services resulted in increased capitalization of $2.6 million. New initiatives during 2002 included work on the capacity of our clearing and trade processing systems, adaptation of certain systems to accommodate single stock futures transactions and technology work to prepare for our E-quotes market data offering. In addition, our expenses related to recruiting employees declined $1.0 million from 2001 to 2002. This decrease resulted primarily from using internal resources to hire new employees rather than using outside search firms.

Communications and Computer and Software Maintenance Expense. Communications and computer and software maintenance expense increased $3.0 million, or 6.8%, from $43.6 million in 2001 to $46.6 million in 2002. The increase in 2002 resulted primarily from greater communications expense and communications-related expense of $2.1 million associated with our remote data facility and $0.9 million of expenses for news and quote services and software maintenance to support CME E-quotes[SM] offering that began in March 2001. In addition, we incurred $1.1 million in hardware and software maintenance costs in 2002 as a result of new hardware purchases and initiatives, such as single stock futures. Partially offsetting these increases was a $0.6 million reduction in communication expense associated with connections to our GLOBEX platform that resulted from the renegotiation of a contract with one of our vendors in the second half of 2001 and our decision to not renew our agreement with Euronext-Paris for maintenance of our matching engine software. This agreement expired at the end of 2001, and in 2002 we assumed the maintenance utilizing our technology staff. The expense relating to this maintenance agreement was $1.0 million in 2001.

Depreciation and Amortization Expense. Depreciation and amortization expense increased $10.9 million, or 28.9%, from $37.6 million in 2001 to $48.5 million in 2002. Capital expenditures and assets acquired through capital leases totaled $27.1 million in 2000, $36.5 million in 2001, and $56.9 million in 2002, with technology-related purchases representing over 80% of total purchases. Equipment and software represent the greatest portion of these technology-related purchases and are depreciated over a three- to four-year period. Therefore, these recent purchases, which include the development of software for internal use, have resulted in increased depreciation and amortization expense.

Patent Litigation Settlement. Patent litigation settlement expense totaled $6.2 million in 2002. This expense includes $13.7 million for the August 2002 settlement with e-Speed of the Wagner patent litigation relating to patent 4,903,201 entitled “Automated Futures Trade Exchange.” This expense was subsequently reduced as a result of the December 2002 settlement of a dispute with Euronext-Paris, our licensor of the NSC software that was the subject of the patent litigation, whereby Euronext-Paris agreed to pay us an amount equal to one-half of the amount of the settlement with e-Speed. Our settlement with e-Speed required a $5.0 million payment in September 2002 with five subsequent payments of $2.0 million each beginning in August 2003. In turn, Euronext-Paris has agreed to make two payments to us for $3.75 million each, the first of which was received in January 2003 and the second payment is to be received in December 2003. The expense recorded in 2002 represents the present value of these payments. No similar expense occurred in 2001.

Marketing, Advertising and Public Relations Expense. Marketing, advertising and public relations expense increased $0.2 million, or 3.0%, from $6.3 million in 2001 to $6.5 million in 2002. Two offsetting changes resulted in this total expense remaining relatively unchanged from 2001 to 2002. Advertising and promotional activities increased from 2001 to 2002 as a result of greater expenditures for print advertising, focused primarily on our E-mini stock index and our foreign exchange products, as well as trade shows and conventions. These increases were partially offset by a decrease in charitable contributions. In response to the terrorist attacks of September 11, 2001, we established the Chicago Mercantile Exchange Foundation and made an initial contribution of $1.0 million in the third quarter of 2001. No similar expense was incurred in 2002.

Other Expense. Other expense increased $2.8 million, or 19.2%, from $14.7 million in 2001 to $17.5 million in 2002. Fees paid to our Board of Directors increased during 2002 when compared to 2001 due to two changes in our Board fee structure that became effective on July 1, 2001 and October 1, 2002. In addition, expenses related to travel, meals and entertainment increased $0.9 million, primarily as a result of increased customer visits and sales efforts by our products and services division. Bank fees increased $0.6 million as a result of the fees associated with securities lending that began late in the second quarter of 2001. Expense increases also occurred in other categories, such as supplies, bad debts and interest expense. Partially offsetting these increases was a decrease in the expense related to the settlement of certain litigation in 2001, for which there was no similar expense in 2002.

Income Tax Provision

We recorded a tax provision of $50.7 million in 2001, compared to $60.2 million in 2002. The effective tax rate was 40.3% in 2001 and 39.0% in 2002. The decline in the effective tax rate in 2002 resulted primarily from the favorable resolution of an outstanding income tax matter with the Internal Revenue Service.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Cash Management

Cash and cash equivalents totaled $185.1 million at December 31, 2003 compared to $339.3 million at December 31, 2002. The $154.1 million decrease from December 31, 2002 to December 31, 2003 resulted primarily from the purchase of $256.4 million of marketable securities as a result of the change in our investment policy in the third quarter of 2003 whereby we have expanded available investment choices to include primarily U.S. Treasury and Government agency securities, investment grade corporate obligations and municipal securities escrowed by U.S. Treasury securities. Also contributing to the decrease in cash and cash equivalents was the $63.0 million of property purchased, net of trade-in allowances, and our regular quarterly dividend payments that totaled $20.6 million. These uses of cash were partially offset by the cash generated by operations of $191.1 million for the year ended December 31, 2003. During 2003 and 2002, the balance retained in cash and cash equivalents was a function of anticipated or possible short-term cash needs, prevailing interest rates, our investment policy and alternative investment choices and any dividends that we pay.

Current assets readily convertible into cash include accounts receivable and marketable securities. When combined with cash and cash equivalents, these assets represented 74.4% of our total assets at December 31, 2003, excluding cash performance bonds and security deposits, collateral from securities lending activities and IEF balances, compared to 72.0% at December 31, 2002. The increase from December 31, 2002 to year-end 2003 resulted primarily from cash generated by operations during 2003, and was partially offset by additions to capital assets and dividend payments. Cash performance bonds and security deposits, as well as collateral from securities lending activities and IEF balances, are excluded from total assets and total liabilities for purposes of this comparison as these balances may vary significantly over time and there are equal and offsetting current liabilities that correspond to these current assets.

Included in other assets are deferred tax assets of $14.0 million and $17.3 million at December 31, 2003 and 2002, respectively. These deferred tax assets result primarily from depreciation, stock-based compensation and deferred compensation. There is no valuation reserve for these assets as we expect to fully realize their value in the future based on our expectation of future taxable income.

Historically, we have met our funding requirements from operations. If operations do not provide sufficient funds to complete capital expenditures, short-term investments or marketable securities can be reduced to provide the needed funds, or assets can be acquired through capital leases.

Each clearing firm is required to deposit and maintain a specified performance bond balance based on the number of open contracts at the end of each trading day. Performance bond requirements can be satisfied with cash, U.S. Government securities, bank letters of credit or other approved investments. Cash performance bonds and security deposits are included in our consolidated balance sheets and fluctuate due to the investment choices available to clearing firms and changes in the amount of deposits required. Securities lending transactions utilize a portion of the securities that clearing firms have deposited to satisfy their proprietary performance bond requirements. The balance in our securities lending activity fluctuates based on the amount of securities that clearing firms have deposited and the demand for securities lending activity in the particular securities available to us. As a result of these factors, the balances in cash performance bonds and security deposits, as well as the balances in our securities lending program, may fluctuate significantly over time. In general, the balance of cash performance bonds and security deposits has increased in recent years. We expect this trend to continue in early 2004 as the Common Clearing Link with the Chicago Board of Trade becomes fully operational, adding cash performance bonds and securities deposits from CBOT clearing firms to our balances. Cash performance bonds and security deposits, collateral from securities lending and balances in the first IEFs consisted of the following:

(in thousands)	DECEMBER 31 2003	2002
Cash Performance Bonds	$2,814,362	$1,805,052
Cash Security Deposits	17,223	22,939
Cross-Margin Cash Held Jointly with Options Clearing Corporation	667	—
Total Cash Performance Bonds and Security Deposits	$2,832,252	$1,827,991
Collateral from Securities Lending Activities and Payable Under Securities Lending Agreements	1,004,400	985,500
Short-Term Investments and Payable to Participants in First Interest Earning Facilities	370,504	—
Total	$4,207,156	$2,813,491

As discussed above, clearing firms may also deposit U.S. Government securities and other approved investments, including deposits in our IEF program, to satisfy their performance bond and security deposit requirements. With the exception of the portion of securities deposited that are utilized in our securities lending program, assets of this nature are not included in our consolidated balance sheets. We are required under the Commodity Exchange Act to segregate cash and securities deposited by clearing firms on behalf of customers. In addition, our exchange rules require a segregation of all funds and securities deposited by clearing firms from exchange operating funds and securities. As with cash performance bonds and security deposits, these balances will fluctuate due to the investment choices available to clearing firms and the change in the amount of total deposits required and will increase in early 2004 when our Common Clearing Link with the Chicago Board of Trade becomes fully operational. Securities, at fair market value, and IEF funds were deposited for the following purposes at December 31:

(in thousands)	2003	2002
Performance Bonds	$34,914,979	$25,278,903
Security Deposits	995,245	896,192
Cross-Margin Securities Held Jointly with Options Clearing Corporation	647,942	636,848
Total	$36,558,166	$26,811,943

Total performance bonds on deposit increased approximately $1.8 billion on January 2, 2004, when the CCL became fully effective.

Sources and Uses of Cash

Net cash provided by operating activities was $191.1 million for 2003 and $141.1 million for 2002. The cash provided by operations increased in 2003 as a result of our improved operating results as well as an increase in current liabilities that was partially offset by an increase in current assets. The net cash provided by operating activities exceeded our net income in 2003 and 2002 primarily as a result of non-cash expenses, such as depreciation and amortization, which do not adversely impact our cash flow.

Cash used in investing activities was $327.1 million for 2003 compared to cash provided by investing activities of $34.4 million for 2002. The decrease of $361.5 million is primarily due to the $256.4 million of purchases of marketable securities in excess of the cash provided by the sale of marketable securities as a result of the change in our investment policy in the third quarter of 2003. By comparison, sales and maturities of marketable securities exceeded purchases in 2002, resulting in net cash provided of $93.8 million in 2002. Additional investments in OneChicago of $7.6 million and $3.1 million were made in 2003 and 2002, respectively. Cash used to acquire and develop capital assets increased $6.7 million, from $56.3 million for 2002 to $63.0 million for 2003. Technology-related expenditures totaled $47.7 million in 2003, primarily for equipment and software. Property additions in 2003 also included leasehold improvements of $14.6 million related primarily to the new lobby entrance that was opened in November 2003 as well as expansion and remodeling of the office space at our main location. Purchases of software and equipment and leasehold improvements in 2002 included $14.5 million for our remote data center, which became operational in late September 2002, and $4.5 million to accommodate trading in single stock futures.

Capital expenditures, which includes expenditures for purchased and internally developed software as well as equipment acquired utilizing capital leases, have varied significantly from 2001 through 2003, as demonstrated in the table below:

	YEAR ENDED DECEMBER 31		
(in millions, except percentages)	**2003**	**2002**	**2001**
Total Capital Expenditures	$ 63.0	$ 56.9	$ 36.5
Technology	47.7	50.9	32.3
Percent for Technology	75.7%	89.4%	88.3%

This highlights our commitment to continual enhancements to the technology we employ. Technology-related software and equipment purchases in 2003 included $23.8 million for equipment in our data centers and $19.0 million for purchased and internally developed software. These expenditures related primarily to expanding capacity for growth in our electronic trading platform, expenditures related to implementation of the Common Clearing Link, additional systems enhancements, such as the Eagle (Electronic Arbitrage GLOBEX Liquidity Enhancer) software released in January 2003 allowing for greater capabilities to execute interest rate product trades electronically, and improved speed and reliability in our systems. We also completed $2.7 million of leasehold improvements to our remote data center as we began the process to expand capacity at that location. In 2002, capital expenditures included $19.1 million for purchased and internally developed software, $28.1 million for equipment purchased for our data centers and $3.1 million for leasehold improvements at our remote data center. In 2001, capital expenditures for technology included $13.9 million for purchased and internally developed software, as well as $17.3 million in equipment purchases for our data centers. These purchases were attributable primarily to increased capacity requirements and performance enhancements to our electronic platform as a result of higher trading volume. This necessitated additional equipment and software licenses.

Cash used in financing activities was $18.2 million for the year ended December 31, 2003 compared to cash provided by financing activities of $94.7 million for 2002. The decrease is due to the net proceeds received from our initial public offering in December 2002. We did not sell any additional stock in 2003. Partially offsetting this decrease was $7.9 million in cash received from the exercise of stock options in 2003. Regular quarterly dividend payments totaled $20.6 million in 2003 compared to a $17.3 million dividend paid on June 28, 2002 that represented $0.60 per share on Class A and Class B shares of common stock. In addition, cash used in financing activities for both periods included regularly scheduled payments on long-term debt related to our capital lease obligations.

Cash Requirements

Cash will be required for commitments reflected as liabilities on our consolidated balance sheet at December 31, 2003, operating leases and purchase obligations. These commitments are as follows (in thousands):

Year	**Capital Lease Obligations**	**Operating Leases**	**Purchase Obligations**	**Other Long-Term Liabilities**
2004	$ 1,551	$ 10,730	$ 13,653	$ —
2005–2006	—	20,673	9,014	4,565
2007–2008	—	19,716	799	2,000
2009 and thereafter	—	3,223	—	757
Total	$ 1,551	$ 54,342	$ 23,466	$ 7,322

Included in these commitments is the remaining liability relating to the settlement in August 2002 of the Wagner patent litigation that was settled for $15.0 million. The settlement required an initial payment of $5.0 million in September 2002 and requires five subsequent annual payments of $2.0 million each beginning in August 2003. The entire expense related to this settlement was recognized in 2002, at its present value of $13.7 million. In December 2002, we settled a dispute with Euronext-Paris, our licensor of the NSC software that was the subject of the patent litigation. Under the terms of this settlement, Euronext-Paris agreed to make payments to us totaling $7.5 million, representing one-half of the total payments required by our settlement of the Wagner patent litigation. These funds were received in two payments of $3.75 million each in January 2003 and December 2003, respectively. The present value of the Euronext-Paris payments was recognized in the fourth quarter of 2002 as a reduction of the patent litigation settlement expense recognized in the third quarter of 2002. Remaining settlement payments are included in the commitments indicated above.

On January 12, 2004, we announced the acquisition of the intellectual property and operating assets of Liquidity Direct Technology, LLC, a private trading technology firm that has developed technology to facilitate the trading of complex combinations and spreads typically used with options. The purchase agreement required an initial payment of $5.3 million, with additional payments based on revenue generated when this electronic platform is implemented. Implementation is tentatively scheduled for the second half of 2004. The additional payments will extend over three years once the technology is implemented and will not exceed $16.8 million.

Future capital expenditures for technology are anticipated as we continue to expand our electronic trading platform and improve the technology utilized as part of our open outcry facilities. Each year capital expenditures also are incurred for improvements to our trading floor facilities, offices, telecommunications capabilities and other operating equipment. We expect 2004 capital expenditures to be in the range of $60 to $70 million.

We intend to pay regular quarterly dividends to our shareholders. Beginning with the dividend payment in the fourth quarter of 2003, our annual dividend target increased from 20% of the prior year’s cash earnings to 30% of the prior year’s cash earnings. The decision to pay a dividend, however, remains within the discretion of our Board of Directors and may be affected by various factors, including our earnings, financial condition, capital requirements, level of indebtedness and other considerations our Board of Directors deem relevant. On February 4, 2004 the Board of Directors declared a regular quarterly dividend of $0.26 per share to be paid on March 25, 2004 for shareholders of record on March 10, 2004. Assuming no changes in the number of shares outstanding, the dividend payment will total $8.6 million.

Debt Instruments

We maintain a line of credit with a consortium of banks to be used in certain situations, such as a disruption in the domestic payments system that would delay settlement between our exchange and our clearing firms or in the event of a clearing firm default. The line of credit has never been utilized. On October 18, 2003, at the annual renewal date, the line of credit was increased from $500.0 million to $750.0 million and renewed on terms substantially the same as the expiring line of credit. The credit agreement continues to be collateralized by clearing firm security deposits held by us in the form of U.S. Treasury or agency securities, as well as security deposit funds in IEF2.

In addition, as of December 31, 2003, we were contingently liable on irrevocable letters of credit totaling $49.0 million in connection with our mutual offset system with The Singapore Derivatives Exchange Ltd.

CME also guarantees a $2.5 million standby letter of credit for GFX. The beneficiary of the letter of credit is the clearing firm that is used by GFX to execute and maintain its foreign exchange and Eurodollar futures position. The letter of credit will be utilized in the event that GFX defaults in meeting requirements to its clearing firm. Per exchange requirements, GFX is required to place performance bond deposits with its clearing firm. In the unlikely event of a payment default by GFX, GFX's performance bond would first be used to cover the deficit. If this amount is not sufficient, the letter of credit would be used, and finally CME would guarantee the remaining deficit, if any.

Our long-term debt, which resulted from utilizing capital leases to purchase certain equipment and software, will be completely paid by year-end 2004. As a result, there is no long-term debt on our consolidated balance sheet at December 31, 2003.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents interest rate risk relating to the marketable securities that are available for sale, as well as derivatives trading risk associated with GFX. With respect to interest rate risk, a change in market interest rates would impact interest income from temporary cash investments, cash performance bonds and security deposits, variable rate marketable securities and new purchases of marketable securities. Changes in market interest rates also would have an effect on the fair value of any marketable securities owned. In the third quarter of 2003, we began to implement a recently approved change to our investment policy that expanded our investment choices and extended the maturity of our investments relative to the investment policy that had been in effect since the third quarter of 2002. Investment choices have been expanded to include primarily U.S. Treasury and Government agency securities, investment grade corporate obligations and municipal securities escrowed by U.S. Treasury securities. Maturities may extend to a maximum of 60 months and we plan to hold these investments to maturity. We expect this policy will be fully implemented for all investments by the end of first quarter of 2004.

Our previous investment policy which became effective in the third quarter of 2002 and was in effect until we began to implement our new investment policy, required that we invest only in cash equivalents composed primarily of institutional money market mutual funds and obligations of the U.S. Government and its agencies with maturities of seven days or less.

Interest Rate Risk

Interest income from marketable securities, short-term cash investments, and cash performance bonds and security deposits was $5.8 million in 2003, $5.9 million in 2002 and $8.9 million in 2001. Our marketable securities experienced net realized and unrealized gains of $0.1 million in 2003, $2.2 million in 2002 and $0.7 million in 2001. At December 31, 2003, we owned $256.5 million of marketable securities. Contractual maturities and interest coupon rates for fixed rate marketable securities at December 31, 2003 were as follows (dollars in thousands):

Year	Principal Amount	Weighted Average Interest Rate
2004	$ 63,226	3.14%
2005	63,162	2.65
2006	61,271	3.92
2007	60,057	4.37
2008	1,325	3.10
Total	$ 249,041	3.50%
Fair Value	$ 256,538	

At December 31, 2002, we owned no marketable securities as a result of our prior investment policy that was implemented in the third quarter of 2002.

Under the investment policy that we began to implement in the third quarter of 2003 and for the investment policy in effect prior to the third quarter of 2002, we monitor interest rate risk by completing regular reviews of our marketable securities portfolio and its sensitivity to changes in the general level of interest rates, commonly referred to as a portfolio's duration. We control the duration of the portfolio primarily through the purchase of individual marketable securities having a duration consistent with our overall investment policy. In addition, we will generally hold marketable securities to maturity, which will act as a further mitigating factor with respect to interest rate risk.

Derivatives Trading Risk

GFX engages in the purchase and sale of our foreign exchange and Eurodollar futures contracts on the GLOBEX electronic trading platform to promote liquidity in our products and subsequently enters into offsetting transactions using futures contracts or spot foreign exchange transactions with approved counterparties in the interbank market to limit market risk. Any potential impact on earnings from a change in foreign exchange rates would not be significant. Net position limits are established for each trader and currently amount to $12.0 million in aggregate notional value.

At December 31, 2003, GFX held futures positions with a notional value of $98.2 million, offset by a similar amount of spot foreign exchange positions. All positions are marked to market through a charge or credit to other revenue on a daily basis. Net trading gains were $6.8 million for the year ended December 31, 2003 and $3.2 million for the year ended 2002.

ACCOUNTING MATTERS

Recent Accounting Pronouncements

In January 2003, the FASB issued Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities." The objective of FIN No. 46 is to improve financial reporting by achieving more consistent application of consolidation policies to variable interest entities (also referred to as special-purpose entities) and, thus, to improve comparability between enterprises engaged in similar activities even if some of those activities are conducted through variable interest entities. Prior to the issuance of FIN No. 46, a company generally would not have to include another entity in its consolidated financial statements unless it controlled the entity through voting interest. FIN No. 46 changes that by requiring a variable interest entity (VIE) to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN No. 46 applied immediately to VIEs created after January 31, 2003 and is required to be adopted for periods ending after December 15, 2003. The first IEFs have been determined to be VIEs subject to consolidation. We elected to adopt the provisions of FIN No. 46 as of July 1, 2003, prior to the required effective date. The adoption of FIN No. 46 was implemented on a prospective basis and did not result in any cumulative effect on the consolidated income statements. The effect of the consolidation is an increase to both assets and liabilities of $370.5 million at December 31, 2003. While there is no impact on 2003 net income, net revenues increased $1.4 million and the increase is reflected in investment income. There is a similar increase to expenses in the consolidated income statements.

A revision to Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" was issued in December 2003 to improve financial statement disclosures for defined benefit plans. This revision replaces existing disclosure requirements for pensions and requires that companies provide more details about their plan assets, benefit obligations, cash flows, benefit costs and other relevant information. The provisions of SFAS No. 132 are required to be adopted for fiscal years ending after December 15, 2003 and for quarters beginning after December 15, 2003. We have adopted the disclosure requirements of SFAS No. 132, as revised, as of December 31, 2003.

MANAGEMENT'S FINANCIAL RESPONSIBILITY AND REPORT OF INDEPENDENT AUDITORS

Management is responsible for the preparation of the accompanying consolidated financial statements. The statements were prepared in accordance with accounting principles generally accepted in the United States, which included amounts based on management's best estimates and judgments.

Ernst & Young LLP, independent auditors, audited our consolidated financial statements as described in their report.

The Company maintains financial control systems designed to provide reasonable assurance, at appropriate cost, that transactions authorized by management are recorded and reported properly in the consolidated financial statements, and that assets are adequately safeguarded. The control environment is complemented by the Company's internal audit function, which evaluates the adequacy of controls, policies and procedures, as well as adherence to them, and recommends improvements when applicable.

The Audit Committee of the Board of Directors meets with Ernst & Young LLP and the internal auditors in the presence of management, as well as privately, without management present. It monitors and reviews matters relating to internal controls, accounting, auditing, financial reporting and auditor independence. Both the internal auditors and the independent auditors have unrestricted access to the Committee.

/s/ CRAIG S. DONOHUE	/s/ DAVID G. GOMACH	/s/ NANCY W. GOBLE
Craig S. Donohue Chief Executive Officer	David G. Gomach Managing Director and Chief Financial Officer	Nancy W. Goble Managing Director and Chief Accounting Officer

To the Board of Directors and Shareholders of Chicago Mercantile Exchange Holdings Inc.:

We have audited the accompanying consolidated balance sheets of Chicago Mercantile Exchange Holdings Inc. (a Delaware corporation) and subsidiaries (the Company) as of December 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chicago Mercantile Exchange Holdings Inc. and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

/S/ Ernst & Young LLP

Chicago, Illinois
February 2, 2004

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	AT DECEMBER 31, 2003	2002
Assets		
Current Assets:		
Cash and cash equivalents	$ 185,124	$ 339,260
Collateral from securities lending	1,004,400	985,500
Short-term investments of interest earning facilities	370,504	—
Marketable securities	256,538	—
Accounts receivable, net of allowance of $866 and $1,232	52,972	50,865
Other current assets	21,589	11,515
Cash performance bonds and security deposits	2,832,252	1,827,991
Total current assets	4,723,379	3,215,131
Property, net of accumulated depreciation and amortization	118,203	109,563
Other assets	31,054	30,322
Total Assets	$4,872,636	$3,355,016
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 24,690	$ 27,607
Payable under securities lending agreements	1,004,400	985,500
Payable to participants in interest earning facilities	370,504	—
Other current liabilities	56,129	48,396
Cash performance bonds and security deposits	2,832,252	1,827,991
Total current liabilities	4,287,975	2,889,494
Long-term debt	—	2,328
Other liabilities	21,666	17,055
Total liabilities	4,309,641	2,908,877
Shareholders' Equity:		
Preferred stock, $0.01 par value, 9,860,000 shares authorized, none issued and outstanding	—	—
Series A junior participating preferred stock, $0.01 par value, 140,000 shares authorized, none issued and outstanding	—	—
Class A common stock, $0.01 par value, 138,000,000 shares authorized, 32,922,061 and 32,530,372 shares issued and outstanding as of December 31, 2003 and 2002, respectively	329	325
Class B common stock, $0.01 par value, 3,138 shares authorized, issued and outstanding	—	—
Additional paid-in capital	195,222	179,669
Unearned restricted stock compensation	(941)	(665)
Retained earnings	368,312	266,810
Accumulated net unrealized gains on securities	73	—
Total shareholders' equity	562,995	446,139
Total Liabilities and Shareholders' Equity	$4,872,636	$3,355,016

See accompanying notes to consolidated financial statements.

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)	YEAR ENDED DECEMBER 31, 2003	2002	2001
Revenues			
Clearing and transaction fees	$ 428,802	$ 356,396	$ 292,459
Clearing and transaction services	1,752	390	—
Quotation data fees	53,168	48,717	48,250
Access fees	15,501	12,945	11,987
Communication fees	9,669	9,733	9,330
Investment income	9,245	7,740	8,956
Securities lending interest income	9,473	18,169	10,744
Other	17,174	14,989	14,904
Total Revenues	544,784	469,079	396,630
Securities lending interest expense	(8,743)	(15,902)	(9,477)
Net Revenues	536,041	453,177	387,153
Expenses			
Compensation and benefits	140,997	118,710	111,465
Occupancy	24,900	22,400	20,420
Professional fees, outside services and licenses	31,683	32,549	27,289
Communications and computer and software maintenance	45,765	46,569	43,598
Depreciation and amortization	53,016	48,509	37,639
Patent litigation settlement	—	6,240	—
Marketing, advertising and public relations	11,872	6,514	6,326
Other	21,683	17,457	14,650
Total Expenses	329,916	298,948	261,387
Income before income taxes	206,125	154,229	125,766
Income tax provision	(83,993)	(60,162)	(50,658)
Net Income	$ 122,132	$ 94,067	$ 75,108
Earnings per Common Share:			
Basic	$ 3.74	$ 3.24	$ 2.61
Diluted	3.60	3.13	2.57
Weighted average number of common shares:			
Basic	32,691,427	29,066,242	28,774,700
Diluted	33,934,958	30,060,537	29,240,432

See accompanying notes to consolidated financial statements.

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except share and per share data)	Class A Common Stock Shares	Class B Common Stock Shares	Additional Paid-In Capital Amount	Unearned Restricted Stock Compensation	Retained Earnings	Accumulated Net Unrealized Securities Gains (Losses)	Total Shareholders' Equity
Balance Dec. 31, 2000	28,771,562	3,138	$ 51,348	$ —	$ 114,925	$ (11)	$ 166,262
Comprehensive income:							
Net income					75,108		75,108
Change in net unrealized gain on securities, net of tax of $192						288	288
Total comprehensive income							75,396
Stock-based compensation			5,734				5,734
Grant of 119,000 shares of restricted Class A common stock			2,435	(2,435)			—
Amortization of unearned restricted common stock				974			974
Balance Dec. 31, 2001	28,771,562	3,138	$ 59,517	$ (1,461)	$ 190,033	$ 277	$ 248,366
Comprehensive income:							
Net income					94,067		94,067
Change in net unrealized gain on securities, net of tax of $184						(277)	(277)
Total comprehensive income							93,790
Net proceeds from initial public offering	3,712,660		117,459				117,459
Exercise of stock options	150		3				3
Cash dividend on common stock of $0.60 per share					(17,290)		(17.290)
Vesting of issued restricted Class A common stock	46,000						
Stock-based compensation			3,015				3,015
Amortization of unearned restricted stock compensation				796			796
Balance Dec. 31, 2002	32,530,372	3,138	$ 179,994	$ (665)	$ 266,810	$ —	$ 446,139
Comprehensive income:							
Net income					122,132		122,132
Change in net unrealized gain on securities, net of tax of $49						73	73
Total comprehensive income							122,205
Exercise of stock options	369,489		7,878				7,878
Tax benefit related to employee stock compensation			5,915				5,915
Cash dividends on common stock of $0.63 per share					(20,630)		(20,630)
Vesting of issued restricted Class A common stock	22,200						
Stock-based compensation			936				936
Grant of 13,600 shares of restricted Class A common stock			867	(867)			—
Forfeited restricted stock			(39)	39			—
Amortization of unearned restricted stock compensation				552			552
Balance Dec. 31, 2003	32,922,061	3,138	$ 195,551	$ (941)	$ 368,312	$ 73	$ 562,995

See accompanying notes to consolidated financial statements.

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	YEAR ENDED DECEMBER 31, 2003	2002	2001
Cash Flows from Operating Activities:			
Net income	$ 122,132	$ 94,067	$ 75,108
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	53,016	48,509	37,639
Stock-based compensation	1,488	3,811	6,238
Deferred income tax provision (benefit)	3,310	(5,637)	(4,283)
Loss on investment in joint venture	4,958	2,876	281
Gain on sale of marketable securities	—	(2,658)	(226)
Loss on disposal of fixed assets	1,323	7	—
Write-off of internally developed software	—	—	262
Increase (decrease) in allowance for doubtful accounts	(366)	270	(738)
Increase in accounts receivable	(1,741)	(10,149)	(11,722)
Decrease (increase) in other current assets	(10,074)	(4,844)	1,206
Increase in other assets	(4,844)	(4,717)	(415)
Increase (decrease) in accounts payable	(2,917)	3,773	11,937
Increase in other current liabilities	20,252	8,792	8,213
Increase (decrease) in other liabilities	4,612	7,038	(2,931)
Net Cash Provided by Operating Activities	191,149	141,138	120,569
Cash Flows from Investing Activities:			
Purchases of property, net	(63,016)	(56,341)	(30,367)
Capital contributions to joint venture	(7,619)	(3,071)	(1,316)
Purchases of marketable securities	(256,416)	(43,956)	(94,008)
Proceeds from sales and maturities of marketable securities	—	137,723	47,470
Net Cash Provided by (Used in) Investing Activities	(327,051)	34,355	(78,221)
Cash Flows from Financing Activities:			
Payments on long-term debt	(5,482)	(5,506)	(3,902)
Cash dividends	(20,630)	(17,290)	—
Proceeds from exercised stock options	7,878	3	—
Net proceeds from initial public offering	—	117,459	—
Net Cash Provided by (Used in) Financing Activities:	(18,234)	94,666	(3,902)
Net increase in cash and cash equivalents	(154,136)	270,159	38,446
Cash and cash equivalents, beginning of year	339,260	69,101	30,655
Cash and Cash Equivalents, End of Year	$ 185,124	$ 339,260	$ 69,101
Supplemental Disclosure of Cash Flow Information:			
Interest paid (excluding interest for securities lending)	$ 379	$ 599	$ 627
Income taxes paid	79,726	64,728	49,062
Capital leases–asset additions and related obligations	—	558	6,156

See accompanying notes to consolidated financial statements.

1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

Chicago Mercantile Exchange Holdings Inc. (CME Holdings) is a Delaware stock corporation organized in August 2001 to be the holding company for Chicago Mercantile Exchange Inc. and its subsidiaries (CME or the exchange). CME became a wholly owned subsidiary of CME Holdings through a merger of a subsidiary of CME Holdings with and into CME that was completed on December 3, 2001. At that time, existing shareholders received stock in CME Holdings for stock in CME. On December 11, 2002, CME Holdings completed an initial public offering of an additional 3.7 million shares of Class A common stock, and the Class A common stock not subject to transfer restrictions is now traded on the New York Stock Exchange (note 16). The consolidated financial statements include Chicago Mercantile Exchange Inc. and its controlled subsidiaries, which include GFX Corporation (GFX), and the first Interest Earning Facilities (IEFs), as well as the holding company, CME Holdings (collectively, the company). Effective July 1, 2003, the consolidated financial statements include the first Interest Earning Facilities to reflect the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 46, “Consolidation of Variable Interest Entities – An Interpretation of Accounting Research Bulletin (ARB) No. 51.” All intercompany transactions have been eliminated in consolidation.

The merger of CME into CME Holdings was accounted for as a pooling of interests because of the common owners before and after the transaction. These financial statements have been prepared as if the current holding company structure had been in place for all periods presented. The assets of CME Holdings consist primarily of cash, cash equivalents and marketable securities, arising from the net proceeds of the initial public offering and dividends received from CME in excess of dividends paid to the shareholders of CME Holdings, and its investment in CME. CME Holdings has no liabilities other than income tax liabilities arising from investment income.

CME resulted from the completion of a demutualization process whereby Chicago Mercantile Exchange, an Illinois not-for-profit membership organization, became a Delaware for-profit stock corporation. The transaction resulted in the conversion of membership interests in the Illinois corporation into stock ownership in the Delaware corporation and was completed on November 13, 2000.

CME is a designated contract market for the trading of futures and options on futures contracts. Trades are executed through open outcry, an electronic trading platform and privately negotiated transactions. Through its in-house Clearing House Division, CME clears, settles, nets and guarantees performance of all matched transactions in its products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents. Cash equivalents consist of money market mutual funds and highly liquid investments with maturities of three months or less when purchased.

Marketable Securities. Marketable securities have been classified as available for sale and are carried at fair value based on quoted market prices, with net unrealized gains and losses reported net of tax as a component of shareholders' equity. Interest on marketable securities is recognized as income when earned and includes accreted discount less amortized premium. Realized gains and losses are calculated using specific identification.

Additional securities held in connection with non-qualified deferred compensation plans have been classified as trading securities. These securities are included in other assets in the accompanying consolidated balance sheets at fair value, and net unrealized gains and losses are reflected in investment income.

Fair Value of Financial Instruments. Statement of Financial Accounting Standards (SFAS) No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of the fair value of financial instruments. The carrying values of financial instruments included in assets and liabilities in the accompanying consolidated balance sheets are reasonable estimates of their fair values.

Accounts Receivable. In the ordinary course of business, a significant portion of accounts receivable and revenues are from shareholders of the company. At December 31, 2003, there were approximately 80 clearing firms that were also shareholders. One firm with a significant portion of customer revenue, represented approximately 10% of net revenues in 2003 and approximately 11% in 2002. Should a clearing firm withdraw from the exchange, management believes the customer portion of that firm's trading activity would likely transfer to another clearing firm. Therefore, management does not believe the company is exposed to significant risk from the loss of revenue received from a particular clearing firm.

Performance Bonds and Security Deposits. Performance bonds and security deposits held by the exchange for clearing firms may be in the form of cash or securities. Cash performance bonds and security deposits are reflected in the accompanying consolidated balance sheets. Cash received may be invested, and any interest received accrues to the exchange. These investments are primarily overnight transactions in U.S. Government securities acquired through and held by a broker-dealer subsidiary of a bank.

Securities deposited by clearing firms consist primarily of short-term U.S. Treasury securities and are not reflected in the accompanying consolidated balance sheets. These securities are held in safekeeping, although a portion of the clearing firms' proprietary performance bond deposits may be utilized in securities lending transactions. Interest and gain or loss on securities deposited to satisfy performance bond and security deposit requirements accrues to the clearing firm.

Property. Property is stated at cost less accumulated depreciation and amortization. Depreciation on furniture, fixtures and equipment is provided on the straight-line method over the estimated useful lives of the assets, generally three to seven years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the remaining term of the applicable leases. Maintenance and repair items as well as certain minor purchases are charged to expense as incurred. Renewals and betterments are capitalized.

Software. The company capitalizes certain costs of developing internal software in accordance with the American Institute of Certified Public Accountants Statement of Position 98-1 (SOP 98-1), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Capitalized costs generally are amortized over three years, commencing with the completion of the project. The depreciable life of purchased software is four years.

Impairment of Assets. The company reviews its long-lived assets and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Revenue Recognition. The company's revenue recognition policies comply with Staff Accounting Bulletin No. 101 on revenue recognition. On occasion, customers will pay for services in a lump sum payment. When these circumstances occur, revenue is recognized as services are provided.

Clearing and Transaction Fees. Clearing and transaction fees include per contract charges for trade execution, clearing and GLOBEX fees. Fees are charged at various rates based on the product traded, the method of trade and the exchange trading privileges of the customer making the trade. Clearing and transaction fees are recognized as revenue when a buy and sell order are matched and the trade is cleared. Therefore, cancelled buy and sell orders have no impact on revenue. On occasion, the customer's exchange trading privileges may not be properly entered by the clearing firm, and incorrect fees are charged for the transactions in the affected accounts. When this information is corrected within the time period allowed by the exchange, a fee adjustment is provided to the clearing firm. An accrual is established for estimated fee adjustments to reflect corrections to customer exchange trading privileges. The accrual is based on the historical pattern of adjustments processed. CME believes the allowances are adequate to cover potential adjustments. Exposure to losses on receivables for clearing and transaction fees is dependent on each clearing firm's financial condition as well as the Class A and B shares that collateralize fees owed to the exchange. The exchange retains the right to liquidate shares to satisfy a clearing firm's receivable.

Clearing and Transaction Services. Clearing and transaction services revenue includes fees earned for providing clearing and settlement services under the Common Clearing Link (CCL) agreement with the Chicago Board of Trade (CBOT) that was implemented in November 2003, listing new energy and metals futures products on GLOBEX for the New York Mercantile Exchange (NYMEX) that began in June 2002 and processing single stock futures trades for certain CME clearing firms that execute trades at OneChicago, LLC (OneChicago), the joint venture in single stock futures and futures on narrow-based stock indexes that initiated trading in November 2002. Reclassifications have been made in the consolidated statements of income for 2003 and 2002 to include these NYMEX and OneChicago revenues as part of clearing and transaction services. Previously, these revenues were included in other revenue.

Quotation Data Fees. Quotation data fees represent revenue earned for the dissemination of market information. Revenues are accrued each month based on the number of subscribers reported by vendors. CME conducts periodic audits of the information provided and assesses additional fees as necessary. An allowance is established to cover uncollectible receivables from market data vendors.

Access Fees. Access fees are the connectivity charges to customers of CME's electronic trading platform that are also used by certain market data vendors and customers. They include line charges, license fees for GLOBEX software and hardware rental charges. The fees vary depending on the type of connection provided. An additional installation fee may be charged depending on the type of service requested and a disconnection fee may also be charged if certain conditions are met. Revenue is recognized monthly as the service is provided. An allowance is established to cover uncollectible receivables relating to access fees.

Communication Fees. Communication fees consist of equipment rental and usage charges to members and firms that utilize the various telecommunications networks and services in the Chicago facility. Revenue is billed and recognized on a monthly basis.

Stock-Based Compensation. As part of the demutualization, the company established an Omnibus Stock Plan. In 2000, a stock option was granted to the former Chief Executive Officer and stock awards were granted to certain other employees beginning in 2001. At year-end 2002, the company adopted the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” as amended. Under the provisions of SFAS No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure,” the company also elected to adopt the retroactive restatement method. All prior periods presented reflect the recognition of stock-based compensation expense in accordance with the provisions of SFAS No. 123 applied to all options granted to employees during those periods. The company has elected to recognize expense relating to stock-based compensation on an accelerated basis. As a result, the expense associated with each vesting date within a stock grant is recognized over the period of time that each portion of the grant vests. Stock-based compensation is reduced for forfeitures when they occur.

Marketing Costs. Marketing costs are incurred for production and communication of advertising as well as other marketing activities. These costs are expensed when incurred, except for costs related to the production of broadcast advertising, which are expensed when the first broadcast occurs.

Income Taxes. Deferred income taxes are determined in accordance with SFAS No. 109, “Accounting for Income Taxes,” and arise from temporary differences between amounts reported for income tax and financial statement purposes. A valuation allowance is recognized if it is anticipated that some or all of a deferred tax asset may not be realized.

Segment Reporting. The company operates in two segments, CME and GFX. Based on materiality, GFX is not a reportable segment, and as a result there is no disclosure of segment information.

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts of assets and liabilities at the date of the financial statements, as well as the amounts of revenues and expenses reported during the period, and to disclose contingent assets and liabilities as of the date of the financial statements. Actual results could differ from those estimates.

Reclassifications. Certain reclassifications have been made to the consolidated financial statements to provide consistent presentation for all periods presented.

Recent Accounting Pronouncements. Financial Accounting Standards Board Interpretation (FIN) No. 46, “Consolidation of Variable Interest Entities,” was issued in January 2003. FIN No. 46 requires that if an entity is the primary beneficiary of a variable interest entity, the assets, liabilities and results of operations of the variable interest entity should be included in the consolidated financial statements of the primary beneficiary. The provisions of FIN No. 46 were effective immediately for all arrangements entered into after January 31, 2003. For those arrangements entered into prior to January 31, 2003, the provisions of FIN No. 46 were required to be adopted for all periods ending after December 15, 2003. CME elected to adopt the provisions of FIN No. 46 as of July 1, 2003, prior to the required effective date. The adoption of FIN No. 46 was implemented on a prospective basis and did not result in any cumulative effect on the consolidated income statement.

A revision to Statement of Financial Accounting Standards No. 132, “Employees’ Disclosures about Pensions and Other Postretirement Benefits,” was issued in December 2003 to improve financial statement disclosures for defined benefit plans. This revision replaces existing disclosure requirements for pensions and requires that companies provide more details about their plan assets, benefit obligations, cash flows, benefit costs and other relevant information. The provisions of SFAS No. 132 are required to be adopted for fiscal years ending after December 15, 2003, and for quarters beginning after December 15, 2003. The company has adopted the disclosure requirements of SFAS No. 132, as revised, as of December 31, 2003.

3. SECURITIES LENDING

Securities lending transactions utilize a portion of the securities that clearing firms have deposited to satisfy their proprietary performance bond requirements. Under this securities lending program, CME lends a security to a third party and receives collateral in the form of cash. The majority of the cash is then invested on an overnight basis to generate interest income. The related interest expense represents payment to the borrower of the security for the cash collateral retained during the duration of the lending transaction. Securities on loan are marked to market daily and compared to collateral received. At December 31, 2003 and 2002, the fair value of securities on loan was $1.0 billion and $985.5 million, respectively. CME's policy allows lending of up to 75% of total available securities. At December 31, 2003 and 2002, securities available totaled $3.7 billion and $3.5 billion, respectively. The average daily balance of securities on loan for the years ended December 31, 2003 and 2002 was $723.2 million and $924.1 million, respectively.

The securities lending activity utilized some of the securities deposited by nine clearing firms. Collateral from securities lending at December 31, 2003 and 2002 was invested in a bank money market mutual fund, an overnight repurchase agreement or held in the form of cash.

4. MARKETABLE SECURITIES

In the third quarter of 2002, the company adopted an investment policy that allowed the company to invest in institutional money market funds with a fund balance in excess of $1.0 billion and certain U.S. Treasury and Government agency securities, provided these securities would mature at par value within seven days of purchase. As a result, the company converted its marketable securities to short-term investments, resulting in realized gains from the sale of these marketable securities of $2.7 million that is included in investment income in 2002. Balances in short-term investments were included in cash and cash equivalents at December 31, 2002.

In the third quarter of 2003, the company changed its investment policy and began to convert a portion of its short-term investments (cash equivalents) to marketable securities. The investment policy expanded the investment choices to include U.S. Treasury and Government agency securities, state and municipal obligations escrowed by U.S. Treasury securities and investment grade corporate obligations. Marketable securities included in current assets at December 31, 2003 were classified as available for sale. The amortized cost and fair value of these securities at December 31, 2003, were as follows:

(in thousands)	Amortized Cost	Fair Value
U.S. Treasury	$ 158,566	$ 158,841
U.S. Government agency	72,397	72,252
State and municipal	25,453	25,445
Total	$ 256,416	$ 256,538

Net unrealized gains on marketable securities classified as available for sale at December 31, 2003 are reported as a component of comprehensive income and included in the accompanying consolidated statements of shareholders' equity. Unrealized losses on marketable securities with maturities of less than one year were insignificant and unrealized losses on marketable securities with maturities greater than one year were $0.3 million. The amortized cost and fair value of these marketable securities at December 31, 2003, by contractual maturity, were as follows:

(in thousands)	Amortized Cost	Fair Value
Maturity of one year or less	$ 63,814	$ 63,875
Maturity between one and five years	192,602	192,663
Maturity greater than five years	—	—
Total	$ 256,416	$ 256,538

5. OTHER CURRENT ASSETS

Other current assets consisted of the following at December 31:

(in thousands)	2003	2002
Prepaid pension	$ 4,963	$ 2,518
Prepaid insurance	3,678	2,656
Other prepaid expenses	5,953	4,572
Accrued interest receivable	2,265	264
Refundable income taxes	4,011	1,214
Other	719	291
Total	$21,589	$11,515

6. PERFORMANCE BONDS AND SECURITY DEPOSITS

The exchange is a designated contract market for futures and options on futures, and clears and guarantees the settlement of all contracts traded in its markets. In its guarantor role, the exchange has precisely equal and offsetting claims to and from clearing firms on opposite sides of each contract. Additionally, CME and CBOT implemented the Common Clearing Link on November 24, 2003 for certain products listed for trading at CBOT. Through CCL, CME acts as guarantor for eligible products traded at CBOT, but cleared by CME. For clearing firms that trade CBOT products cleared through CCL, CME combines those products with the clearing firm's CME products to create a single portfolio for which performance bond requirements are calculated. CME bears counterparty credit risk in the event that future market movements create conditions that could lead to clearing firms failing to meet their obligations to the exchange. CME reduces its exposure through a risk management program that includes rigorous initial and ongoing financial standards for designation as a clearing firm, initial and maintenance performance bond requirements and mandatory security deposits. Each clearing firm is required to deposit and maintain balances in the form of cash, U.S. Government securities, bank letters of credit or other approved investments to satisfy security deposit and performance bond requirements. All obligations and non-cash deposits are marked to market on a daily basis, and haircuts are applied for margin and risk management purposes. Cash performance bonds and security deposits are included in the consolidated balance sheets, and these balances may fluctuate significantly over time due to the investment choices available to clearing firms and the change in the amount of deposits required.

Clearing firms, at their option, may instruct CME to invest cash on deposit for performance bond purposes in a portfolio of securities that is part of the Interest Earning Facility (IEF) program. The first IEFs were organized in 1997 as two limited liability companies. Interest earned, net of expenses, is passed on to participating clearing firms. The principal of the first IEFs totaled $370.5 million at December 31, 2003 and is guaranteed by the exchange (note 9). The investment portfolio of these facilities is managed by two of the exchange's approved settlement banks, and eligible investments include U.S. Treasury bills and notes, U.S. Treasury strips and reverse repurchase agreements. The maximum average portfolio maturity is 90 days, and the maximum maturity for an individual security is 13 months. At December 31, 2003 all funds in these IEFs were invested in overnight reverse repurchase agreements. Management believes that the market risk exposure relating to its guarantee is not material to the consolidated financial statements taken as a whole. In 2001, IEF2 was organized. IEF2 offers clearing firms the opportunity to invest cash performance bonds in shares of CME-approved money market mutual funds. Dividends earned on these shares, net of fees, are solely for the account of the clearing firm on whose behalf the shares were purchased. The principal of IEF2 is not guaranteed by the exchange. In the third quarter of 2003, IEF3 was organized. IEF3 offers clearing firms the opportunity to manage performance bond collateral by allowing firms to pledge securities, such as corporate notes and municipal bonds to CME on an overnight basis opposite simultaneous exchanges of cash. As with IEF2, the principal of IEF3 is not guaranteed by the exchange. The total principal in all IEF programs was approximately $14.4 billion at December 31, 2003 and $12.2 billion at December 31, 2002. The exchange earned management fees under the IEF program in the amount of $6.3 million, $5.6 million and $3.3 million during 2003, 2002 and 2001, respectively. These fees are included as other revenue.

CME, Options Clearing Corporation (OCC) and New York Clearing Corporation (NYCC) 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 are combined with certain positions cleared by OCC and NYCC for purposes of calculating performance bond requirements. The performance bond deposits are held jointly by CME, OCC and NYCC. In addition, CME has a cross-margin agreement with the London Clearing House (LCH) and with the Fixed Income Clearing Corporation (FICC), previously known as the Government Securities Clearing Corporation (GSCC), whereby clearing firms' offsetting positions with CME and LCH or CME and FICC, as applicable, 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 LCH or CME and FICC, as applicable, each clearing house may reduce the firm's performance bond requirements.

Each clearing firm also is required to deposit and maintain specified security deposits in the form of cash or approved securities. In the event that performance bonds and security deposits of a defaulting clearing firm are inadequate to fulfill that clearing firm's outstanding financial obligation, the entire security deposit fund is available to cover potential losses after first utilizing operating funds of the exchange in excess of amounts needed for normal operations (surplus funds). Surplus funds totaled $85.8 million at December 31, 2003.

The exchange maintains a secured line of credit with a consortium of banks to provide liquidity and capacity to pay settlement variation to all clearing firms, even if a clearing firm may have failed to meet its financial obligations to CME, or in the event of a temporary disruption with the domestic payments system that would delay payment of settlement variation between the exchange and its clearing firms (note 18). The line of credit totaled $750.0 million at December 31, 2003 and $500.0 million at December 31, 2002. Clearing firm security deposits received in the form of U.S. Treasury or agency securities, or in money market funds purchased through IEF2 as well as performance bond assets of any firm that may default on its obligations to CME are used to collateralize the secured line of credit.

The exchange is required under the Commodity Exchange Act to segregate cash and securities deposited by clearing firms on behalf of their customers. In addition, exchange rules require a segregation of all funds deposited by clearing firms from exchange operating funds.

Cash and securities held as performance bonds and security deposits at fair market value at December 31 were as follows:

	2003		2002	
(in thousands)	**Cash**	**Securities and IEF Funds**	**Cash**	**Securities and IEF Funds**
Performance bonds	$2,814,362	$34,914,979	$1,805,052	$25,278,903
Security deposits	17,223	995,245	22,939	896,192
Cross-margin balances, held jointly with OCC	667	647,942	—	636,848
Total	$2,832,252	$36,558,166	$1,827,991	$26,811,943

With the exception of amounts jointly held with OCC under a cross-margin agreement, these performance bonds are available to meet only the financial obligations of that clearing firm to the exchange.

On January 2, 2004, CME began to clear all CBOT products and performance bond deposits increased approximately $1.8 billion from amounts on deposit at December 31, 2003.

In addition to cash and securities, irrevocable letters of credit may be used as performance bond deposits and security deposits. At December 31, these letters of credit, which are not included in the accompanying consolidated balance sheets, were as follows:

(in thousands)	2003	2002
Performance bonds	$ 350,025	$ 495,750
Security deposits	10,000	—
Cross-margin accounts	283,500	208,900
Total Letters of Credit	$ 643,525	$ 704,650

7. PROPERTY

A summary of the property accounts at December 31 is presented below:

(in thousands)	2003	2002
Furniture, fixtures and equipment	$ 151,338	$ 169,558
Leasehold improvements	110,289	95,629
Software and software development costs	82,601	68,577
Total property	344,228	333,764
Less accumulated depreciation and amortization	(226,025)	(224,201)
Property, net	$ 118,203	$ 109,563

Included in property are assets that were acquired through capital leases with a cost of $12.0 million and $22.7 million (and accumulated amortization of $10.3 million and $13.6 million) at December 31, 2003 and 2002, respectively. Depreciation for these assets is included in depreciation and amortization expense.

8. OTHER ASSETS

Other assets consisted of the following at December 31:

(in thousands)	2003	2002
Deferred compensation assets	$ 11,102	$ 7,481
Net deferred tax asset	13,968	17,327
Investment in OneChicago, LLC	3,891	4,644
Other	2,093	870
Total	$ 31,054	$ 30,322

On August 28, 2001, CME entered into a joint venture, OneChicago, LLC, with the Chicago Board Options Exchange and the Chicago Board of Trade to trade single stock futures and futures on narrow-based stock indexes. As of December 31, 2003, CME owns approximately a 40% interest in the joint venture, and the investment is reflected in the consolidated financial statements using the equity method of accounting. The investment balance at December 31, 2003 represents CME's total capital contribution of $12.0 million reduced by CME's proportionate share of the joint venture's net loss. The net loss is included in other revenue and totaled $5.0 million, $2.9 million and $0.3 million for the years ended December 31, 2003, 2002 and 2001, respectively. CME provides certain communications and regulatory services to OneChicago, LLC and earned $2.7 million and $0.7 million in revenue for these services in 2003 and 2002, respectively.

Deferred compensation assets consist primarily of trading securities held in connection with a non-qualified deferred compensation plan. Investment income includes net unrealized gains (losses) relating to the non-qualified deferred compensation plans' trading securities of $1.7 million, $(0.8) million and $(0.3) million for the years ended December 31, 2003, 2002 and 2001, respectively.

9. VARIABLE INTEREST ENTITIES

Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities" addresses the requirements for business enterprises to consolidate related entities in which they are determined to be the primary economic beneficiary as a result of their variable economic interests. CME has evaluated its obligation with respect to the first IEFs and has determined that they are variable interest entities and CME is the primary beneficiary. As a result, CME is required to consolidate the first IEFs for periods ending after December 15, 2003. CME elected to adopt the provisions of FIN No. 46 as of July 1, 2003, prior to the required effective date. The adoption of FIN No. 46, was implemented on a prospective basis and did not result in any cumulative effect on the income statement. The effect of this consolidation, as a result of the adoption of FIN No. 46, is an increase to both assets and liabilities of $370.5 million at December 31, 2003 and there is no significant impact on revenues or expenses.

OneChicago, LLC is also a variable interest entity. However, CME has concluded that it is not the primary beneficiary, as defined by FIN No. 46, and therefore this entity does not meet the consolidation requirements.

10. INCOME TAXES

The provision for income taxes is composed of the following:

(in thousands)	YEAR ENDED DECEMBER 31 2003	2002	2001
Current:			
Federal	$65,064	$53,811	$45,031
State	15,619	11,988	9,910
Total	80,683	65,799	54,941
Deferred:			
Federal	3,777	(4,617)	(3,263)
State	(467)	(1,020)	(1,020)
Total	3,310	(5,637)	(4,283)
Total Provision for Income Taxes	$83,993	$60,162	$50,658

Reconciliation of the statutory U.S. federal income tax rate to the effective tax rate is as follows:

	YEAR ENDED DECEMBER 31 2003	2002	2001
Statutory U.S. federal tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	4.8	4.6	4.6
Tax-exempt interest income	—	(0.3)	(0.5)
Nondeductible expenses	0.4	0.2	0.6
Other, net	0.5	(0.5)	0.6
Effective Tax Rate	40.7%	39.0%	40.3%

At December 31, the components of deferred tax assets (liabilities) were as follows:

(in thousands)	2003	2002
Deferred Tax Assets:		
Depreciation and amortization	$ 6,846	$ 7,685
Deferred compensation	4,085	3,369
Accrued expenses	1,143	6,525
Stock-based compensation	6,337	5,732
Other	1,613	887
Subtotal	20,024	24,198
Valuation allowance	—	—
Deferred Tax Assets	20,024	24,198
Deferred Tax Liabilities:		
Software development costs	(5,989)	(6,440)
Net unrealized gains on securities	(49)	—
Other	(18)	(431)
Deferred Tax Liabilities	(6,056)	(6,871)
Net Deferred Tax Asset	$13,968	$17,327

The company expects to realize the benefit of all deferred tax assets based on the expectation of future taxable income and, therefore, no valuation allowance has been established at December 31, 2003 or 2002.

11. OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following at December 31:

(in thousands)	2003	2002
Accrued salaries and benefits	$30,419	$24,143
Accrued operating expenses	15,733	9,844
Accrued income taxes	4,457	6,312
Current portion of long-term debt	1,515	4,669
Accrued fee adjustments	1,986	3,137
Unearned revenue	1,980	—
Other	39	291
Total	$56,129	$48,396

12. COMMITMENTS

Leases. The exchange has commitments under operating and capital leases for certain facilities and equipment that are accounted for in accordance with SFAS No. 13, “Accounting for Leases.” Lease commitments for office space at the main location in Chicago expire in the year 2008, with annual minimum rentals ranging from $8.5 million to $9.4 million. The exchange leases trading facilities from the Chicago Mercantile Exchange Trust (CME Trust) through October 2005, with annual minimum rentals of approximately $1.3 million, and has an option to extend the term of the lease through October 2026 with three successive seven-year extensions. Minimum annual rent for these extensions begins at $0.7 million for the period from November 2005 through October 2012 and declines to $0.2 million for the last extension from November 2019 through October 2026. Additional rental expense is incurred in connection with the trading facilities based on annual trading volume. This expense totaled $1.0 million, $1.2 million and $1.0 million for the years ended December 31, 2003, 2002 and 2001, respectively. Currently, annual rent paid to CME Trust cannot exceed $2.5 million. The CME Trust is an entity that was established to provide financial assistance, on a discretionary basis, to customers of any clearing firm that becomes insolvent. No outside parties, including the exchange, have any residual interest in the assets of CME Trust. Leases for other locations where the exchange maintains offices expire at various times through the year 2012 with annual minimum rentals that will not exceed $0.8 million in any year. Total rental expense was approximately $20.7 million in 2003, $19.9 million in 2002 and $18.5 million in 2001.

Commitments. Commitments includes long-term liabilities (note 14) as well as contractual obligations that are non-cancelable. These contractual obligations primarily relate to software licenses and maintenance, and telecommunication services that are expensed as the related services are used and totaled $23.5 million at December 31, 2003.

Future obligations under capital and operating leases in effect at December 31, 2003, including the minimum for operating leases, are payable as follows:

(in thousands)	Capitalized Leases	Operating Leases
2004	$ 1,551	$ 10,772
2005	—	10,779
2006	—	9,894
2007	—	10,135
Thereafter	—	12,804
Total minimum payments	1,551	54,384
Less sublease commitments	—	(42)
Less amount representing interest	(36)	—
Total	$ 1,515	$ 54,342

Licensing Agreements. The exchange has licensing agreements relating to certain stock index products. The license agreement with NASDAQ, relating to the NASDAQ-100 and NASDAQ Composite products that are traded on the exchange, expires in 2011, with a five-year extension unless either party gives notice of termination. The licensing agreement with Standard & Poor’s Corporation terminates in 2013 and includes a clause to negotiate potential extensions.

13. LONG-TERM DEBT

Debt consists of capitalized lease obligations, all of which are expiring in 2004 and, therefore, are categorized as current liabilities at December 31, 2003.

14. OTHER LIABILITIES

Other liabilities consisted of the following at December 31:

(in thousands)	2003	2002
Deferred compensation liabilities	$ 11,102	$ 7,481
Litigation settlement payable	5,217	6,803
Unearned revenue	2,608	—
Deferred rent	1,307	370
Software maintenance contract	—	744
Other	1,432	1,657
Total	$ 21,666	$ 17,055

15. EMPLOYEE BENEFIT PLANS

Pension Plan. The exchange maintains a noncontributory defined benefit cash balance pension plan for eligible employees. Employees who have completed a continuous 12-month period of employment and have reached the age of 21 are eligible to participate. The plan provides for an age-based contribution to the cash balance account and includes salary and cash bonuses in the definition of earnings. Participant cash balance accounts receive an interest credit equal to the greater of the one-year U.S. Treasury bill rate or 4%. Participants become vested in their accounts after five years. The measurement date used for the plan is December 31.

A reconciliation of beginning and ending balances of the benefit obligation, certain actuarial assumptions, fair value of plan assets, the funded status of the plan and the components of pension cost are indicated below:

(dollars in thousands)	2003	2002
Change in Benefit Obligation:		
Benefit obligation at beginning of year	$ 25,267	$ 19,566
Service cost	3,645	2,963
Interest cost	1,953	1,661
Plan amendments	—	82
Actuarial loss	2,517	2,213
Benefits paid	(1,267)	(1,218)
Benefit Obligation at End of the Year	$ 32,115	$ 25,267
Weighted Average Assumptions Used to Determine End of Year Benefit Obligations:		
Discount rate	6.25%	6.75%
Rate of compensation increase	5.00%	5.00%

The accumulated benefit obligation at December 31, 2003 and 2002 was $26.7 million and $21.4 million, respectively.

(in thousands)	2003	2002
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 22,148	$ 17,898
Actual return on plan assets	4,958	(934)
Employer contribution	6,743	6,402
Benefits paid	(1,267)	(1,218)
Fair Value of Plan Assets at End of the Year	$ 32,582	$ 22,148

The major component of the investment policy for the plan is the asset mix. The asset mix has a minimum and maximum range depending on asset class. The plan assets are diversified to minimize risk of large losses by any one or more individual investments. Such diversification is accomplished, in part, through the selection of asset mix and investment management. The asset allocation for the plan, by asset category, at December 31, 2003 was as follows: equity securities, 57%; debt securities, 38%; and other investments, 5%. The target allocation of the plan for 2004 is the same as 2003.

(in thousands)	2003	2002
Funded Status at December 31:	$ 467	$ (3,119)
Unrecognized transition asset	(38)	(112)
Unrecognized prior service cost	44	1
Unrecognized net actuarial gain	4,490	5,748
Prepaid Benefit Cost	$ 4,963	$ 2,518

The funding goal for CME is to have its pension plan 100% funded on a projected benefit obligation basis, while also satisfying any minimum required and maximum deductible contribution requirements. Year end 2003 assumptions have been used to project the liabilities and assets from December 31, 2003 to December 31, 2004. The result of this projection is that estimated liabilities would exceed the fair value of plan assets at December 31, 2004 by approximately $3.6 million. Accordingly, it is estimated that a $3.6 million contribution in 2004 will allow CME to meet the funding goal for its pension plan.

Anticipated benefit payments from the plan in future years are as follows:

(in thousands)	
2004	$ 1,728
2005	1,884
2006	2,227
2007	2,667
2008	2,981
2009–2013	21,996

(dollars in thousands)	2003	2002	2001
Weighted Average Assumptions Used to Determine Net Periodic Pension Cost:			
Discount rate	6.75%	7.25%	7.50%
Rate of compensation increase	5.00%	5.00%	5.00%
Expected return on plan assets	7.50%	9.00%	8.00%
Components of Pension Cost:			
Service cost	$ 3,645	$ 2,963	$ 2,483
Interest cost	1,953	1,661	1,393
Expected return on plan assets	(1,543)	(1,443)	(1,145)
Amortization of prior service cost	(44)	(44)	(51)
Amortization of transition asset	(74)	(74)	(74)
Recognized net actuarial gain	362	106	—
Net Pension Cost	$ 4,299	$ 3,169	$ 2,606

The basis for determining the expected rate of return on plan assets is determined by three components: historical returns; industry peers; and forecasted returns. The plan's total return is expected to equal the composite performance of the security markets on an annual basis. The security markets are represented by the returns on various domestic and international stock and bond indices. These returns are weighted according to the allocation of plan assets to each market and measured individually.

Savings Plan. The exchange maintains a savings plan pursuant to Section 401(k) of the Internal Revenue Code, whereby all employees are participants and have the option to contribute to this plan. The exchange matches employee contributions up to 3% of the employee's base salary and makes an additional discretionary contribution of up to 2% of base salary. Total expense for the savings plan was $3.8 million, $3.1 million and $2.5 million in 2003, 2002 and 2001, respectively.

Non-Qualified Plans. The following non-qualified plans, under which participants may make assumed investment choices with respect to amounts contributed on their behalf, are maintained by the exchange. Although not required to do so, the exchange invests such contributions in assets that mirror the assumed investment choices. The balances in these plans are subject to the claims of general creditors of the exchange and totaled $11.1 million and $7.5 million at December 31, 2003 and 2002, respectively.

Supplemental Plan. The exchange maintains a non-qualified supplemental plan to provide benefits for certain officers who have been impacted by statutory limits under the provisions of the qualified pension and savings plans. Total expense for the supplemental plan was $0.7 million, $0.6 million and $0.4 million in 2003, 2002 and 2001, respectively.

Deferred Compensation Plan. A deferred compensation plan is maintained by the exchange, under which eligible officers and members of the Board of Directors may contribute a percentage of their compensation and defer income taxes thereon until the time of distribution.

Supplemental Executive Retirement Plan. The exchange maintains a non-qualified defined contribution plan for senior officers. Under this plan, the exchange makes an annual contribution of a percentage of salary and bonus for eligible officers. The contribution rate was 3% in 2003, representing a change from the 8% contribution rate in previous years. Beginning in 2003, contributions vest after five years of service. Contributions made from 1996 to 2002 are subject to a vesting schedule, under which each annual contribution begins to vest after three years and is fully vested after five years. Unvested contributions are returned to the exchange if a participant leaves the employment of the exchange. Total expense (credit) for the plan, net of any forfeitures, was $(0.1) million, $0.8 million, $0.5 million in 2003, 2002 and 2001, respectively.

16. CAPITAL STOCK

On December 11, 2002, CME Holdings completed the initial public offering of Class A common stock. All 5,463,730 shares of Class A common stock, including an aggregate of 712,660 shares of Class A common stock covered by an over-allotment option granted by CME Holdings to the underwriters, were sold at a price to the public of $35.00 per share. Of the 5,463,730 shares sold in the offering, 3,712,660 shares were sold by CME Holdings and 1,751,070 shares were sold by selling shareholders. The aggregate proceeds to CME Holdings from the offering were approximately $129.9 million, before deducting approximately $9.1 million in underwriting discounts and commissions and an estimated $3.3 million in other expenses incurred in connection with the offering. CME Holdings did not receive any proceeds from the sale of shares by the selling shareholders.

Shares Outstanding. As of December 31, 2003, 9,064,034 shares of Class A common stock, 5,845,189 shares of Class A-1 common stock, 5,460,372 shares of Class A-2 common stock, 6,416,933 shares of Class A-3 common stock, 6,135,533 shares of Class A-4 common stock, 625 shares of Class B-1 common stock, 813 shares of Class B-2 common stock, 1,287 shares of Class B-3 common stock and 413 shares of Class B-4 common stock were issued and outstanding. CME Holdings has no shares of preferred stock issued and outstanding.

Associated Trading Rights. Each class of CME Holdings Class B common stock is associated with a membership in a specific division of the exchange. CME's rules provide exchange members with trading rights and the ability to use or lease these trading rights. Trading rights are maintained at CME and are not part of or evidenced by the Class B common stock of CME Holdings. The Class B common stock of CME Holdings is intended only to ensure that the former Class B shareholders of CME retain Board representation rights and approval rights with respect to the core rights described below.

Voting Rights. With the exception of the matters reserved to holders of CME Holdings Class B common stock, holders of common stock vote together on all matters for which a vote of common shareholders is required. In these votes, each holder of shares of Class A or Class B common stock of CME Holdings has one vote per share.

Election of Directors. The CME Holdings Board of Directors is composed of 20 members. Holders of Class A and Class B common stock have the right to vote together in the election of 14 directors. Holders of Class B-1, Class B-2 and Class B-3 common stock have the right to elect the remaining six directors, of which three are elected by Class B-1 shareholders, two are elected by Class B-2 shareholders and one is elected by Class B-3 shareholders.

Core Rights. Holders of Class B shares have the right to approve changes in specified rights relating to the trading privileges associated with those shares. These core rights include allocation of products that a holder of trading rights is permitted to trade through the exchange; the trading floor access rights and privileges that a member has; the number of memberships in each membership class and the number of authorized and issued shares of Class B common stock associated with that class; and eligibility requirements to exercise trading rights associated with Class B shares. Votes on changes to these core rights are weighted by class. Each class of Class B common stock has the following number of votes on matters relating to core rights: Class B-1, six votes per share; Class B-2, two votes per share; Class B-3, one vote per share, and Class B-4, 1/6th of one vote per share. The approval of a majority of the votes cast by the holders of shares of Class B common stock is required in order to approve any changes to core rights. Holders of shares of Class A common stock do not have the right to vote on changes to core rights.

Dividends. Holders of Class A and Class B common stock of CME Holdings are entitled to receive proportionately such dividends, if any, as may be declared by the CME Holdings Board of Directors.

Transfer Restrictions.

Class A Common Stock. Each class of CME Holdings Class A common stock is identical, except that the shares of Class A-1, A-2, A-3 and A-4 common stock are subject to transfer restrictions contained in CME Holdings' Certificate of Incorporation. These transfer restrictions will expire on June 4, 2004. Initially, the transfer restrictions on Class A-1 shares and Class A-2 shares were scheduled to expire on June 3, 2003 and December 7, 2003, respectively. Pursuant to CME Holdings' Certificate of Incorporation, as a result of the secondary offering in June 2003, transfer restrictions on the Class A-1 shares that were not sold in that offering will remain in effect until June 4, 2004 and as a result of the secondary offering in November 2003, transfer restrictions on the Class A-2 shares that were not sold in that offering will also remain in effect until June 4, 2004. Until these transfer restrictions lapse, shares of Class A-1, A-2, A-3 and A-4 common stock may not be sold or transferred separately from a share of Class B common stock, subject to limited exceptions specified in CME Holdings' Certificate of Incorporation. There are no restrictions on the shares of Class A common stock sold in the initial public offering in December 2002 or the shares sold in the secondary public offerings that were completed in 2003 in connection with the initial public offering.

Class B Common Stock. Each class of CME Holdings Class B common stock is subject to transfer restrictions contained in the Certificate of Incorporation of CME Holdings. These transfer restrictions prohibit the sale or transfer of any shares of Class B common stock separate from the sale of the associated trading rights in the exchange.

Ownership Requirements. Each clearing firm is required to own 72,093 shares of Class A common stock. At December 31, 2003 the total of Class A common stock held persuant to this requirement was 5,767,440 shares.

Shareholder Rights Provisions. The Board of Directors of CME Holdings has adopted a plan creating rights that entitle CME Holdings' shareholders to purchase shares of CME Holdings stock in the event that a third party initiates a transaction designed to take over the company. This rights plan is intended to encourage persons seeking to acquire control of CME Holdings to engage in arms-length negotiations with the Board of Directors and management. The rights are attached to all outstanding shares of CME Holdings common stock, and each right entitles the shareholder to purchase one one-thousandth of a share of Series A Junior

Participating Preferred Stock at a purchase price of $105 per unit. The rights will separate from the common stock of the company: (1) 10 days after a person or group seeks to acquire CME Holdings through a public announcement by such person or group that they have acquired 15% or more of the outstanding shares of CME Holdings; or (2) 10 business days after the commencement of a tender offer by such person or group. If either of these two events occur, each holder of a right shall receive, upon exercise, Class A common stock having a value equal to two times the exercise price of the right.

Omnibus Stock Plan. CME Holdings has adopted an Omnibus Stock Plan under which stock-based awards may be made to employees. A total of 4.0 million Class A shares have been reserved for awards under the plan. Awards totaling 2.8 million shares have been granted and are outstanding or have been exercised under this plan at December 31, 2003 (note 17).

17. STOCK OPTIONS

The exchange has elected to account for stock options under SFAS Statement No. 123, “Accounting for Stock-Based Compensation,” as amended. As allowed by SFAS No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure,” at year-end 2002 the exchange elected to adopt the retroactive restatement method. Net income for 2001 and 2000 reflects this change.

On February 7, 2000, an option was granted to the former President and Chief Executive Officer, James J. McNulty, to purchase 5% of the common stock of the company, as represented by an equivalent percentage of all Class A and Class B common stock issued at the date of demutualization. One-half of the option (Tranche A), or 2.5% of all common stock, had an aggregate exercise price of $21.8 million, which was estimated to be 2.5% of the fair value of the exchange at the grant date. Since demutualization had not been completed at the grant date, the fair value of CME was calculated based on the average value of all exchange memberships. The option for the remaining 2.5% of all common stock (Tranche B) had an aggregate exercise price of $32.8 million, or 3.75% of the fair value of the exchange at the grant date. As a result of the reorganization into a holding company structure, the Class A share equivalents previously embedded in the Class B shares of CME were converted into Class A shares of CME Holdings. Since the stock option for the former CEO is for 5% of all classes of stock outstanding and additional Class A shares were issued in the reorganization, the total number of Class A shares in the former CEO’s option increased by 145,543 shares.

The fair value of the option granted to the former CEO was $14.4 million, or $10.04 per share, measured at the demutualization date under the minimum value method. This method was used since, at the date of demutualization, there was not an independent established trading market for Class A shares. Significant assumptions used to calculate fair value included: risk-free interest rate of 5.11%; expected life equal to the maximum term of the option; and no expected dividends.

The term of the option is 10 years. Under the option agreement, the exercise of the option can be settled with any combination of shares of Class A common stock or cash, at the discretion of the company. Although the option is for all classes of common stock outstanding, any exercise of the option must be for all or a portion of the option that is vested at the date of exercise. The former CEO cannot elect to exercise the option for only certain classes of stock included in the option.

The former CEO’s option vested over a four-year period, with 40% vesting one year after the grant date and 20% scheduled to vest on that same date in each of the following three years. The former CEO stepped down on December 31, 2003, when his contract expired. Due to the vesting provisions of the option, the remaining 20% of the shares subject to the option that were unvested at that date were forfeited. As a result, the former CEO’s option was reduced by 287,716 Class A and 31 Class B shares, representing a total exercise price of $10.9 million. Accordingly the stock-based compensation expense related to the former CEO's option was credited $2.6 million for the expense that had been recognized in prior periods that related to the 20% of the option that was forfeited, resulting in a net credit to stock-based compensation expense for this option of $2.0 million in 2003.

In April and September 2003, the former CEO exercised 6.9% and 10.0%, respectively, of the Tranche A portion of his stock option. Under the provisions of the former CEO's option, CME is allowed to provide Class A shares for the value of the Class B portion of the option. As a result, the option was satisfied through the issuance of 79,522 Class A shares, of which 49,343 were issued from the Omnibus Stock Plan in April 2003, and through the issuance of 99,383 Class A shares, of which 71,929 were issued from the Omnibus Stock Plan in September 2003. The remaining shares were issued to satisfy the value of the Class B shares of the exercised portion of the option and represented authorized and unissued shares of the company registered pursuant to a registration statement on Form S-8. At December 31, 2003, the remainder of the former CEO's option that is vested and exercisable includes 1,029,590 Class A and 112 Class B shares with a total exercise price of $40.0 million.

In June 2003, CME granted stock options totaling 467,000 shares to various employees under the Omnibus Stock Plan. The options vest over a five-year period, with 20% vesting one year after the grant date and on that same date in each of the following four years. The options have a 10-year term with an exercise price of $63.01, the market price at the grant date. The fair value of the options granted to employees was $8.3 million, or $17.84 per share, measured at the grant date using the Black-Scholes method of valuation. A risk-free rate of 2.52% was used over a period of six years with a 29.2% volatility factor and a 1.3% dividend yield. This compensation expense will be recognized on an accelerated basis over the vesting period. In June 2003, CME also granted 13,600 shares of restricted stock that have the same vesting provisions as the stock options granted at that time. Compensation expense of $0.9 million, or $63.01 per share, relating to this restricted stock will be recognized over the vesting period. In addition, in the third and fourth quarters of 2003, CME granted 9,000 and 3,800 additional stock options, respectively, with fair values of $0.2 million and $0.1 million, representing an average fair value of $20.47 and $21.39 per share, respectively. The employee options and restricted stock awards granted in 2003 represented $2.2 million and $0.2 million, respectively, of stock-based compensation expense in 2003.

In 2001 and in December 2002, CME granted stock options to various employees under the Omnibus Stock Plan. These options vest over a four-year period, with 40% vesting one year after the grant date and 20% vesting on that same date in each of the following three years. The options have a 10-year term. The options granted to employees in 2001 have an exercise price of $22.00 per share and a fair value of $4.2 million, or an average fair value of $3.60 per share, measured at the grant date under the minimum value method. A risk-free interest rate of 5.4% was used over a period of five years with no expected dividends. The options granted to employees in 2002 have an exercise price of $35.00 per share and a fair value of $0.4 million, or $16.35 per share, measured at the grant date using the Black-Scholes method of valuation, as a market for the Class A shares was established at the date of the initial public offering. A risk-free rate of 3.5% was used over a period of six years with a 41% volatility and a 1.43% dividend yield. Restricted stock grants of 119,000 shares were also awarded to certain executives in 2001 that have the same vesting provisions as the stock options. Compensation expense of $2.4 million, or an average of $20.46 per share, relating to this restricted stock will be recognized over the vesting period. The 2001 and 2002 employee options and restricted stock grants represented $0.7 million and $0.2 million, respectively, of stock-based compensation expense in 2003.

The following table summarizes stock option activity for the three-year period ended December 31, 2003:

	EMPLOYEE OPTIONS		CEO OPTION NUMBER OF SHARES	
	Average Exercise Price	Number of Shares	Class A	Class B
Balance at December 31, 2000	$ —	—	1,293,035	156
Granted	22.00	1,179,500	—	—
Adjustment for reorganization	—	—	145,543	—
Cancelled	22.00	(6,750)	—	—
Balance at December 31, 2001	22.00	1,172,750	1,438,578	156
Granted	35.00	27,000	—	—
Exercised	22.00	(150)	—	—
Cancelled	22.00	(115,200)	—	—
Balance at December 31, 2002	22.32	1,084,400	1,438,578	156
Granted	63.26	479,800	—	—
Exercised	22.01	(190,584)	(121,272)	(13)
Cancelled	42.71	(24,992)	(287,716)	(31)
Balance at December 31, 2003	$ 36.56	1,348,624	1,029,590	112

Total stock options outstanding and the portion of each option that can be exercised at December 31, 2003 are as follows:

	Total Options Outstanding	Exercisable Shares
CEO Option:		
Tranche A:		
Class A shares	454,159	454,159
Class B shares	49	49
Tranche B:		
Class A shares	575,431	575,431
Class B shares	63	63
Employee Options:		
Class A shares, by exercise price:		
$22.00	859,324	442,214
$35.00	19,900	7,900
$63.01 to $74.68	469,400	200
Total Stock Options	2,378,326	1,480,016

Excluding the former CEO’s option, the weighted average contractual maturity of options outstanding and exercisable at December 31, 2003 was 8.1 years and 7.4 years, respectively.

The employee options granted in 2001 were 60% vested at December 31, 2003 and options granted in 2002 were 40% vested at December 31, 2003. The former CEO’s option was 80% vested at December 31, 2003.

If the former CEO exercised the remaining portion of his option at December 31, 2003, the exercise price was paid in cash and only Class A shares were issued to satisfy the option, the former CEO would have received 1,397,847 Class A shares based on the value of the remaining option and the closing price of our publicly traded Class A shares on that date. This would represent a weighted average exercise price of $28.61 per share.

18. CREDIT FACILITY

On October 18, 2003, CME renewed its secured committed line of credit with a consortium of banks. The credit facility was increased from $500.0 million to $750.0 million. The secured credit agreement which expires on October 15, 2004, is collateralized by clearing firm security deposits held by the exchange in the form of U.S. Treasury or agency securities, as well as security deposit funds in IEF2. The amount held as available security deposit collateral at December 31, 2003 was $975.5 million. The facility, which has never been used, may be utilized in certain situations, such as a temporary disruption of the domestic payments system that would delay settlement between the exchange and its clearing firms, or in the event of a clearing firm default. Under the terms of the credit agreement, there are a number of covenants with which the exchange must comply. Among these covenants, the exchange is required to submit quarterly reports to the participating banks and maintain at all times a consolidated tangible net worth of not less than $90.0 million. Interest on amounts borrowed is calculated at the Federal-funds rate plus 45/100 of 1% per annum. Commitment fees for the line of credit were $0.5 million for each of the years ended December 31, 2003, 2002 and 2001.

19. CONTINGENCIES AND GUARANTEES

Legal Matters. In November 2002, a former employee filed a complaint in the Circuit Court of Cook County, Illinois, which was subsequently amended to allege common law claims of retaliatory discharge and racial discrimination. He is seeking damages in excess of $3.0 million. In June 2003, this same individual filed a complaint in the United States District Court for the Northern District of Illinois alleging that his employment was terminated because of his race in violation of Title VII, and that his employment termination violated Section 1981 (which prohibits discrimination in making and enforcing contracts). The former employee seeks reinstatement, back pay and benefits, punitive damages in the amount of $2.0 million, plus actual damages to be determined at trial. Both cases are currently in the discovery stages. Based on its investigation to date and advice from legal counsel, management believes these claims are without merit and will defend them vigorously.

On October 14, 2003, the U.S. Futures Exchange, L.L.C. and U.S. Exchange Holdings, Inc. (collectively, Eurex U.S.), filed suit against the 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. is seeking a preliminary injunction and treble damages. On December 12, 2003, the 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 Northern Illinois. CME believes this suit lacks factual or legal foundation and intends to vigorously defend itself against these charges.

In addition, the exchange 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 exchange cannot be predicted with certainty, management believes that the resolution of any of these matters will not have a material adverse effect on the consolidated financial position or results of operations.

Employment-Related Agreements. The exchange has an employment agreement with Craig S. Donohue, as its Chief Executive Officer, through December 31, 2006, subject to renewal by mutual written agreement of the parties. Effective January 1, 2004, Mr. Donohue’s annual base salary will not be less than $0.7 million. He is eligible to participate in CME’s benefit plans and programs.

In the event of a termination without cause by CME, as defined in the agreement, Mr. Donohue is entitled to a one time lump sum severance payment equal to two times his base salary as of the date of termination for the remaining term of the agreement, if any, not to exceed 24 months of base salary.

The exchange also has an employment agreement with Phupinder Gill, as its President and Chief Operating Officer, through December 31, 2007, subject to renewal by mutual written agreement of the parties. Effective January 1, 2004, Mr. Gill's annual base salary will not be less than $0.6 million. He is eligible to participate in CME's benefit plans and programs.

In the event of a termination without cause by CME, as defined in the agreement, Mr. Gill is entitled to a one time lump sum severance payment equal to two times his base salary as of the date of termination for the remaining term of the agreement, if any, not to exceed 24 months of base salary.

Mutual Offset System. At December 31, 2003, CME was contingently liable on irrevocable letters of credit totaling $49.0 million that relate to the mutual offset agreement between CME and Singapore Exchange Derivatives Trading Ltd. (SGX). This mutual offset agreement allows a clearing firm of either exchange to execute after-hours trades at the other exchange. When a clearing firm of CME executes an after-hours trade at SGX, the resulting trade is transferred from SGX to CME, and CME assumes the financial obligation to SGX for the transferred trade. A similar obligation occurs when a clearing firm of SGX executes a trade at CME. The net position of each exchange to the other is marked-to-market daily based on the settlement prices of the applicable exchange, and settlement is made between the exchanges in cash. Since settlement prices at each exchange may differ at the end of any given day and Singapore is 13 to 14 hours ahead of Chicago, there may be a difference between the two settlement amounts and there will be a difference in the timing of the settlement. To allow for adequate and timely funding of the settlement and in the unlikely event of a payment default by a clearing firm, CME and SGX each maintain irrevocable standby letters of credit payable to the other exchange. Regardless of the irrevocable letter of credit, CME guarantees all cleared transactions submitted by its members through SGX and would initiate procedures designed to satisfy these financial obligations in the event of a default, such as the use of security deposits and performance bonds of the defaulting clearing firm.

Cross-Margin Agreements. CME, Options Clearing Corporation (OCC) and New York Clearing Corporation (NYCC) 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 are combined with certain positions cleared by OCC and NYCC for purposes of calculating performance bond requirements. The performance bond deposits are held jointly by CME, OCC and NYCC. 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 are split 47.5% each to OCC and CME and 5% to NYCC.

A cross-margin agreement with the London Clearing House (LCH) became effective in March 2000, whereby clearing firms' offsetting positions with CME and LCH are subject to reduced margin requirements. A similar cross-margin agreement with the Fixed Income Clearing Corporation (FICC) became effective in April 2002, whereby clearing firms' offsetting positions with CME and FICC 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 LCH, or CME and FICC, as applicable, 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 are split evenly between CME and LCH, or CME and FICC, as applicable.

Additionally, for both the LCH and 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, if 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 will be shared with the other clearing houses to the extent that they have a remaining liquidating deficit. Any remaining surplus funds will be passed to the bankruptcy trustee.

GFX Letter of Credit. CME guarantees a $2.5 million standby letter of credit for GFX. The beneficiary of the letter of credit is the clearing firm that is used by GFX to execute and maintain its foreign currency and Eurodollar futures positions. The letter of credit will be drawn on in the event that GFX defaults in meeting requirements to its clearing firm. Per exchange requirements, GFX is required to place a performance bond on deposit with its clearing firm. In the unlikely event of a payment default by GFX, GFX's performance bond would first be used to cover the deficit. If this amount is not sufficient, the letter of credit would be used, and finally CME would guarantee the remaining deficit, if any.

Interest Earning Facility Program. Clearing firms, at their option, may instruct CME to invest cash on deposit for performance bond purposes in a portfolio of securities that is part of the Interest Earning Facility program. The first IEFs were organized in 1997 as two limited liability companies. Interest earned, net of expenses, is passed on to participating clearing firms. The principal of the first IEFs totaled $370.5 million at December 31, 2003 and is guaranteed by the exchange as long as clearing firms maintain investment balances in this portfolio. The investment portfolio of these facilities is managed by two of the exchange's approved settlement banks, and eligible investments include U.S. Treasury bills and notes, U.S. Treasury strips and reverse repurchase agreements. The maximum average portfolio maturity is 90 days, and the maximum maturity for an individual security is 13 months. If funds invested in the IEF are required to be liquidated due to a clearing firm redemption transaction and funds are not immediately available due to lack of liquidity in the investment portfolio, default of a repurchase counterparty, or loss in market value, CME guarantees the amount of the requirement. Management believes that the market risk exposure relating to its guarantee is not material to the consolidated financial statements taken as a whole. Financial Accounting Standards Board Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements of Guarantees of Indebtedness of Others," requires that an entity (CME) issuing a guarantee recognize, at the inception of the guarantee, a liability equal to the fair value of the guarantee. CME has evaluated its requirements under FIN No. 45 and concluded that no significant liability is required to be recorded.

Intellectual Property Indemnifications. Some agreements with customers accessing GLOBEX and utilizing our market data services and SPAN software contain indemnifications from intellectual property claims that may be made against them as a result of their use of these products. The potential future claims relating to these indemnifications cannot be estimated and, therefore, in accordance with FIN No. 45, no liability has been recorded.

20. GFX DERIVATIVES TRANSACTIONS

GFX Corporation engages in the purchase and sale of CME foreign exchange and Eurodollar futures contracts. GFX posts bids and offers in these products on the GLOBEX electronic trading platform to maintain a market and promote liquidity in these products. GFX limits risk from these transactions through offsetting transactions using futures contracts or spot foreign exchange transactions with approved counterparties in the interbank market. Formal trading limits have been established. Futures transactions are cleared by an independent clearing firm. Any residual open positions are marked to market on a daily basis, and all net realized and unrealized gains and losses are included in other revenue in the accompanying consolidated statements of income. Net trading gains totaled $6.8 million in 2003, $3.2 million in 2002 and $3.8 million in 2001. At December 31, 2003, futures positions held by GFX had a notional value of $98.2 million, offset by a similar amount of spot foreign exchange positions, resulting in a zero net position.

21. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of all classes of common stock outstanding each year. Shares outstanding are calculated as if the current holding company structure was in place for all periods presented. Diluted earnings per share reflects the increase in shares using the treasury stock method to reflect the impact of an equivalent number of shares of common stock if stock options and restricted stock awards were exercised or converted into common stock. The dilutive effect of the option granted to the former CEO is calculated as if the entire option, including the Class A share and Class B share portions of the option, was satisfied through the issuance of Class A shares. The diluted weighted average number of common shares outstanding at December 31, 2003 excludes the incremental effect related to 469,600 outstanding stock options that would be anti-dilutive.

(in thousands, except share and per share data)	2003	2002	2001
Net Income	$ 122,132	$ 94,067	$ 75,108
Weighted Average Common Shares Outstanding:			
Basic	32,691,427	29,066,242	28,774,700
Effect of stock options	1,210,740	959,253	443,028
Effect of restricted stock grants	32,791	35,042	22,704
Diluted	33,934,958	30,060,537	29,240,432
Earnings per Share:			
Basic	$ 3.74	$ 3.24	$ 2.61
Diluted	3.60	3.13	2.57

22. WAGNER PATENT LITIGATION

On August 26, 2002, the lawsuit with e-Speed relating to the Wagner patent was settled for $15.0 million. The settlement required CME to make an initial $5.0 million payment in September 2002 and five subsequent annual payments of $2.0 million each beginning in August 2003. The present value of the settlement, or $13.7 million, was recorded as an expense in the third quarter of 2002.

On December 23, 2002, CME signed an agreement to resolve an indemnification dispute with Euronext-Paris related to CME's settlement of the Wagner patent litigation. Under the agreement, Euronext-Paris agreed to pay CME $7.5 million, one-half of CME's settlement with e-Speed. CME recognized the present value of the entire $7.5 million settlement in the fourth quarter of 2002 as a reduction of the expense recognized in the third quarter of 2002. All payments from Euronext-Paris were received in 2003.

23. QUARTERLY INFORMATION (UNAUDITED)

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Year Ended December 31, 2003:					
Net revenues	$ 126,016	$ 142,391	$ 135,010	$ 132,624	$ 536,041
Income before income taxes	43,754	59,370	52,881	50,120	206,125
Net income	26,121	35,013	31,397	29,601	122,132
Earnings per share:					
Basic	$ 0.80	$ 1.07	$ 0.96	$ 0.90	$ 3.74
Diluted	0.77	1.03	0.93	0.87	3.60
Year Ended December 31, 2002:					
Net revenues	$ 101,092	$ 107,532	$ 125,165	$ 119,388	$ 453,177
Income before income taxes	31,163	34,489	38,133	50,444	154,229
Net income	18,659	20,991	22,898	31,519	94,067
Earnings per share:					
Basic	$ 0.65	$ 0.73	$ 0.79	$ 1.06	$ 3.24
Diluted	0.63	0.71	0.77	1.02	3.13

24. SUBSEQUENT EVENT

On January 12, 2004, CME announced the acquisition of the intellectual property and operating assets of Liquidity Direct Technology, LLC, a private trading technology firm that has developed technology to facilitate the trading of complex combinations and spreads typically used with options. The purchase agreement required an initial payment of $5.3 million, with additional payments based on revenue generated when this electronic platform is implemented. Implementation is tentatively scheduled for the second half of 2004. The additional payments will extend over three years once the technology is implemented and will not exceed $16.8 million.

SHARE INFORMATION

CLASS A COMMON STOCK

Our Class A common stock is listed on the New York Stock Exchange under the ticker symbol "CME." As of February 9, 2004, there were 1,998 holders of record of our Class A Common Stock.

The following table sets forth the high and low closing prices per share of our Class A common stock on a quarterly basis, as reported on the New York Stock Exchange since our initial public offering.

	High	Low
2002		
Fourth Quarter (Beginning on December 6)	$ 45.50	$ 38.96
2003		
First Quarter	50.00	41.35
Second Quarter	70.04	46.15
Third Quarter	79.30	65.55
Fourth Quarter	75.05	63.85

Prior to our initial public offering on December 6, 2002, there was no independent established trading market for our Class A common stock. Pursuant to our charter, shares of our Class A common stock could only be sold or acquired as part of a bundle with the trading rights on our exchange and the related Class B shares. Therefore, the value of the Class A shares for periods prior to December 2002 is imputed based on prices for the bundle and prices relating to trading rights only. From December 3, 2001, to December 5, 2002, the price of our Class A common stock fluctuated between $10.49 and $33.09 per share, with an imputed price on December 5, 2002, of $33.09 per share.

CLASS B COMMON STOCK

Our Class B common stock is not listed on a national securities exchange or traded in an organized over-the-counter market. Each class of our Class B common stock is associated with a membership in a specific division of the exchange. CME's rules provide exchange members with trading rights and the ability to use or lease these trading rights. Each share of our Class B common stock can be transferred only in connection with the transfer of the associated trading rights. The memberships by class are:

- CME (Chicago Mercantile Exchange full trading rights);
- IMM® (International Monetary Market);
- IOM® (Index and Option Market); and
- GEM® (Growth and Emerging Markets).

Class B shares and the associated trading rights are bought and sold through our Shareholder Relations and Membership Services Department. In addition, trading rights may be leased through the department. Trading rights sales are reported on our Web site at www.cme.com. Although our Class B shareholders have special voting rights, because our Class B shares have the same equitable interest in our earnings and the same dividend payments as our Class A shares, we expect that the market price of our Class B common stock, if reported separately from the associated trading rights, would be determined by the value of our Class A common stock. As of February 9, 2004, there were 1,955 holders of record of our Class B common stock.

DIVIDENDS

The following table sets forth the dividends we paid on our Class A and Class B common stock in the last two years:

Record Date	Dividend per Share
June 17, 2002	$ 0.60
March 10, 2003	0.14
June 10, 2003	0.14
September 10, 2003	0.14
December 10, 2003	0.21

We intend to pay regular quarterly dividends to our shareholders. The decision to pay a dividend, however, remains within the discretion of our Board of Directors and may be affected by various factors, including our earnings, financial condition, capital requirements, level of indebtedness and other considerations our Board of Directors deems relevant. Our existing credit facility–as well as future credit facilities, other future debt obligations and statutory provisions–may limit our ability to pay dividends. On February 5, 2004, the Board of Directors declared a regular quarterly dividend of $0.26 per share to be paid on March 25, 2004, for shareholders of record on March 10, 2004.

INDEPENDENT AUDITORS

Ernst & Young LLP
Sears Tower
233 South Wacker Drive
Chicago, IL 60606

In 2002, based on the recommendation of our Audit Committee, we dismissed Arthur Andersen as our independent auditors and engaged Ernst & Young. For more information see our Current Report on Form 8-K, dated May 17, 2002.

FORWARD-LOOKING STATEMENTS

From time to time, in written reports and oral statements, we discuss our expectations regarding future performance. For example, these “forward-looking statements” are included in this 2003 Annual Report in the letters to shareholders from our Chairman and our Chief Executive Officer (pages 8–13); Operations Review (page 14); and Financial Review, including Management’s Discussion and Analysis of Financial Condition and Results of Operations (page 25). 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 to not place undue reliance on any forward-looking statements.

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Chicago Mercantile Exchange Holdings Inc. of our report dated February 2, 2004, included in the 2003 Annual Report to Shareholders of Chicago Mercantile Exchange Holdings Inc.

Our audits also included the financial statement schedules of Chicago Mercantile Exchange Holdings Inc. listed in Item 15(a). These schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Chicago, Illinois
February 2, 2004

Exhibit 23.2

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-105236 dated May 14, 2003, No. 333-104804 dated April 29, 2003, as amended on September 9, 2003, No. 333-60266-99 dated July 31, 2002, and No. 333-60266 dated May 4, 2001) pertaining to Chicago Mercantile Exchange Holdings Inc. of our report dated February 2, 2004, with respect to the consolidated financial statements and schedules of Chicago Mercantile Exchange Holdings Inc. and subsidiaries incorporated by reference in the Annual Report (Form 10-K) for the year ended December 31, 2003.

/s/ Ernst & Young LLP

Chicago, Illinois
March 10, 2004

Exhibit 31.1

CERTIFICATIONS

I, Craig S. Donohue, Chief Executive Officer of the Company, certify that:

1. I have reviewed this annual report on Form 10-K of Chicago Mercantile Exchange Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2004

/s/ CRAIG S. DONOHUE

Name: Craig S. Donohue
Title: *Chief Executive Officer*

Exhibit 31.2

I, David G. Gomach, Chief Financial Officer of the Company, certify that:

1. I have reviewed this annual report on Form 10-K of Chicago Mercantile Exchange Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2004

/s/ DAVID G. GOMACH

Name: David G. Gomach
Title: *Chief Financial Officer*

Exhibit 32.1

**Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Chicago Mercantile Exchange Holdings Inc. (the "Company") for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Craig S. Donohue, as Chief Executive Officer of the Company, and David G. Gomach, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CRAIG S. DONOHUE

Name: Craig S. Donohue
Title: Chief Executive Officer

Date: March 11, 2004

/s/ DAVID G. GOMACH

Name: David G. Gomach
Title: Chief Financial Officer

Date: March 11, 2004

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by § 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.