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, 2004

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 herein, 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, 2004, was approximately $4.9 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 February 18, 2005 was as follows: 34,212,286 shares of Class A common stock, $0.01 par value; 625 shares of Class B common stock, Class B-1, $0.01 par value; 813 shares of Class B common stock, Class B-2, $0.01 par value; 1,287 shares of Class B common stock, Class B-3, $0.01 par value; and 413 shares of Class B common stock, Class B-4, $0.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE:

Documents	Form 10-K Reference
Portions of the Company's Annual Report to Shareholders for the year ended December 31, 2004	Part II
Portions of the Company's Proxy Statement for the 2005 Annual Meeting of Shareholders	Parts II and 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.

All references to volume, rate per contract and open interest in this Annual Report on Form 10-K exclude our non-traditional TRAKRS® products, for which we receive significantly lower clearing fees than other CME products.

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” and in Exhibit 13.1, 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:

- increasing competition by foreign and domestic competitors, including new entrants into our markets;
- our ability to keep pace with rapid technological developments, including our ability to complete the development and implementation of the enhanced functionality required by our customers;
- our ability to continue introducing competitive new products and services on a timely, cost-effective basis, including through our electronic trading capabilities, and our ability to maintain the competitiveness of our existing products and services;
- our ability to successfully implement our competitive initiatives;
- our ability to efficiently and simultaneously operate both open outcry trading and electronic trade execution facilities;
- our ability to adjust our fixed costs and expenses if our revenues decline;
- our ability to continue to realize the benefits of our transaction processing agreement with the Chicago Board of Trade;
- our ability to maintain existing customers and attract new ones;
- changes in domestic and foreign regulations;
- changes in government policy, including interest rate policy and policies relating to common or directed clearing;
- the costs associated with protecting our intellectual property rights and our ability to operate our business without violating the intellectual property rights of others;
- our ability to recover market data fees that may be reduced or eliminated by the growth of electronic trading;
- changes in the level of trading activity, mix of member and non-member trading volume, price levels and volatility in the derivatives markets and in underlying fixed income, equity, foreign exchange and commodities markets;
- the ability of our joint venture, OneChicago, LLC, to obtain market acceptance of its products and achieve sufficient trading volume to operate profitably;
- economic, political and market conditions;
- our ability to accommodate increases in trading volume without failure or degradation of performance of our trading systems;
- our ability to execute our growth strategy and maintain our growth effectively;

- our ability to manage the risks and control the costs associated with our acquisition, investment and alliance strategy;
- industry and customer consolidation;
- decreases in trading and clearing activity; and
- seasonality of the futures 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®, E-mini™, Globex®, International Monetary Market®, IEF® IOM®, IMM®, Growth and Emerging Markets®, GEM®, SPAN® and Globex Trader-Internet℠ are our trademarks. CLEARING 21® and e-miNY℠ are trademarks, of CME and New York Mercantile Exchange, Inc., or NYMEX.

Goldman Sachs Commodity Index®, NASDAQ-100®, NASDAQ-100 Index®, NASDAQ Composite®, NASDAQ Composite Index®, Nikkei 225™, Russell 1000®, Russell 2000®, Russell 3000®, S&P 500®, S&P®, S&P/BARRA Growth™, S&P/BARRA Value™, S&P MidCap 400™, S&P/TOPIX 150™, TRAKRS® and other trade names, service marks, trademarks and registered trademarks 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 contracts and options on futures contracts, often called derivatives, as measured by 2004 annual trading volume. In 2004, our customers, which include our members, traded futures contracts and options on futures contracts with an underlying value of $463 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, 2004, our open interest record was 28.5 million contracts set on December 9, 2004. Open interest is the number of outstanding contracts at the close of the trading day at the exchange and is a leading indicator of liquidity. Liquidity of markets, or the ability of a market to quickly and efficiently absorb the execution of large purchases or sales, is a key to attracting customers and contributing to a market's success.

Futures and options on futures provide a way to protect against – and potentially profit from – price changes in financial instruments and physical commodities. Futures contracts are legally binding agreements to buy or sell something in the future, such as livestock or foreign currency. The buyer and seller of a futures contract agree on a price today for a product to be delivered and paid for in the future. Each contract specifies the quantity of the item and the time of delivery or payment.

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.

As a marketplace for global risk management, our exchange brings together buyers and sellers of derivatives products, which trade on our CME® Globex® electronic trading platform, on our trading floors through open outcry and via 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 indexes, foreign exchange and commodities. Our key products include CME 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. For example, our CME 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.

We own our clearing house, which is the largest derivatives clearing operation in the world for futures and options on futures, and we guarantee, clear and settle every contract traded through our exchange. As a result of our agreement to provide clearing and related services to the Chicago Board of Trade, or the CBOT, we now clear approximately 90% of all futures contracts and options on futures contracts in the United States. During 2004, we processed an average of approximately 701,000 and 365,000 trade transactions per day for CME, including our non-traditional TRAKRS contracts, and CBOT products, respectively. We currently have the capacity to clear more than 4.0 million trade transactions per day. Our systems are scalable and give us the ability to increase our capacity with little lead time. As of

December 31, 2004, we acted as custodian for approximately $44.1 billion in performance bond collateral, including $3.1 billion in deposits for non-CME products. In 2004, we moved an average of $1.5 billion of settlement funds through our clearing system each day. In addition, 50 exchanges and clearing organizations worldwide have adopted our CME SPAN® risk evaluation system, which is used to determine the appropriate performance bond requirements for trading portfolios.

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 approximately 787 million contracts in 2004, an increase of approximately 27% over 2003, which was previously our busiest year.

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 CME Eurodollar futures, which is one of the world's most actively traded futures contracts. 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 CME Globex electronic trading platform in 1992. Today, most of our products trade electronically, as well as on our open outcry trading floors. In 1997, we introduced the first of the CME E-mini™ stock index products, which are smaller-sized electronically traded versions of our benchmark stock index futures contracts. In April 2003, we entered into an agreement with the CBOT to provide clearing and related services for CBOT futures contracts and options on futures contracts.

We devote substantial resources to introducing new products based on new markets or securities and increasing the distribution of our existing products. In 2004, we launched Japanese yen denominated Nikkei 225™ stock index futures contracts; futures and options on futures contracts based on three of the most commonly used varieties of fertilizer; weather futures and options on futures for Tokyo and Osaka, Japan; electronically traded futures contracts on the U.S. Consumer Price Index, or CPI, and equity index options on E-mini NASDAQ-100 futures contracts. Options on E-mini Russell 2000® futures contracts, the fourth most active stock index contract in the United States, were launched in the first quarter of 2005. In addition, in 2004 we announced our agreement with Reuters Transaction Services Limited, or Reuters, to offer access to our electronic foreign exchange markets to Reuters' global customer base over the Reuters Dealing 3000 trading system. This arrangement will give dealers in the interbank market direct access to our foreign exchange products in cash equivalent format and will enhance their ability to seamlessly trade foreign exchange spot, forwards and futures. To further expand access and increase efficiency of our CME Globex platform throughout Europe, we added six telecommunications hubs, in addition to the one we had in London, in the key European financial centers of Amsterdam, Dublin, Frankfurt, Gibraltar, Milan and Paris. To reduce connectivity costs for our Pacific Rim customers, we also plan to establish our first Asian hub in Singapore in 2005.

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 and through privately negotiated transactions. Today, our members are able to conduct trading on our open outcry trading floors, electronically on the CME 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 the CME Globex platform. In 2004, volume on the CME Globex electronic trading platform represented approximately 57% of our trading volume compared to approximately 42% in 2003.

Prior to our demutualization, direct access to our markets, whether on our open outcry trading floors or through the CME 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 CME 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 CME Globex platform. 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. Certain of our customers benefit from volume discounts and limits on fees as part of our effort to encourage increased liquidity in our markets. In 2004, our members were responsible for nearly 78% 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. We believe that owners of trading rights on our exchange continue to own a substantial amount 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, 2004, our open interest record was 28.5 million contracts set on December 9, 2004. During 2004, we posted record trading volume of approximately 787 million contracts, an increase of approximately 27% over 2003, making us the most active exchange in the United States and the second most active in the world for the trading of futures contracts and options on futures contracts during that period. By notional or underlying value, we are the largest futures exchange in the world, with $463 trillion traded in 2004.

Global Benchmark Products. We believe our key products serve as global benchmarks for valuing and managing risk. Our CME 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, NASDAQ-100 and Russell indexes are considered primary tools for benchmarking investment performance against U.S. equity market exposure. Our S&P 500, NASDAQ-100 and Russell 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 index, 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 the CBOT. During 2004, we processed an average of approximately 701,000 and 365,000 trade transactions per day for CME, including our non-traditional TRAKRS contracts, and CBOT products, respectively. We currently have the capacity to clear more than 4.0 million trade transactions per day, and our scalable systems give us the ability to further increase our capacity with little lead time. On September 24, 2004, the clearing house surpassed one billion contracts cleared in 2004. In January 2004, we fully implemented our agreement with the CBOT to provide clearing and related services for CBOT futures contracts and options on futures contracts. As of December 31, 2004, we acted as custodian for approximately $44.1 billion in performance bond collateral, including 3.1 billion in deposits for non-CME products, and, in 2004, moved an average of $1.5 billion of settlement funds through our clearing system each day. We believe our performance guarantee is a major attraction to 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 goal is to design our system to service historical peak volumes, provide clearing services to the CBOT and other exchanges and introduce new products with high volume potential.

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 goal is to design our highly scalable systems 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 CME SPAN risk evaluation system has been adopted by 50 exchanges and clearing organizations worldwide.

Global Reach. Globalization of financial markets is expanding the customer base for futures products beyond traditional boundaries. Our electronic trading services, which are available nearly 24 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. In addition, we expanded our telecommunications capacity in Europe to include six new telecommunications hubs, similar to our hub in London that was established in 2002. These hubs reduce connectivity costs and house direct electronic connections between the foreign customer and CME Globex, our electronic trading platform. In 2005, we plan to establish our first Asian telecommunications hub in Singapore. We also introduced new incentive programs for certain types of customers in Europe and Asia that have fueled our global expansion by attracting new customers to our products and markets worldwide.

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 increase our 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, in 2004 we added six telecommunications hubs, in addition to our previously established London hub, in the key European financial centers of Amsterdam, Dublin, Frankfurt, Gibraltar, Milan and Paris. In 2005, we plan to add our first Asian hub in Singapore. 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 CME 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. We also plan to expand our reach by attracting new distribution channel partners with the capacity to reach large numbers of nontraditional futures customers. For example, in late 2003 we increased access to our products through an agreement with Bloomberg, which allows all of its screens worldwide to access CME products on the CME Globex platform. This past year we entered into an agreement with Reuters to offer our electronic foreign exchange markets to Reuters' global customer base in cash equivalent format and to provide Reuters Dealing 3000 interbank dealer customers with direct access to our foreign exchange products. This initiative, scheduled to launch in the first quarter of 2005, will open our markets to a new group of potential users.

- *Expand Electronic and Other Trading Venues.* Our strategy is to offer our customers a broad range of trade execution choices, including increased electronic functionality, enhanced facilities for privately negotiated transactions and an open outcry environment. 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. In 2004, we added additional functionality to increase electronic trading in our products. For example, in August 2004 we launched our enhanced options system for electronic trading of options on CME Eurodollars for a limited group of market participants. This system is designed to facilitate trading of complex combination and spread trades typically used with short-term interest rate options on futures, within a fully transparent and competitive execution environment. To make the enhanced functionality available to the entire marketplace, we plan to link the system with our CME Globex platform in the second half of 2005. In addition, in October 2004 we introduced new implied spread trading functionality for CME Eurodollars on the CME Globex platform. This functionality added the capability to more efficiently establish and liquidate certain spread positions within the first three years of the ten-year yield curve. Nearly 452 million contracts were traded electronically on our CME Globex platform in 2004, an increase of approximately 72% over the total electronic trading volume in 2003 of approximately 263 million contracts.
- *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 $60.9 million and $53.2 million during 2004 and 2003, 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 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, we have introduced the following E-mini versions of our larger open outcry-traded futures contracts: E-mini S&P 500; E-mini NASDAQ-100; E-mini Russell 1000®; E-mini Russell 2000; E-mini S&P MidCap 400™ and E-mini NASDAQ Composite®. By creating smaller-sized products and offering electronic trading services for them, we have successfully expanded our customer base and overall volume. We also seek to introduce new contracts that complement our existing product line. We offer futures contracts based on the Russell 1000 and Russell 2000 Indexes. These contracts offer exposure to the Russell 3000® universe of stocks, representing 98% of the investable U.S. equity market, based on total market capitalization.

In 2004, we launched futures contracts on the Japanese yen denominated Nikkei 225 stock index; futures and options on futures based on three of the most commonly used varieties of fertilizer; weather futures and options on futures for Tokyo and Osaka, Japan; electronically traded futures contracts on the CPI and equity options on our E-mini NASDAQ-100 futures contracts. Options on our E-mini Russell 2000 futures contracts were launched in the first quarter of 2005. In addition, in 2005 we will launch new euro FX and Japanese yen options on futures contracts with European-style expiration on the CME Globex platform.

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 OTC markets. 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. In January 2004, we fully implemented our agreement with the CBOT to provide clearing and related services for CBOT futures and options on futures contracts. 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 the CBOT, our clearing house is the largest derivatives clearing operation for futures and options on futures in the world and we now clear approximately 90% of all futures contracts and options on futures contracts traded in the United States. In 2004, we cleared 600 million contracts for the CBOT. Open interest for CBOT contracts was 9.9 million contracts as of December 31, 2004.

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, we acquired the technology-related assets and intellectual property of Liquidity Direct in January 2004 to acquire new options and spread trading technology to enhance the growth of CME Eurodollar options and ultimately other options markets on the CME Globex platform. In May 2004, we entered into an agreement with Reuters to offer our electronic foreign exchange markets to Reuters’ global customer base in cash equivalent format and to provide Reuters Dealing 3000 interbank dealer customers with direct access to our foreign exchange products. This initiative, scheduled to launch in the first quarter of 2005, will open our markets to a new group of potential users.

Products

Our broad range of products includes futures contracts and options on futures contracts based on interest rates, equity indexes, foreign exchange and commodities. Our products are traded through our open outcry auction markets, through the CME Globex electronic trading platform or in privately negotiated transactions that we clear. For the year ended December 31, 2004, we derived $553.0 million, or 75% of our net revenues, from fees associated with trading and clearing our products. These fees include per contract charges for trade execution, clearing and CME 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 $60.9 million, or 8% of our net revenues, in 2004.

We identify new products by monitoring economic trends and their impact on the risk management and speculative needs of our existing and prospective customers.

The following table shows the total notional value and average daily volume of contracts traded in our four principal product lines for the years ended December 31, 2004, 2003 and 2002.

		Total Notional Value			Average Daily Contract Volume		
Product Line	Principal Underlying Instruments	2004	2003	2002	2004	2003	2002
			(in billions)			(in thousands)	
Interest Rate	Eurodollar, LIBOR, Euroyen	$ 437,134	$ 313,225	$ 311,241	1,705	1,234	1,227
Equity Index	S&P 500, NASDAQ-100, S&P MidCap 400, S&P 500/BARRA Growth™ and Value™, Nikkei Stock Average, Russell 1000, Russell 2000 indexes	19,712	16,509	14,758	1,163	1,057	824
Foreign Exchange	Euro, Japanese yen, British pound, Swiss franc, Canadian dollar	6,183	3,683	2,382	202	135	96
Commodity	Cattle, hogs, pork bellies, lumber, dairy, weather	347	281	196	40	36	30

Interest Rate Products. Our interest rate products include our global benchmark CME Eurodollar futures contract. 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 in CME Eurodollar futures contracts and options on futures contracts traded on our exchange was 18.3 million contracts as of December 31, 2004, representing a notional value of $18.3 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 approximately 55% of our trading volume during 2004, an average of approximately 1.7 million contracts per day.

The growth of our CME 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 the 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 CME 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. CME 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 CME Eurodollar contract. Trading in CME Eurodollar contracts often involves complex trading strategies that we believe cannot be fully accommodated by existing electronic trading platforms. We continue to develop and implement new electronic functionality to accommodate trading strategies required for electronic trading of Eurodollar contracts. In August 2004, we launched our enhanced options system for electronic trading of options on CME Eurodollars for a limited group of market participants. This system is designed to facilitate trading of complex combination and spread trades typically used with short-term interest rate options on futures, within a fully transparent and competitive execution environment. To make the enhanced functionality available to the entire marketplace, we plan to link the system with the CME Globex platform in the second half of 2005. In addition, in October 2004 we introduced new implied spread trading functionality for CME Eurodollars on CME Globex. This functionality added the capability to more efficiently establish and liquidate certain spread positions within the first three years of the ten-year yield curve. In 2004, electronic average daily volume of CME Eurodollars increased to approximately 593,000 contracts from approximately 45,000 in 2003. We intend to introduce more functionality that will accommodate other complex trading strategies electronically.

We intend to increase our revenues from our interest rate product sector by optimizing pricing of existing products, introducing new products to increase our trading volume and enhancing the functionality of our CME Globex electronic platform through the integration of our enhanced options system to increase the electronic trading volume of our options on futures contracts. 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 Index Products. We began offering stock index futures in 1982. 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, NASDAQ-100 Index, certain Russell indexes and other small-, medium- and large-capitalization domestic indexes and indexes on foreign equity markets. As of December 31, 2004, our market share in all U.S. listed stock index futures was approximately 92%, based on the number of contracts traded.

Our total trading volume for stock index products rose 10% in 2004, to 294 million contracts, from 266 million contracts in 2003. Trading in stock index futures products represented approximately 37% of our total trading volume during 2004, an average of nearly 1.2 million contracts per day. In 2004, approximately 92% of our stock index futures trading volume was based on the S&P 500 Index and the NASDAQ-100 Index.

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 size S&P and NASDAQ contracts are traded through our open outcry facilities during regular trading hours and on the CME Globex platform after the close of open outcry trading.

In addition to contracts based on the S&P 500 and NASDAQ-100 indexes, we also offer the following equity futures and options on futures contracts: E-mini NASDAQ Composite; S&P Midcap 400; Russell 2000; NIKKEI 225 and the Goldman Sachs Commodity Index®. We also offer seven TRAKRS contracts. TRAKRS are a series of non-traditional futures contracts developed with Merrill Lynch & Co., Inc. and 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.

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 new product offering with the introduction of E-mini NASDAQ-100 futures contracts in 1999. E-mini contracts are traded exclusively on our electronic CME 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 during 2004 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. We also trade the E-mini Russell 2000, E-mini Russell 1000, E-mini S&P MidCap 400 and E-mini NASDAQ Composite.

We believe our leading market position in equity index 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 our CME Globex platform. We believe future growth in our stock index products will come from the introduction of electronically traded options on our existing equity index products, including our E-minis, expanding customer access to our electronic markets, enhancing the functionality of our CME Globex electronic platform to increase the electronic trading volume of our options on futures contracts as well as further educating the marketplace on the benefits of these products.

Foreign Exchange Products. We became the first exchange to introduce financial futures when we launched foreign exchange futures in 1972. 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 nearly 7% of our trading volume in 2004, an average of approximately 202,000 contracts per day. We offer futures and options on futures contracts on 36 currencies, including the 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 51% during 2004 from 2003. We have begun improving the performance of this product sector by expanding the distribution of our foreign exchange products through the CME Globex platform and by establishing incentive programs to increase volume. 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 2004, electronically traded foreign exchange futures volume increased approximately 127% over 2003, from 14.9 million contracts to 34.0 million contracts. Open outcry trading decreased approximately 14%, from 11.5 million contracts in 2003 to 9.9 million contracts in 2004.

We expect the growth in our foreign exchange product line to come from further transitioning to electronic trading and through our new distribution agreement with Reuters. 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.

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% of our trading volume during 2004, an average of more than 40,000 contracts per day and an increase of approximately 13% from 2003. On January 11, 2005, we had our highest volume day ever with nearly 100,000 contracts traded. 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 and through privately negotiated transactions.

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, provide an opportunity for 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.

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, 2004, approximately 63,000 subscribers displayed our data on approximately 179,000 screens. Revenues from market data products totaled $60.9 million, or 8% of our net revenues, in 2004.

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.

Execution

Our trade execution facilities consist of our open outcry trading floors and the CME Globex electronic trading platform. Both of these execution facilities offer our customers immediate trade execution 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 following chart shows the range of trade execution choices we provide our customers in some of our key products.

Product	Open Outcry	CME Globex Daytime	CME 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 41% of our total trading volume in 2004. The trading floors 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 2004, nearly 32% of our clearing and transaction fee revenues were derived from open outcry trading.

CME Globex Electronic Trading Platform. The CME Globex electronic trading platform 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, our electronic trading platform was 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 CME Globex platform nearly 24 hours a day, five days a week. In 2004, approximately 57% of our trading volume was executed using CME Globex, compared to approximately 42% in 2003. This was the first year that total volume traded on the CME Globex platform exceeded total volume traded on open outcry. Electronic trading volume has increased from approximately 35 million contracts in 2000 to more than 451 million contracts in 2004. On October 19, 2004, the one billionth contract was traded on the CME Globex platform since it was launched in 1992. During 2004, nearly 61% of our clearing and transaction fee revenues were derived from electronic trading.

Privately Negotiated Transactions. In addition to offering traditional open outcry and electronic trading through the CME Globex platform, we permit qualified customers to trade our products by entering into privately negotiated transactions, 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 2004, approximately 7% of our clearing and transaction fee revenues were derived from this type of trading.

Our privately negotiated transactions include exchange for physical, or EFP, transactions, exchange basis facility, or EBF, transactions and block trades. Both EFP and EBF trades involve a futures contract and a spot commodity or cash position. The term EFP is used with all of these types of futures transactions, except interest rate transactions, which are referred to as EBFs. 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 privately negotiated 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 contracts and options on futures contracts traded through the 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 clearing fee for each contract traded 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 the CBOT.

On September 24, 2004, the clearing house surpassed one billion contracts cleared in 2004. We processed an average of approximately 701,000 trade transactions per day in 2004 for CME products, including our non-traditional TRAKRS products, with an average transaction size of 9.1 contracts. We maintain the largest futures and options on futures open interest of any exchange in the world. As of December 31, 2004, our open interest stood at 22.5 million contracts. As of such date, our open interest record was 28.5 million contracts set on December 9, 2004. As of December 31, 2004, we acted as custodian for approximately $44.1 billion in performance bond collateral deposited by our clearing firms and, during 2004, we moved an average of approximately $1.5 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 $4.0 billion.

In January 2004, we fully implemented our agreement with the CBOT for us to provide clearing and transaction processing services. In providing these services to the 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, 2004 was 9.9 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 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 reduced performance bond requirements for our members by approximately $1.6 billion a day in the fourth quarter of 2004. We have implemented cross-margining arrangements with the Fixed Income Clearing Corporation, formerly the Government Securities Clearing Corporation, and LCH.Clearnet Group for positions at the London International Financial Futures and Options Exchange. In addition, our mutual offset 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 mutual offset arrangement 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 CME 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 CME SPAN.

At each settlement cycle, our clearing house values, at the market price prevailing at that 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. In addition, we would make a demand for payment pursuant to any applicable guarantee provided to the exchange by the parent of a 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 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, 2004 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)	$ 44,105.7
Market Value of CME Pledged Shares/Memberships (minimum requirement per firm)(2)	$ 8.4
Market Value of CBOT Pledged Memberships (minimum requirement per firm)(3)	2.6
CME Surplus Funds(4)	123.6
Security Deposits of Clearing Firms(5)	1,024.6
Limited Assessment Powers(6)	2,817.8
Minimum Total Assets Available for Default (7)	$ 3,977.0

(1) Aggregate performance bond deposits by all clearing firms includes cash performance bond deposits of $258.0 million 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 market value of the securities deposited.

(2) The market value of CME pledged shares/memberships represents the minimum number of specified trading rights, shares of our Class B common stock associated with those trading rights and the 30,000 shares of our Class A common stock required to be pledged to our clearing house by a firm clearing only CME products. Effective as of October 1, 2004, our Board of Directors approved a reduction in the number of Class A shares required to be held by new clearing firms from 72,093 to 30,000. Existing clearing firms were given the option to gradually reduce their holdings in increments of approximately 3,500 shares per month over the following 12-month period, to the decreased requirement of 30,000 shares. The market value of the memberships is based on the average of the bid and offer for the trading rights and associated Class B shares at December 31, 2004. The market value of the Class A shares is based on the closing price of $228.70 on the New York Stock Exchange on December 31, 2004.

(3) The market value of the CBOT pledged memberships represents our first priority lien on CBOT membership interests required to be pledged to our clearing house by a firm clearing only CBOT products. The market value is based on the average of the bid and offer for the CBOT membership interests at December 31, 2004.

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

(5) 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.

(6) 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.

(7) Represents the aggregate minimum resources available to satisfy any unmet obligations of a defaulting firm able to clear both CME and CBOT products subsequent to the liquidation of the defaulting firm's performance bond collateral.

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 established a number of collateral programs under the designation Interest Earning Facility, or IEF®. The first IEFs were organized in 1997 as two managed funds with interest earned, net of expenses, passed on to the participating clearing firms. The principal of the first IEFs is guaranteed by us. 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. In 2004, IEF4 and IEF5 were launched. IEF3 and IEF4 are specialized collateral programs that utilize various services and methods of processing that are most typically associated with tri-party repossession. Unlike the first IEF and the IEF2 programs, these programs do not employ an interest rate component. These programs allow clearing firms to pledge a wider range of collateral than we have typically accepted. IEF5 is an interest-bearing cash deposit account recorded on the trust ledger of JP Morgan Chase Bank. As of December 31, 2004, there was more than $19.2 billion in balances in these programs, compared to $14.4 billion at December 31, 2003. We earn 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.

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 historical 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. In 2004, we expanded our existing remote data facility and leased a second site to provide additional system capacity and redundancy for our trading and clearing technology. Our first remote data center features a unique network to enhance database 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 CME Globex electronic trading platform includes the distribution, order routing, order management and trade matching technology. The modularity and functionality of CME 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, 2004, nearly 1,150 customers connected directly with us, and thousands more connected with us through 22 independent software vendors and data centers, as well as all 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, CME 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 250 customers currently use CME Globex Trader-Internet. In 2004, we also established telecommunications hubs in Amsterdam, Dublin, Frankfurt, Gibraltar, Milan and Paris in addition to our preexisting London hub and plan to add another hub in Singapore in 2005 to respond to customer requests and bring down the cost of trading for certain foreign customers.

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 Non-Stop (Tandem systems), IBM mainframes, Sun Microsystems and HP servers, HP and Dell PCs, Oracle and DB2 databases, LINUX, 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 approximately 0.17 seconds at the beginning of 2004 to approximately 0.11 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 CME 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.

CME SPAN is our sophisticated margining and risk management software. CME SPAN has now been adopted by 50 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. CME SPAN then generates a performance bond requirement that typically covers 95% of price changes within a given historical period.

Strategic Relationships

Chicago Board of Trade. In April 2003, we entered into an agreement with the CBOT to provide clearing and related services for CBOT futures and options on futures contracts. We began providing clearing services for CBOT's commodity, 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 the 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 600 million contracts for the CBOT in 2004. Open interest for CBOT contracts was 9.9 million contracts at December 31, 2004.

China Foreign Exchange Trading System & National Interbank Funding Center. In June 2004, we announced that we had entered into a memorandum of understanding with the China Foreign Exchange Trading System & National Interbank Funding Center, or CFETS. Under the terms of the agreement, CFETS will provide CME with information on the money and foreign exchange market in China, including regulations and policies, market specifications and development conditions and CME will provide information on international foreign exchange derivatives market practices, products and regulations. CME will also provide assistance on the design of derivatives products, business development, marketing and training.

New York Mercantile Exchange. Since 2002, we have jointly operated a cooperative arrangement with NYMEX to introduce small-sized versions of key NYMEX energy futures contracts called e-miNY℠ energy futures for trading on our CME Globex electronic trading platform and clearing at the NYMEX clearing house. As part of the agreement, we offered 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. We also made CME Globex terminals available to NYMEX market participants on the NYMEX trading floor. In December 2004, we notified NYMEX of our decision to terminate the agreement, which termination will take effect in June 2005. Under the terms of the agreement, we are generally prohibited until June 2006, 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 was also the underlying commodity for a product listed for trading by NYMEX as of June 2002.

Reuters. In May 2004, we entered into an agreement with Reuters to offer access to our electronic foreign exchange markets to Reuters' global customer base over the Reuters Dealing 3000 trading system. This arrangement will give dealers in the interbank market direct access to our foreign exchange products in cash equivalent format and will enhance their ability to seamlessly trade foreign exchange spot, forwards and futures. This initiative is scheduled to launch in the first quarter of 2005.

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.

Singapore Derivatives Exchange Ltd. In 1984, we entered into a mutual offset agreement with the Singapore Derivatives Exchange and, in November 2003, we entered into an extension of the 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.

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 CME Globex platform during the hours they are not available on the Tokyo Stock 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 contracts and options on futures contracts 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 other targeted advertisements, such as our advertisements at O'Hare International Airport, to reach our audiences.

Competition

Prior to the passage of the Commodity Futures Modernization Act of 2000, or CFMA, 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 for competing exchanges. The CFMA eroded the historical dominance by the exchanges of futures trading in the United States by, among other things, eliminating uncertainty with respect to the enforceability of private transactions in most futures contracts and similar products, authorizing the use of electronic trading systems to conduct both private and public futures transactions and lowering or eliminating entry barriers for new exchanges. For a more detailed description of the regulation of our industry and the regulatory changes brought on by the CFMA, see the section of this Annual Report on Form 10-K entitled "Item 1. Business—Regulatory Matters."

The CFMA and other changing market dynamics have led to increasing competition in all aspects of our business 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 2004, there were 56 futures exchanges located in 29 countries, including 9 futures exchanges in the United States. In February 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 were directed at the CBOT. However, Eurex U.S. has expanded its product offerings to include futures based on the Russell 1000 and Russell 2000 Indexes in direct competition with us. In addition, in March 2004, Euronext.liffe began listing and trading Eurodollar futures contracts. 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 the Chicago Board Options Exchange, or 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 Brokering 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. In addition, certain provisions of the CFMA have led to an increase in unregulated electronic and brokerage trading systems in the foreign exchange market. A recent decision of the United States Court of Appeals may also make it easier for unregistered organizations to conduct futures-like transactions with retail customers. 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 CFMA, 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.

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 CFMA 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 CFMA 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 among exchanges in the derivatives and securities businesses is based on a number of factors, including, among others:

- depth and liquidity of markets;
- 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 functionality; and maintain liquidity and low transaction costs.

Our business is highly competitive. We expect competition to continue to intensify, particularly as a result of technological advances and the CFMA 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 ability 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. As of June 2004, according to data from the Bank for International Settlements, the total estimated notional amount of outstanding OTC derivatives contracts was approximately $220 trillion compared to approximately $53 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 CFMA 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 CFMA excluded or exempted many of the activities of our non-exchange competitors from regulation under the Commodity Exchange Act. The CFMA 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 CFMA 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 CFMA 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 CFMA 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 broad and 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 CFMA 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 CFMA 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 CFMA 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 CFMA 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 CFMA. Our clearing house is required to comply with a separate set of flexible core principles that specifically apply to clearing houses. 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.

Demutualization and the increasing utilization of electronic trading systems by traders from remote locations may, among other developments, impact our ability to continue the traditional form of “self-regulation” that has been an integral part of the CFTC regulatory program. The CFTC is conducting an on-going review of self-regulatory organizations and the appropriate role, if any, of self regulation in the futures markets.

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.

The CFTC is subject to reauthorization every four years, which is currently scheduled for 2005. We expect proposals to change the regulatory structure to be advanced in connection with the reauthorization process. This process could result in regulations that may have a negative impact on the way we operate our exchange, including our ability to operate our self regulatory functions or effectively compete with new entrants into our market place.

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. We believe that owners of trading rights on our exchange continue to own a substantial amount of our outstanding Class A common stock. CME members can execute trades for their own accounts, for clearing firm accounts, for the 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 2004, our members were responsible for nearly 78% 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 have individual trading members and clearing member 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 are eligible within 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.

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. 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 the purchase of trading rights.

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 electronically traded foreign exchange futures contracts. Experienced foreign exchange traders employed by GFX buy and sell our foreign exchange contracts using our CME 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. On occasion, GFX has also engaged in the trading of CME Eurodollars and stock index contracts. GFX accounted for 1.1%, 1.3%, and 0.7% of our consolidated net revenues in 2004, 2003 and 2002, respectively.

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 $61.7 million, $59.7 million, and $57.7 million in net assets as of December 31, 2004, 2003 and 2002, 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 contracts 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 covered by the 1997 agreement 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 a license 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 SA in 1997, and it continues until 2022. The agreement was assigned by Paris Bourse 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. 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, the Nasdaq Stock Market, Inc. and others. 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 pursuing.

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 February 19, 2005, we had 1,283 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 8 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, Director Independence and Conflict of Interest Policy, Board of Directors Code of Ethics, Independence Standards, Employee Code of 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.

Shareholders who own trading rights on our exchange account for 12 of the 20 directors on our Board. In addition, 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, own a substantial amount of our voting stock. Our dependence on the trading and clearing activities of our members, combined with their share ownership and rights to elect directors, enables them to exert substantial influence over the operation of our business.

We believe that our shareholders who own trading rights on our exchange own a substantial amount of our outstanding Class A common stock. In addition, as of April 21, 2004, the date of our most recent Annual Meeting of Shareholders, 12 of the 20 directors on our Board owned or were officers or directors of others who owned memberships on our exchange. 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 may 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 require 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 or non-existent.

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 clearing and transaction fees, our clearing and transaction processing services provided to third parties and our quotation data fees. 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 indexes, 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 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 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 our 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 CME Eurodollar contract and E-mini S&P 500 and E-mini NASDAQ-100 products. However, during 2004 approximately 41% of our volume and nearly 32% of our clearing and transaction fee revenues were generated through our open outcry trading facilities. Most of our open outcry volume is related to trading in options on our futures contracts. Our electronic functionality may not be capable of accommodating all of the complex trading strategies typically used for trading options on futures contracts. We have implemented a pilot program for an enhanced options system for trading options on CME Eurodollars for a limited group of market participants. This system is designed to facilitate trading of complex combination and spread trades typically used with short-term interest rate options on futures, within a fully transparent and competitive executive environment. In the second half of 2005, we plan to link this system with the CME Globex platform to make it accessible to our entire marketplace. We also plan to increase its functionality to include trading of other option contracts. However, we may not complete the development of, or successfully implement, the required electronic functionality for CME's options on futures contracts, including the integration and operation of our enhanced options system. Moreover, our customers who trade options may not accept our electronic trading systems. In either event, our ability to increase trading volume of options on futures contracts on the CME Globex platform 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 an environment that is 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 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 functionality and reduce our costs in the increasingly competitive market for electronic trading facilities.

The enhancement of our electronic trading platform exposes us to risks inherent in operating in the new and evolving market for electronic transaction services. If we do not successfully enhance our electronic trading platform, or if our customers do not accept it, our revenues and profits will be adversely affected.

We must further enhance our electronic trading platform 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 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;
- 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 enhance our electronic trading platform.

If we do not successfully enhance our electronic trading platform, or our current or potential customers do not accept it, our revenues and profits 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 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 continue to 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, 2004, there were 56 futures exchanges located in 29 countries, including 9 futures exchanges in the United States. In February 2004, Eurex commenced operation of its U.S. derivatives exchange, Eurex U.S. Eurex U.S.'s initial competitive efforts were directed at the CBOT. However, Eurex U.S. has expanded its product offerings to include futures based on the Russell 1000 and Russell 2000 Indexes in direct competition with us. In March 2004, Euronext.liffe began listing and trading Eurodollar futures contracts.

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. 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.

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. Generally, we have experienced relatively higher volume during the first and second quarters and lower trading volume in the third and fourth quarters. In addition, our average rate per contract which impacts our operating results is subject to fluctuation based on the product traded, the method of trade and the exchange trading privileges of the customer making the trade. Each of these factors is difficult to predict and, therefore, you may not be able to rely on our average rate per contract in any particular period as an indication of our future average rate per contract. As a result of seasonality and the factors previously described, 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.

The CFMA has reduced the barriers of entry into our markets which has led to increased competition and enabled many of our customers to trade futures contracts other than on exchanges. These changes may adversely affect our 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 had 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 repealed by the CFMA. One of the chief beneficiaries of the CFMA has been 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 CFMA 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. These customers are the same customers who use CME foreign exchange products. In the future, our industry may become subject to new regulations or changes in the interpretation or enforcement of existing regulations. We cannot predict the extent to which any future regulatory changes may adversely impact our business, including our ability to compete with enterprises who offer off-exchange trading and who benefit from a reduced regulatory burden and lower-cost business model.

The CFMA 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 78% of our trading volume during 2004. 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 that is not offset by an increase in non-member trading 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.

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 maintain our trading volume and to offer competitive prices and services in an increasingly price sensitive business. 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 maintain our trading volume, 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 CME 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 four 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 CME Eurodollar contracts, all our contracts based on the S&P 500 and NASDAQ-100 (including CME E-mini products), and privately negotiated foreign exchange transactions using our clearing house were approximately 43%, 26%, 10% and 6%, respectively, of our total clearing and transaction fee revenues during 2004 and 36%, 35%, 12% and 8%, respectively, during 2003. 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 CME Eurodollar contract serves as a global financial benchmark, but we cannot assure you that, in the future, other products will not become preferred alternatives to our CME 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 March 2004, Euronext.liffe began listing and trading Eurodollar futures contracts. 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. In addition, exchange traded funds, or ETFs, compete with our equity index products and are increasing in popularity. ETFs represent a basket of securities that are traded on an exchange.

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. Parties may also succeed in offering indexed products that are similar to our licensed products without being required to obtain a license or in countries that are beyond the jurisdictional reach of us and/or our licensors. 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.

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 or on third-party exchanges for which we provide clearing and transaction processing services. 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 ensure 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 continue to realize the benefits of our agreement to provide clearing and transaction processing services for CBOT products.

We entered into an agreement with the CBOT in April 2003, which was subsequently amended in March 2004, to provide clearing and transaction processing services for CBOT futures and options on futures contracts. Under the terms of the agreement, clearing services for commodity, equity index and some interest rate products began in November 2003 and for all other CBOT futures and options on futures contracts on January 2, 2004. In 2004, we cleared 600 million contracts for the CBOT, which generated approximately $55 million in clearing and transaction processing services revenue. We cannot assure you that we will continue to realize the benefits received from our clearing and transaction processing agreement. Our future revenues from providing these clearing and transaction processing services will be dependent on the CBOT's ability to maintain and/or expand its trading volume, which is subject to a number of factors beyond its 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, in February 2004, Eurex launched a registered U.S. derivatives exchange, Eurex U.S., which offers, among other products, contracts on U.S. Treasury notes and bonds in direct competition with contracts currently traded at CBOT. Any significant decrease in CBOT's trading volume will result in a corresponding decrease in our realized benefits. Our net income from the clearing and transaction processing services we provide to the CBOT will also depend on our ability to control our costs associated with providing such services.

The initial term of the agreement is five years, with subsequent three year renewals upon the mutual consent of the parties. The terms of the agreement also provide that both we and the 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 the agreement will be renewed after its initial term. Any such event could have an adverse effect on our revenues.

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.

We sell our market data to individuals and organizations that use our markets or monitor general economic conditions. Revenues from our market data totaled $60.9 million, or 8% of our net revenues during 2004 and $53.2 million, or 10% of our net revenues for the same period in 2003. 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 could 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;
- security breaches;
- 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, employee or 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 the CME Globex platform. The impact of these events has not been material. However, we cannot assure you that if we experience system errors or failures in the future that they will not be material.

Our status as a CFTC registrant generally 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. Increased CME Globex trading volume may result in connectivity problems or erroneous reports that may affect 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 historical 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 clearing and transaction processing 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 have sought, and may seek in the future, 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 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, have sought, and may seek in the future, 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, 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 CFMA 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, Austria, France, Hong Kong, Italy, Japan, the Netherlands, Singapore and Switzerland. 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 are also 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, employees and affiliates 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 the increasing utilization of electronic trading systems by traders from remote locations may, among other developments, impact our ability to continue the traditional form of “self-regulation” that has been an integral part of the CFTC regulatory program. The CFTC is conducting an ongoing review of self-regulatory organizations and the appropriate role, if any, of self regulation in the futures markets. We cannot assure you that the CFTC will not make modifications to its regulations as a result of its review. Any such modification or restructuring of our regulatory functions could entail material costs and may 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.

The CFTC is subject to reauthorization every four years, which is currently scheduled for 2005. We expect proposals to change the regulatory structure to be advanced in connection with the reauthorization process. This process could result in regulations that may have a negative impact on the way we operate our exchange, including our ability to operate our self-regulatory functions or effectively compete with new entrants into our market place.

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 primarily in foreign exchange futures, could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of CME 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. For example, employees of GFX Corporation enter into transactions to promote liquidity in CME foreign exchange contracts on the CME Globex platform and subsequently enter into offsetting transactions using futures contracts or spot foreign exchange transactions with approved counterparties in the interbank market to limit market risk. In the event the offsetting transaction is not entered into or is not timely or properly executed, we could be exposed to substantial market risk.

We may have difficulty executing our growth strategy and maintaining our growth effectively.

We have experienced significant growth in our business. Continued growth may require additional investment in personnel, facilities, information technology infrastructure and financial and management systems and controls and may place a significant strain on our management and resources. We may not be successful in implementing all of the processes that are necessary to support our growth organically or as described in the following risk factor through acquisitions or other strategic alliances. Unless our growth results in an increase in our revenues that is proportionate to the increase in our costs associated with our growth, our future profitability could be adversely affected, and we may have to incur significant expenditures to address the additional operational and control requirements as a result of our growth.

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;
- difficulties in implementing adequate compliance and risk management methods for new operations;
- 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 the CBOE and the CBOT, to trade single stock futures and futures based on narrow-based stock indexes. We own approximately a 40% interest in the joint venture. OneChicago's performance to date has been poor, and the company has not met our expectations. We continue to monitor its performance and future prospects and evaluate whether or not we will make additional investments in OneChicago. Our ability to control strategic decisions by OneChicago or its Board is limited. In addition, under the terms of our amended operating agreement, until June 30, 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 exchange-traded funds or narrow-based stock indexes. We cannot assure you that any joint venture or alliance that we have entered into, including OneChicago, 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 CFMA, 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 CFMA 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 CFMA 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 CFMA 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 non-member 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;
- general economic and political conditions in the countries from which our markets are accessed may have an adverse effect on our volume from those countries; 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, our products and 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. These claims of infringement are not uncommon in our industry.

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 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 dependent on dividends from our operating subsidiary to pay dividends and other obligations.

We are a holding company with no business operations. Our most significant asset is the outstanding capital stock of our subsidiary. As a result, we rely on payments from our subsidiary to meet our obligations. Under our dividend policy, our dividend target is approximately 30% of the prior year’s cash earnings. In 2004, we paid regular quarterly dividends of $0.26 per share to our Class A and Class B shareholders. On January 31, 2005, we declared a first quarter dividend of $0.46 per share payable on March 28, 2005. Although in the past our subsidiary has generated sufficient cash flow to pay dividends to us to allow us to pay a dividend in respect of our Class A and Class B common stock, we cannot guarantee you that it will continue to have adequate cash flow to do so in the future. 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 496,000 square feet of office space pursuant to a lease that expires in 2008. We also occupy approximately 70,000 square feet of trading floor space under a lease with the CME Trust with an initial term that expires in 2009. We have an option to extend the term of the lease to 2012 with an option for two successive seven-year extensions through 2019 and 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 that became operational in the third quarter of 2002 and added a second remote data center in 2004 that will become operational in 2005. 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 August 3, 2004, McGraw-Hill Companies, Inc. filed suit against CME in the Southern District of New York seeking declaratory and injunctive relief relating to the scope and proper interpretation of the 1997 License Agreement under which we trade various products based on S&P indexes. McGraw-Hill claims that statements about a launch by CME of a variance product based on an S&P index amounts to a threatened breach of contract, misappropriation, federal trademark infringement and unfair competition, federal and state trademark dilution, common law trademark infringement, and common law unfair competition. McGraw-Hill is seeking unspecified damages in addition to an injunction. On September 20, 2004, CME filed its answer and counterclaims against McGraw-Hill, including claims for injunctive relief, breach of contract and unspecified damages. CME also named the CBOE and CBOE Futures Exchange, LLC as additional parties and is seeking injunctive relief and punitive damages for tortious interference with contractual and prospective business relations and misappropriation. Based on its investigation to date and advice from legal counsel, we believe McGraw-Hill’s claims are without merit and intend to defend them vigorously.

On October 14, 2003, the U.S. Futures Exchange, L.L.C., or Eurex U.S., and U.S. Exchange Holdings, Inc., filed suit against the CBOT and CME in the United States District Court for the District of Columbia. The suit alleges that the CBOT and CME violated the antitrust laws and tortiously interfered with the business relationship and contract between Eurex U.S. and The Clearing Corporation. Eurex U.S. and U.S. Exchange Holdings, Inc. are seeking 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 the Northern District of Illinois. On September 2, 2004, the judge granted the CBOT's and CME's motion to transfer venue to the Northern District of Illinois. In light of that decision, the judge did not rule on the motions to dismiss. Based on its investigation to date and advice from legal counsel, we believe this suit is without merit 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 seeking in excess of $3 million in damages, which was subsequently amended to allege common law claims of retaliatory discharge. On November 19, 2004, the court granted CME's motion to dismiss for failure to state a claim, with prejudice, and found that it was a final ruling for purposes of appeal. In February 2005, the former employee appealed the decision. 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 asserted three counterclaims for breach of fiduciary duty, unlawful destruction of personal property and conversion. Both parties have filed motions for summary judgment. 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, 2004, under the heading "Share Information" on page 88 and in CME Holdings' Proxy Statement under the heading "Equity Compensation Plan Information" 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, 2004, under the heading "Selected Financial Data" on page 28 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, 2004, on pages 29 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, 2004, 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, 2004, on pages 61 through 87 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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure 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 on Form10-K. 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.

Management's Annual Report on Internal Control Over Financial Reporting

The information required by this Item is included in CME Holdings' annual report to shareholders for the year ended December 31, 2004, on page 59 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.

Attestation Report of the Independent Registered Public Accounting Firm

The information required by this Item is included in CME Holdings' annual report to shareholders for the year ended December 31, 2004, on page 60 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.

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 13a-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.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is included in CME Holdings' Proxy Statement under the headings "Nominees for Equity Directors", "Nominees for Class B-1 Director", "Nominees for Class B-2 Director" and "Nominees for Class B-3 Director", "Members of Our Board Not Standing for Election This Year", "Meetings of Our Board and Board Committees — Audit", "Executive Officers", and "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference, pursuant to General Instruction G(3).

We have adopted a written code of 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 Conduct is available on our Web site at *www.cme.com* under the "Investor Relations—Corporate Governance Overview" link. We intend to disclose promptly on our Web site any substantive amendments to our Code of Conduct and waivers granted to our executive officers. You may also obtain a copy of our Code of 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 under the headings "Directors' Compensation and Benefits" and "Executive Compensation" 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

The information required by this Item is included in CME Holdings' Proxy Statement under the headings "Equity Compensation Plan Information" and "Security Ownership of Directors, Director Nominees and Executive Officers" and "Security Ownership by Certain Owners" 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 under the heading "Certain Business Relationships" 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 under the heading "Principal Accountant Fees and Services" and "Audit Committee Pre-Approval Policy" and is incorporated herein by reference, pursuant to General Instruction G(3).

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Financial Statement Schedules

(1) Financial Statements

The following Consolidated Financial Statements and related Notes, together with the Reports of Independent Registered Public Accounting Firm with respect thereto, appearing on pages 27 through 87 of CME Holdings' annual report to shareholders are included in Exhibit 13.1 hereto and are incorporated by reference herein:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2004 and 2003

Consolidated Statements of Income for the Years Ended December 31, 2004, 2003 and 2002

Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2004, 2003 and 2002

Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003 and 2002

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:

Schedule I Condensed Financial Information at December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002

Schedule II Valuation and Qualifying Accounts for the Years Ended December 31, 2004, 2003 and 2002

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.

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	
	2004	2003
Assets		
Cash and cash equivalents	$ 274,279	$ 99,942
Marketable securities	223,039	176,745
Accounts receivable	14	—
Other current assets	1,755	1,451
Other non-current assets	800	—
Investment in CME, net of advances from CME of $374 in 2004 and advances to CME of $596 in 2003	316,065	285,641
Total Assets	$ 815,952	$ 563,779
Liabilities and Shareholders' Equity		
Other current liabilities	$ 3,355	$ 784
Total shareholders' equity	812,597	562,995
Total Liabilities and Shareholders' Equity	$ 815,952	$ 563,779

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

	Year Ended December 31		
	2004	2003	2002
Revenues			
Investment income	$ 6,390	$ 2,025	$ 93
Expenses	377	229	—
Income before income taxes and equity in net income of CME	6,013	1,796	93
Income tax provision	(2,587)	(731)	(37)
Income before equity in net income of CME	3,426	1,065	56
Equity in net income of CME	216,129	121,067	94,011
Net Income	$ 219,555	$ 122,132	$ 94,067

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

	Year Ended December 31		
	2004	2003	2002
Cash Flows from Operating Activities:			
Net income	$ 219,555	$ 122,132	$ 94,067
Less equity in net income of CME	(216,129)	(121,067)	(94,011)
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Amortization of purchase premiums on investments	2,368	—	—
Increase in accounts receivable	(14)	—	—
Increase (decrease) in advances to / from CME	970	(3,984)	3,388
Increase in other current assets	(304)	(1,451)	—
Increase in other current liabilities	2,587	747	37
Net Cash Provided by (Used in) Operating Activities	9,033	(3,623)	3,481
Cash Flows from Investing Activities:			
Purchases of marketable securities	(99,177)	(176,745)	—
Proceeds from maturities of marketable securities	48,499	—	—
Dividend from CME	245,000	172,122	17,290
Net Cash Provided by (Used in) Investing Activities	194,322	(4,623)	17,290
Cash Flows from Financing Activities:			
Cash dividends to shareholders	(35,066)	(20,630)	(17,290)
Exercise of stock options	6,048	7,878	—
Net proceeds from initial public offering	—	—	117,459
Net Cash Provided by (Used in) Financing Activities	(29,018)	(12,752)	100,169
Net increase (decrease) in cash and cash equivalents	174,337	(20,998)	120,940
Cash and cash equivalents, beginning of year	99,942	120,940	—
Cash and Cash Equivalents, End of Year	$ 274,279	$ 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.

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, 2004, 2003 and 2002
(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, 2004:					
Allowance for doubtful accounts	$ 866	$ 343	$ —	$ (120)	$ 1,089
Accrued fee adjustments	1,986	—	17,362	(16,235)	3,113
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

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

(b) 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).
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).
3.3	Third Amended and Restated Bylaws of Chicago Mercantile Exchange Holdings Inc., as amended March 2, 2005 (incorporated by reference to Exhibit 99.1 to Chicago Mercantile Exchange Holdings Inc.’s Current Report on Form 8-K, filed with the SEC on March 4, 2005).
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); Second Amendment thereto, effective as of November 5, 2003; Third Amendment thereto, dated December 23, 2003.
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); Fourth Amendment thereto, dated December 31, 2003.
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**	Form of Equity Grant Letter for Executive Officers (incorporated by reference to Exhibit 10.1 to Chicago Mercantile Exchange Holdings Inc.’s Form 10-Q, filed with the SEC on November 9, 2004).
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).

Exhibit Number	Description of Exhibit
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; Amendment, effective April 22, 2002 (incorporated by reference to Exhibit 10.8 to Chicago Mercantile Exchange Holdings Inc.’s 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. (incorporated by reference to Chicago Mercantile Exchange Holdings Inc.’s Form 10-K, filed with the SEC on March 11, 2004).
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).
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 October 1, 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. (incorporated by reference to Exhibit 10.14 to Chicago Mercantile Exchange Inc.’s Form S-4 dated February 24, 2000, File No. 33-95561), first 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) and second amendment thereto made as of October 7, 2004 (incorporated by reference to Exhibit 99.1 to Chicago Mercantile Exchange Holdings Inc.’s Form 8-K, filed with the SEC on October 19, 2004).
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, 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), Sixth Amendment thereto, dated as of May 1, 2003 (incorporated by reference to Exhibit 10.3 to Chicago Mercantile Exchange Holdings Inc.’s Form 10-Q, filed with the SEC on November 9, 2004), the Seventh Amendment thereto, dated as of April 20, 2004 (incorporated by reference to Exhibit 10.3 to Chicago Mercantile Exchange Holdings Inc.’s Form 10-Q, filed with the SEC on November 9, 2004) and the Eight Amendment thereto, dated as of October 29, 2004 (incorporated by reference to Exhibit 10.3 to Chicago Mercantile Exchange Holdings Inc.’s Form 10-Q, filed with the SEC on November 9, 2004).

Exhibit Number	Description of Exhibit
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 15, 2004, 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 99.1 to Chicago Mercantile Exchange Holdings Inc.'s Form 8-K, filed with the SEC on October 19, 2004).
10.18**	Agreement, dated November 7, 2003 between Chicago Mercantile Exchange Inc. and Craig S. Donohue (incorporated by reference to Exhibit 10.19 to Chicago Mercantile Exchange Holdings Inc.'s Form 10-K, filed with the SEC on March 11, 2004).
10.19**	Agreement, dated November 7, 2003 between Chicago Mercantile Exchange Inc. and Phupinder Gill (incorporated by reference to Exhibit 10.19 to Chicago Mercantile Exchange Holdings Inc.'s Form 10-K, filed with the SEC on March 11, 2004).
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).
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) and the first amendment thereto, dated as of March 1, 2004 (incorporated by reference to Exhibit 10.1 to the Chicago Mercantile Exchange Holdings Inc.'s Form 10-Q, filed with the SEC on May 5, 2004).
10.22**	Agreement, dated as of March 1, 2004, between Chicago Mercantile Exchange Inc. and Scott Robinson (incorporated by reference to Exhibit 10.2 to Chicago Mercantile Exchange Holdings Inc.'s Form 10-Q, filed with the SEC on May 5, 2004).
10.23**	Agreement, dated November 21, 2003, between Chicago Mercantile Exchange Inc. and James Krause (incorporated by reference to Exhibit 10.23 to Chicago Mercantile Exchange Holdings Inc.'s Form 10-K, filed with the SEC on March 11, 2004).
10.24	Consulting Agreement between Chicago Mercantile Exchange Holdings Inc. and Leo Melamed dated, January 31, 2005 (incorporated by reference to Exhibit 99.1 to Chicago Mercantile Exchange Holdings Inc.'s Form 8-K, filed with the SEC on February 3, 2005).
13.1	Specified portions of Chicago Mercantile Exchange Holdings Inc.'s annual report to shareholders for the year ended December 31, 2004.
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.
31.1	Section 302 Certification – Craig S. Donohue, Chief Executive Officer.
31.2	Section 302 Certification – James E. Parisi– 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, 2005.

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.

By: /s/ James E. Parisi

James E. Parisi
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, 2005.

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/ James E. Parisi James E. Parisi	Managing Director and Chief Financial Officer
/s/ Nancy W. Goble Nancy W. Goble	Managing Director and Chief Accounting Officer
/s/ Dennis H. Chookaszian Dennis H. Chookaszian	Director
/s/ Martin J. Gepsman Martin J. Gepsman	Director
/s/ Daniel R. Glickman Daniel R. Glickman	Director
Elizabeth Harrington	Director
/s/ Bruce F. Johnson Bruce F. Johnson	Director

Signature	Title
/s/ Gary M. Katler Gary M. Katler	Director
/s/ Patrick B. Lynch Patrick B. Lynch	Director
/s/ Leo Melamed Leo Melamed	Director
/s/ William P. Miller II William P. Miller II	Director
/s/ James E. Oliff James E. Oliff	Director
/s/ Alex J. Pollock Alex J. Pollock	Director
/s/ William G. Salatich, Jr. William G. Salatich, Jr.	Director
/s/ John F. Sandner John F. Sandner	Director
/s/ Terry L. Savage Terry L. Savage	Director
Myron S. Scholes	Director
/s/ William R. Shepard William R. Shepard	Director
/s/ Howard J. Siegel Howard J. Siegel	Director
/s/ David J. Wescott David J. Wescott	Director

Exhibit 10.3

SECOND AMENDMENT
TO
CHICAGO MERCANTILE EXCHANGE
DIRECTORS' DEFERRED COMPENSATION PLAN

By virtue and in exercise of the amending authority reserved to Chicago Mercantile Exchange Inc. (the "Company"), as successor by merger to the Chicago Mercantile Exchange, by the provisions of subsection 5.2 of the Chicago Mercantile Exchange Directors' Deferred Compensation Plan (the "Plan"), the Plan is amended in the following particulars:

1. By changing the name of the Plan to "Chicago Mercantile Exchange Inc. Directors' Deferred Compensation Plan" where the name of the Plan appears on the title page and immediately preceding Section 1 of the Plan, effective as of November 13, 2000.

2. By substituting the following for subsection 1.1 of the Plan, effective as of November 13, 2000:

"1.1. History, Purpose and Effective Date. Chicago Mercantile Exchange Directors' Deferred Compensation Plan (the 'Plan') was established, effective as of February 1, 1996 (the 'Effective Date') by Chicago Mercantile Exchange, an Illinois not-for-profit corporation ('CME'), to provide members of the Board of Directors of CME with the opportunity to defer receipt of compensation, thereby assisting such members in planning for their future security. Pursuant to a series of demutualization transactions and an agreement and plan of merger, effective as of November 13, 2000, Chicago Mercantile Exchange Inc., a shareholder-owned, for-profit Delaware corporation (the 'Exchange') succeeded to the assets, liabilities and business of CME and to the power, authority and responsibility of CME under and with respect to the Plan. Effective as of December 3, 2001, pursuant to a further corporate reorganization, the Exchange became a wholly-owned subsidiary of Chicago Mercantile Exchange Holdings Inc. ('CME Holdings'), and members of the Board of Directors of CME Holdings became eligible for participation in the Plan. The Plan is intended to constitute a plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of section 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended ('ERISA')."

3. By substituting the following for subsection 1.11 of the Plan, effective as of October 1, 2003:

"1.11. Action by Exchange. Any action required or permitted to be taken by the Exchange shall be by resolution of its Board of Directors, by a duly authorized officer of the Exchange, by a duly authorized committee or other duly authorized person or persons. Notwithstanding the preceding sentence, the Board of Directors of the Exchange has delegated to the Compensation Committee ('Compensation Committee') of the Board of Directors of CME Holdings the authority to take any action required or permitted to be taken by the Exchange under the Plan. Unless earlier revoked by resolution of the Board of Directors of the Exchange, the foregoing delegation of authority to the Compensation Committee shall be revoked, without the necessity of further action by the Board of Directors of the Exchange, if and when the Exchange ceases to be a wholly-owned subsidiary of CME Holdings."

4. By substituting the following for subsection 4.2 of the Plan, effective as of October 1, 2003:

"4.2. Termination of Service on the Board. Upon a Participant's death or termination of service on the Board of CME Holdings and the Exchange, the Participant's entire Account balance shall be paid to or on account of the Participant in a single lump sum payment as soon as practicable after his date of death or such termination of service; provided, however, that, if elected by the Participant at least 12 months prior to his death or termination of service on the Board, such payment instead shall be made in annual installments over a period of 5 or fewer years. Any such election shall be made in accordance with procedures established by the Plan Administrator."

* * *

CERTIFICATION OF CORPORATE SECRETARY

The undersigned Secretary of the Chicago Mercantile Exchange Inc. (the "Company") hereby certifies that the foregoing is a true and correct copy of an amendment approved by the Compensation Committee on November 5, 2003 pursuant to discretion granted to the Committee on November 5, 2003.

/s/ Kathleen M. Cronin

Secretary as Aforesaid

THIRD AMENDMENT
TO
CHICAGO MERCANTILE EXCHANGE
DIRECTORS' DEFERRED COMPENSATION PLAN

By virtue and in exercise of the amending authority reserved to Chicago Mercantile Exchange Inc. (the "Company"), as successor by merger to the Chicago Mercantile Exchange, by the provisions of subsection 5.1 of the Chicago Mercantile Exchange Directors' Deferred Compensation Plan (the "Plan"), and pursuant to the authority delegated to the undersigned officer of the Company by resolution of its Board of Directors adopted on December __, 2003, the Plan is amended by substituting the following for subsections 3.1 and 3.2 of the Plan, effective as of December 16, 2003:

"3.1. Deferred Compensation Account. The Plan Administrator shall maintain, or cause to be maintained, an Account in the name of each Participant which shall reflect the sum of the following amounts:

(a) the amount deferred by the Participant in accordance with the provisions of subsection 3.2; and

(b) the assumed rate of return to be credited to the Participant's Account in accordance with subsection 3.3.

3.2 Deferral Election. Subject to such terms, conditions, and limitations as the Plan Administrator may, from time to time, impose, each Director of the Exchange may make an irrevocable election to defer receipt of all or a portion of the Eligible Payments (as defined below) otherwise payable to him by the Exchange for any Plan Year, by filing a deferral election in writing with the Plan Administrator at such time and in such manner as the Plan Administrator shall provide, but in no case later than the day preceding the first day of such Plan Year. The Account of each Participant shall be credited with the amount of the Eligible Payments deferred by the Participant as of the date on which such amount would otherwise have been paid to the Participant or such other date as the Plan Administrator may reasonably provide. The term 'Eligible Payments' means (i) for Plan Years beginning before January 1, 2004, Board stipends; and (ii) for Plan Years beginning after December 31, 2003, Board stipends, Board meeting fees, committee meeting fees and functional committee fees."

IN WITNESS WHEREOF, the undersigned has set his hand this 23rd day of December, 2003.

CHICAGO MERCANTILE EXCHANGE INC.

By /s/ Craig S. Donohue

Executive Vice President Chief
Administrative Officer

Exhibit 10.4

FOURTH AMENDMENT
TO
CHICAGO MERCANTILE EXCHANGE
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

By virtue and in exercise of the amending authority reserved to the Chicago Mercantile Exchange Inc. (the "Company"), as successor by merger to the Chicago Mercantile Exchange, by the provisions of subsection 5.2 of the Chicago Mercantile Exchange Supplemental Executive Retirement Plan (the "Plan"), the Plan is amended in the following particulars:

1. By changing the name of the Plan to "Chicago Mercantile Exchange Inc. Supplemental Executive Retirement Plan" where the name of the Plan appears on the title page and immediately preceding Section 1 of the Plan, effective as of November 13, 2000.

2. By substituting the following for subsection 1.1 of the Plan, effective as of November 13, 2000:

"1.1. History, Purpose and Effective Date. Chicago Mercantile Exchange Supplemental Executive Retirement Plan (the 'Plan') was established, effective as of January 1, 1993 (the 'Effective Date') by Chicago Mercantile Exchange, an Illinois not-for-profit corporation ('CME'), to provide its eligible key management employees with an opportunity to receive additional retirement income. Pursuant to a series of demutualization transactions and an agreement and plan of merger, effective as of November 13, 2000, Chicago Mercantile Exchange Inc., a shareholder-owned, for-profit Delaware corporation (the 'Exchange') succeeded to the assets, liabilities and business of CME and to the power, authority and responsibility of CME under and with respect to the Plan. Effective as of December 3, 2001, pursuant to a further corporate reorganization, the Exchange became a wholly-owned subsidiary of Chicago Mercantile Exchange Holdings Inc. ('CME Holdings'). The Plan is intended to constitute a plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of section 201(2), 301(a)(3) and 401(a)(l) of the Employee Retirement Income Security Act of 1974, as amended ('ERISA')."

3. By substituting the following for subsection 1.11 of the Plan, effective as of October 1, 2003:

"1.11. Action by Exchange. Any action required or permitted to be taken by the Exchange shall be by resolution of its Board of Directors, by a duly authorized officer of the Exchange, by a duly authorized committee or other duly authorized person or persons. Notwithstanding the preceding sentence, the Board of Directors of the Exchange has delegated to the Compensation Committee ('Compensation Committee') of the Board of Directors of CME Holdings the authority to take any action required or permitted to be taken by the Exchange under the Plan. Unless earlier revoked by resolution of the Board of Directors of the Exchange, the foregoing delegation of authority to the Compensation Committee shall be revoked, without the necessity of further action by the Board of Directors of the Exchange, if and when the Exchange ceases to be a wholly-owned subsidiary of CME Holdings."

4. By substituting the following for subsection 3.2 of the Plan, effective as of October 1, 2003:

“3.2. Deferred Compensation Credits. Unless otherwise determined by the Compensation Committee, for each Plan Year beginning on or after January 1, 2003, 3 percent of each Participant’s base earnings and bonus paid in such Plan Year shall be awarded as Deferred Compensation Credits. The amount of Deferred Compensation Credits awarded to a Participant for any such Plan Year shall be credited to his Account as of the first business day of the next following Plan Year.”

5. By substituting the following for subsection 4.1 of the Plan, effective as of October 1, 2003:

“4.1. Vesting. A Participant’s vested interest in his Account shall be determined as follows:”

(a) A Participant shall have at all times a fully vested and nonforfeitable interest in (i) the amount of any Deferred Compensation Credits credited to the Participant’s Account as of December 31,1996, and (ii) any assumed investment adjustment theretofore or thereafter credited with respect to such Deferred Compensation Credits under subsection 3.3.

(b) A Participant shall have a fully vested and nonforfeitable interest in the amount of any Deferred Compensation Credits credited to the Participant’s Account in accordance with subsection 3.2 as of the first business day of any Plan Year beginning on or after January 1, 2004 (and any assumed investment adjustments thereon) upon completion of five Years of Vesting Service (as described below).

(c) A Participant shall have a fully vested and nonforfeitable interest in the amount of any Deferred Compensation Credits credited to the Participant’s Account in accordance with subsection 3.2 as of the first business day of any Plan Year beginning on or after January 1, 1997 and before January 1, 2004 (“Post-1996 Credits”), and any assumed investment adjustments thereon, as of December 10th of the fourth Plan Year following the Plan Year as of which such Deferred Compensation Credits are credited to the Participant’s Account. Prior thereto, the amount of any Post-1996 Credits (and any assumed investment adjustments thereon) shall be vested and nonforfeitable as of December 10th of the Plan Year that follows the Plan Year as of which such Post-1996 Credits were credited to the Participant’s Account by the number of Plan Years determined in accordance with the following schedule:

Number of Plan Years following the Plan Year as of which the Post-1996 Credits were credited to his Account	The vested percentage shall be
Three Plan Years	66 2/3%
Two Plan Years	33 1/3%
One Plan Year	0%

A Participant's Years of Vesting Service as of any date shall be equal to the number of full and partial years of service credited to the Participant for vesting purposes as of such date under the provisions of the Pension Plan for Employees of the Chicago Mercantile Exchange Inc. (the 'Pension Plan') or, in the case of a Participant who is not eligible to participate in the Pension Plan, the number of full and partial years of service that would be credited to the Participant for vesting purposes under the Pension Plan as of such date if the Participant were eligible to participate in the Pension Plan."

* * *

CERTIFICATION OF CORPORATE SECRETARY

The undersigned Secretary of the Chicago Mercantile Exchange Inc. (the "Company") hereby certifies that the foregoing is a true and correct copy of an amendment adopted by resolution of the Company's Board of Directors on December 16, 2003.

By /s/ Kathleen M. Cronin

Secretary as Aforesaid

Financial Information

SELECTED FINANCIAL DATA

The following selected income statement and balance sheet data for the years 2000 through 2004 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.

(in thousands, except per share data)	FOR YEAR ENDED OR AT DECEMBER 31 **2004**	2003	2002	2001	2000
Income Statement Data:					
Net revenues[1]	**$ 733,789**	$ 536,041	$ 453,177	$ 387,153	$ 226,552
Expenses	**366,133**	329,916	298,948	261,387	241,814
Limited partners' interest in earnings of PMT Limited Partnership	**—**	—	—	—	(1,165)
Net income (loss)	**219,555**	122,132	94,067	75,108	(10,496)
Earnings (loss) per share:[2]					
Basic	**$ 6.55**	$ 3.74	$ 3.24	$ 2.61	$ (0.36)
Diluted	**6.38**	3.60	3.13	2.57	—
Cash dividends per share	**1.04**	0.63	0.60	—	—
Balance Sheet Data:					
Shareholders' equity	**$ 812,597**	$ 562,995	$ 446,139	$ 248,366	$ 166,262
Total assets	**2,857,466**	4,872,636	3,355,016	2,066,878	384,035
Other Data:					
Total trading volume (round turn trades)[3]	**787,186**	620,289	548,667	411,712	231,110
CME® Globex® volume (round turn trades)[3]	**451,794**	262,514	188,194	81,895	34,506
Open interest at year end (contracts)[3]	**22,478**	16,301	12,483	15,039	8,021

1 For the years ended December 31, 2004, 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.

3 Volume and open interest data exclude our TRAKRS® products.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CORPORATE STRUCTURE

We are the largest futures exchange in the United States and the second largest in the world for the trading of futures contracts and options on futures contracts, as measured by 2004 annual trading volume. Our international marketplace brings together buyers and sellers on our trading floors, as well as through our CME 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, equities, 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. On December 3, 2001, we completed our reorganization into a holding company structure. As a result of this reorganization, Chicago Mercantile Exchange Inc. (CME) became a wholly owned subsidiary of Chicago Mercantile Exchange Holdings Inc. (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. On December 11, 2002, CME Holdings completed the initial public offering of its Class A common stock. CME Holdings' Class A common stock is listed on the New York Stock Exchange under the ticker symbol "CME."

In 2003, CME Holdings completed two secondary offerings conducted as guided sales in accordance with its Certificate of Incorporation in connection with the expiration of the transfer restrictions on certain shares of our Class A common stock. CME Holdings did not receive any proceeds from these offerings. On June 4, 2004, all of the transfer restrictions on the shares of our Class A common stock expired.

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, as well as provide incentives for members and non-members to use our markets and enhance the liquidity of our markets. To increase trading volume and promote new products, we offer discounts, some of which may be significant, to our members and non-members to use and enhance the liquidity of our markets. In the fourth quarter of 2000 and first quarter of 2001, we implemented many changes to our fee structure. Some of the more significant changes included: increasing clearing fees for some products; increasing the daily maximum fees for our E-mini™ products traded using CME Globex; implementing fees for services previously provided without charge; reducing CME 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 access choices to CME Globex, altered the pricing for the existing 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 concentrated our expenditures on projects designed to enhance our profitability for the benefit of our shareholders. The net impact of these initiatives contributed to the growth in our net operating results from a net loss of $10.5 million in 2000 to net income of $219.6 million in 2004.

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 executed through our trading venues or cleared through our clearing house. As a result, revenues and profitability fluctuate significantly with volume changes.

While volume has a significant impact on our clearing and transaction fee revenues, 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. Typically, trades executed through CME 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. Therefore, 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.

Net revenues increased from $226.6 million in 2000 to $733.8 million in 2004. As a result of the increase in trading volume during this time period, the fee changes implemented in connection with our demutualization and the targeted fee changes and incentives to increase trading volume, the percentage of our revenues derived from clearing and transaction fees increased and represented 75.4% of our net revenues in 2004, compared to 69.1% in 2000.

In November 2003, we began providing clearing and transaction processing services of some products to the Chicago Board of Trade (CBOT) in connection with our transaction processing agreement. We began to clear all CBOT products in January 2004. Revenue from these services to CBOT is the primary component of clearing and transaction processing services, which also includes fees for listing new crude oil and natural gas futures products on CME 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. This revenue will fluctuate as trading volumes of these exchanges fluctuate.

Quotation data fees represent our second largest source of revenue. Revenue from these fees has increased a total of 67.9% from 2000 to 2004. In 2004, these fees represented 8.3% of our net revenues. Revenue from fees assessed for access to CME Globex and market data has grown as a result of the increase in the number of customers choosing to trade electronically. Revenue derived from communication fees has remained relatively constant from 2000 to 2004. Investment income has increased modestly as a result of the growth in cash and cash equivalents and marketable securities balances that was partially offset by the overall 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 from 2000 to 2004 in a manner consistent with our net revenues.

Expenses increased from $241.8 million in 2000 to $366.1 million in 2004. This represents a compound annual growth rate in expenses of 10.9% from 2000 to 2004 compared to a 34.2% 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 61.2% from 2000 to 2004 and represented 45.0% of our total expenses in 2004. 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 grants to certain other employees. In addition, in 2000, we incurred $9.8 million of expenses associated with the 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 and the number of bid and offer quotes received and reflected in the order book for electronic trading, 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 $226.6 million in 2000 to $733.8 million in 2004. Our clearing and transaction fees revenue, which represents our largest source of revenue, is tied directly to trading volume. The table below summarizes our annual growth in average daily trading volume from 2000 to 2004 as well as the percentage of volume that was traded on CME Globex and the related clearing and transaction fees revenue. In 2002, we introduced a new contract, Long-Short Technology TRAKRS, which was followed by the launch of five additional TRAKRS contracts in 2002 and 2003. Transaction fees for these contracts are limited based on the size of the order and averaged approximately $0.006 to $0.010 per contract from 2002 to 2004. As a result, TRAKRS volume has an adverse impact on our overall rate per contract. Therefore, our rate per contract in the following table is presented without the impact of TRAKRS volume and revenue for each of the applicable years. The average daily volume of all TRAKRS contracts was 71,763, 79,049 and 38,815 in 2004, 2003 and 2002, respectively.

	YEAR ENDED DECEMBER 31				
(volume in round turn trades)	**2004**	2003	2002	2001	2000
Average Daily Volume	**3,111,407**	2,461,465	2,177,248	1,640,288	917,120
Percentage Increase from Previous Year	**26.4%**	13.1%	32.7%	78.9%	15.6%
CME Globex Volume	**1,785,747**	1,041,721	746,800	326,274	136,928
Percentage of Average Daily Volume	**57.4%**	42.3%	34.3%	19.9%	14.9%
Clearing and Transaction Revenue, excluding TRAKRS (in thousands)	**$ 552,565**	$ 428,673	$ 356,335	$ 292,459	$ 156,649
Average Rate per Contract	**$ 0.702**	$ 0.691	$ 0.649	$ 0.710	$ 0.678

Total trading volume growth from 2000 to 2004 was driven primarily by our interest rate and equity products. The trading volume increase in our interest rate products during this time occurred primarily in our CME Eurodollar contract. The growth was the result of interest rate volatility beginning with the U.S. federal funds rate decreases during 2001, as well as the continued interest rate uncertainty through 2004 as a result of global and national economic and geopolitical factors and the interest rate increases that began in late 2003. In addition, in 2004 we experienced significant growth in the electronic trading of our CME Eurodollar contract as a result of more competitive fees and the increased usage of handheld electronic trading units on our trading floors to facilitate increased electronic trading volume of CME Eurodollars. The trading volume increase in our equity products from 2000 to 2004 occurred primarily in the CME E-mini version of the S&P 500® and NASDAQ-100® stock index contracts, which are one-fifth the size of the standard contract and are traded only through CME Globex. The equity trading volume increase was the 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 CME Globex and marketing efforts to increase awareness of our product offerings. The growth in trading volume in our foreign exchange products from 2002 to 2004 was greater than the growth realized during the period from 2000 to 2002. The increase in 2003 and 2004 was the result of increased foreign exchange volatility, led by the weakening U.S. dollar, coupled with increased distribution of CME Globex, increased marketing efforts and a fee incentive program implemented during the second quarter of 2004. In general, many of our initiatives during this time period have focused on attracting new customers, such as hedge funds, to our products and structuring our fees to attract additional trading volume from existing customers.

Our ability to provide the facility and products for risk management to our customers has been enhanced as a result of the increased distribution of CME Globex. The increase in clearing and transaction fees has resulted not only from increased trading volume but also from growth in the percentage of our trading volume that is executed on CME Globex. While volume on CME Globex had experienced growth from 2000 to 2003, in 2004 we introduced several pricing changes and incentive programs to specifically encourage trading of CME Eurodollar contracts on CME Globex. This included fee reductions to non-member customers, expansion of our market maker initiative in our electronic CME Eurodollar futures market and CME Globex fee waivers for trades that exceed certain volume thresholds utilizing our handheld trading devices. In addition, we expanded our telecommunications capacity in Europe to include six telecommunications hubs, similar to the hub in London that was established in 2002. These hubs reduce connectivity costs for our market participants and allow direct electronic connections between Europe and CME Globex. We also introduced new incentive programs for certain types of customers in Europe and Asia that provide favorable rates for electronic trading on CME Globex. Additional significant factors contributing to the increase in clearing and transaction fees revenue from 2000 to 2004 were the rate increases and new transaction fees implemented as part of our demutualization. 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.

Overall, the average rate per contract excluding TRAKRS has increased from 2000 to 2004. It has fluctuated from its peak of $0.710 in 2001 to its lowest amount of $0.649 in 2002. The fluctuation in the average rate per contract from 2000 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 CME Globex. The average rate per contract was comparatively low in 2000, despite the pricing changes in the fourth quarter of that year. This resulted primarily from an increase in the percentage of total volume from CME 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 CME Globex 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 relative to 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 the average rate per contract from 2002 to 2004 resulted primarily from an increase in the percentage of trades executed through CME Globex and a shift in the percentage of trading volume to more CME E-mini 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.

In addition to the substantial fee changes implemented in the fourth quarter of 2000 and first quarter of 2001, we have made other significant fee changes, specifically in 2003 and 2004. In 2003, we changed the volume thresholds and discounted fee levels for the tiered pricing on our CME Eurodollar contracts, implemented a 12-month incentive plan to promote liquidity in the back months of the CME Eurodollar contract and established a market maker program for electronic trading of CME Eurodollars during non-floor trading hours. We also reduced fees for certain customers executing specific types of trades in the CME E-mini equity index contracts and introduced a European Incentive Plan for customers trading on CME Globex that meet certain criteria. Under this program, total transaction fees (including CME Globex charges) for any product traded on CME Globex were reduced to $0.44 per side. In 2004, similar pricing was extended to certain customers in Asia as part of the Asian Incentive Program for customers located in the Pacific Rim, including hedge funds and banks, electronic foreign exchange (eFX™) trading by commercial banks that are not currently members, and electronic proprietary trading groups not eligible for existing membership categories.

In 2004, to encourage electronic trading of CME Eurodollars, we introduced several pricing changes, which included fee reductions on CME Globex for non-member customers, expansion of our market maker program in our electronic CME Eurodollar futures market, and CME Globex fee waivers for traders who trade more than 1,000 CME Eurodollar contracts per day using our handheld trading devices. Additionally, in August 2004, we launched an enhanced options system for electronic trading of CME Eurodollar options contracts. This functionality facilitates trading of complex combination and spread trades typically used with short-term interest rate options on futures. We also launched various programs related to our foreign exchange products. These included a 12-month CME Globex fee incentive program designed to encourage equity member firms to increase their proprietary non-automated trading volume, an incentive pricing program designed to attract increased electronic trading of foreign exchange contracts by certain members, such as fund managers, and a non-member electronic automated market maker program.

During the second quarter of 2004, we announced an alliance that will provide additional access to electronic trading of CME foreign exchange products. We announced an agreement with Reuters to bring banks and investment banks direct futures trading by offering our eFX markets to Reuters' global interbank customer base in a spot equivalent format beginning in 2005. Seven of the world's largest banks and leading futures clearing firms have agreed to participate in beta testing and marketing.

We attempt to mitigate the downside of unpredictable volume swings through various means, such as targeting specific changes to clearing fees, creating volume incentives, opening access to new markets and further diversifying the range of products and services we offer, such as the clearing and transaction processing services we began to offer CBOT in late 2003. 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 processing services revenue consists primarily of revenue from the clearing and transaction processing services provided to CBOT that began in November 2003. In January 2004, we began clearing all CBOT products. These fees are tied directly to the trading volume at CBOT. We cleared 600.0 million and 9.5 million matched contracts for CBOT in 2004 and 2003, respectively. In addition, fees are earned for clearing and transaction processing services provided to NYMEX and OneChicago.

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 $36.3 million in 2000 and $60.9 million in 2004, when it represented 8.3% of our net revenues. In general, our market data service is provided to professional and non-professional customers. Subscribers to our professional service receive market data for all of our products on a real-time streaming basis. Fees for the professional service are higher than for the non-professional service. Effective January 1, 2004, professional customers paid a flat monthly fee for each screen displaying our market data. In prior years, professional customers paid 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 CME 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. 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 downsizing in the financial services industry that occurred primarily in 2002 and 2003 contributed to a decline in the number of screens displaying our market data and adversely affected the growth in our quotation data revenue in those years.

At year-end 2004, approximately 63,000 subscribers displayed our data on 179,000 screens worldwide, compared to approximately 60,000 subscribers and 174,000 screens at year-end 2003. 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 our 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 CME E-mini products. At December 31, 2004, there were approximately 25,000 subscribers to this CME 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 30,000 at year-end 2004. In addition, one of the major resellers of our market data 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 2004, the two largest resellers of our market data represented approximately 56% 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, 2005, we increased the monthly fee for each market data screen receiving our professional service by $5 per month, to $35 per month.

Access fees are the connectivity charges to customers of our electronic trading platform and to 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 CME Globex. 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.

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 our excess cash balances as well as 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 $855.2 million at December 31, 2001 compared to $1.8 billion at December 31, 2002, $2.8 billion at December 31, 2003 and $269.9 million at December 31, 2004. Cash performance bonds decreased significantly from December 31, 2003 to December 31, 2004 due to a shift in clearing firm deposits from cash to securities. Clearing firms may also choose to deposit cash in a foreign currency as part of their cash performance bonds and security deposits. 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.

As of July 1, 2003, our investment income also includes the earnings of our first Interest Earning Facility program (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 Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities – An Interpretation of Accounting Research Bulletin (ARB) No. 51," as amended. This consolidation has no effect on our net income as the increase in investment income is offset by corresponding 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 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 various IEF offerings. These clearing firms receive interest income, and we receive a fee based on total funds on deposit. Since 2001, we have implemented four additions to our IEF program. These programs allow clearing firms a wider range of investment alternatives. Other revenue also includes trading revenue generated by GFX, our wholly owned subsidiary that trades primarily in foreign exchange futures contracts to enhance liquidity in our electronic markets for this product. On occasion, GFX has also generated trading revenue from trading in CME Eurodollars and stock index contracts. In addition, other revenue is generated through fines assessed to members for violations of exchange rules, and the licensing of our CME 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. As of December 31, 2004, there were approximately 80 clearing firms. In 2004, one firm, with a significant portion of customer revenue, represented approximately 11% 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 totaled $366.1 million in 2004, an increase from $241.8 in 2000. The increase in total annual expenses since 2000 is illustrated in the table below:

	YEAR ENDED DECEMBER 31				
(in thousands)	**2004**	2003	2002	2001	2000
Total Expenses	**$366,133**	$329,916	$298,948	$261,387	$241,814
Increase from Previous Year	**36,217**	30,968	37,561	19,573	37,856
Percentage Increase from Previous Year	**11.0%**	10.4%	14.4%	8.1%	18.6%

Compensation and benefits expense is our most significant expense and includes employee wages, bonuses, stock-based compensation, benefits and employer taxes. Changes in this expense are driven by increases in wages as a result of inflation or labor market conditions, fluctuations in the number of employees and rates for employer taxes as well as 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 $141.0 million, or 42.7% of total expenses, for 2003 and $164.8 million, or 45.0% of total expenses, for 2004. The number of employees increased from 987 at December 31, 2000 to 1,244 at December 31, 2004. Annual bonus payments can also have a significant impact on total compensation and benefits expense and they may vary from year to year. Our bonus expense increased from 2000 to 2001, remained relatively constant from 2001 to 2002 and increased in 2003 and 2004.

In 2003, our shareholders approved our annual incentive plan, and since that date the bonus component of our compensation and benefits expense has been based on our financial performance. Under the performance criteria established for both years since the annual incentive plan was approved, if we achieved the cash earnings target established by our Board of Directors, the bonus pool funded under the plan would have been the "target incentive pool." For 2003, this target incentive pool was $17.5 million, or the equivalent of the amount paid under our discretionary bonus plan in 2002. For 2004, the target incentive pool was $19.1 million. Under the plan, if our actual cash earnings equal 80% of the established target for a given year, the bonus pool will be reduced by approximately 50%. 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 be increased by approximately 50% from the target incentive pool, 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. 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 periods presented 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. The most significant portion of this expense from 2000 to 2002 related 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. 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. For all stock grants, stock-based compensation expense totaled $8.2 million in 2000, $6.2 million in 2001, $3.8 million in 2002, $1.5 million in 2003 and $7.8 million in 2004. The increase in stock-based compensation expense in 2004 resulted primarily from the June 2003 and 2004 stock option grants to a broad base of our employees under our Omnibus Stock Plan.

Occupancy costs consist primarily of rent, maintenance and utilities for our offices, trading facilities and remote data centers. 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 our first 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. Occupancy costs increased again in 2004 as we expanded our first remote data center and leased a second remote site for additional technology capacity and redundancy.

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. In addition, in 2004, as our percentage of electronically traded CME Eurodollars increased, we incurred an expense related to our revenue sharing agreement with Singapore Exchange Derivatives Trading Ltd. (SGX). This revenue sharing cannot exceed $0.3 million per month and totaled $2.5 million in 2004.

Communications and computer and software maintenance expense consists primarily of costs for network connections to CME 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 external 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 as well as the number of bid and offer quotes received and reflected in the order book for electronic trading, rather than the number of contracts traded. We processed nearly 87% of total transactions electronically in 2004 compared to approximately 80% in 2003, which represented 57.4% and 42.3%, 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 the 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 lives 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 $5.2 million in 2000 to $11.0 million in 2004, and reached a peak of $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. The increase in this expense in 2003 was directly related to our $6.2 million brand advertising campaign. While significant brand awareness expense did not continue in 2004, we did expand our product promotion efforts and, therefore, did not see a significant decline from our 2003 spending level.

Other expense consists primarily of insurance, travel, staff training, fees incurred in providing product delivery services to customers, fees for our Board of Directors, meals and entertainment, fees for our credit facility, supplies, postage and various state and local taxes. Interest for equipment purchased under capital leases was also included as part of other expenses through 2004, by which time all capital lease obligations had been repaid. 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 was 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 included $1.1 million and $1.7 million in 2003 and 2004, respectively, for the distribution of the net earnings to the participants of our first IEFs. Our investment income also increased to reflect the earnings of these IEFs and, therefore, the consolidation of these IEFs had no effect on our net income.

Net Income

We experienced a net loss of $10.5 million in 2000 and rebounded to net income of $75.1 million in 2001, $94.1 million in 2002, $122.1 million in 2003 and $219.6 million in 2004. 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 and our transaction processing services agreement with CBOT drove the change in operating results from 2000 to 2004.

Net income through 2000 was adversely affected by the limited partners’ interest in the earnings of PMT Limited Partnership (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 $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 since that date 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 current 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 that 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 40.3%, 40.7% and 39.0% for the years ended December 31, 2004, 2003 and 2002, 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 as well as specifically identified adjustments. Our estimate of anticipated fee adjustments was $3.1 million at December 31, 2004 and $2.0 million at December 31, 2003. 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. Beginning with trades executed in 2005, clearing firms will have a period of two months following the month in which a trade occurred to submit corrections for fee adjustments.

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 (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. Completed internal use software projects, as well as work-in-progress 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 $10.0 million, $6.8 million and $9.7 million for 2004, 2003 and 2002, respectively, and amortization of capitalized software totaled $7.8 million, $7.9 million and $7.8 million for 2004, 2003 and 2002, 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. At year-end 2002, we adopted the fair value method for expensing stock options under the provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” as amended, and elected the retroactive restatement method of adoption. All periods presented 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. 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. Stock-based compensation expense totaled $7.8 million, $1.5 million and $3.8 million for 2004, 2003 and 2002, respectively. In December 2004, the FASB issued

SFAS No. 123R (revised 2004), "Share-Based Payment," which requires use of the fair value method of accounting for share-based payment transactions with employees. When SFAS No. 123R becomes effective, we will be required to estimate expected forfeitures of stock grants instead of our current practice of accounting for forfeitures as they occur. In addition, we will also begin to classify the excess tax benefits, if any, related to employee option exercises as financing activities rather than operating activities in our consolidated statements of cash flows. We will also consider whether to begin using a binomial model as a valuation technique to determine the fair value of stock option grants rather than the Black-Scholes model we have used since adopting the fair value method. The provisions of SFAS No. 123R are required to be adopted as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. We will adopt SFAS No. 123R effective July 1, 2005, and are currently evaluating the impact of adoption on our consolidated financial statements.

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				
	2004	2003	2002	2001	2000
Average Daily Volume					
Product Areas:					
Interest Rate	**1,705,329**	1,234,190	1,226,343	1,091,846	550,810
Equity	**1,163,458**	1,056,685	824,456	425,149	258,120
Foreign Exchange	**202,404**	134,988	96,289	89,290	76,615
Commodity	**40,216**	35,602	30,160	34,003	31,575
Total Average Daily Volume	**3,111,407**	2,461,465	2,177,248	1,640,288	917,120
Method of Trade:					
Open Outcry	**1,281,913**	1,381,859	1,398,698	1,282,147	754,049
CME Globex	**1,785,747**	1,041,721	746,800	326,274	136,928
Privately Negotiated	**43,747**	37,885	31,750	31,867	26,143
Total Average Daily Volume	**3,111,407**	2,461,465	2,177,248	1,640,288	917,120
Total Notional Value (in trillions)	**$ 463.4**	$ 333.7	$ 328.6	$ 293.9	$ 155.0

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004
COMPARED TO THE YEAR ENDED DECEMBER 31, 2003

Overview

Our operations for the year ended December 31, 2004 resulted in net income of $219.6 million compared to net income of $122.1 million for the year ended December 31, 2003. The increase in net income resulted primarily from a 36.9% increase in net revenues that was partially offset by an 11.0% increase in operating expenses. The increase in net revenues was primarily driven by a 29.0% increase in clearing and transaction fees attributed to a 26.9% increase in total trading volume during 2004 when compared to 2003. In addition, we earned an incremental $54.1 million of revenues from clearing and transaction processing services provided to CBOT. Contributing to the $36.2 million overall increase in expenses was $23.8 million related to compensation and benefits, $5.5 million in professional fees, outside services and licenses, and smaller increases in most of our remaining expense categories.

Trading volume for the year ended December 31, 2004 totaled 787.2 million contracts, compared to 620.3 million contracts traded during 2003. Average daily trading volume of 3.1 million contracts for the year ended December 31, 2004 represented an increase of 26.4% over the 2.5 million contracts during the same period in 2003. Average daily trading volume for the month of September 2004 was 3.6 million contracts per day, the highest monthly average daily trading volume in our history. In addition, 68.2% of our trading volume in October 2004 was executed on CME Globex, the highest percentage of trading volume on CME Globex in our history during any one-month period. November 2004 included the highest CME Globex volume day on record, when 3.7 million contracts were traded on November 5, 2004.

Revenues

Total revenues increased $208.0 million, or 38.2%, to $752.8 million for the year ended December 31, 2004 from $544.8 million for the year ended December 31, 2003. Net revenues increased $197.8 million, or 36.9%, to $733.8 million for the year ended December 31, 2004 from $536.0 million for the year ended December 31, 2003. This increase in revenues was attributed primarily to a 26.9% increase in total trading volume for the year ended December 31, 2004 when compared to the year ended December 31, 2003. The overall increase in trading volume resulted principally from: CME Globex system enhancements improving speed and reliability; increased interest rate product trading functionality on CME Globex; interest rate volatility driven by anticipated and actual interest rate movement by the U.S. Federal Reserve Board; volatility in currencies due to ongoing weakness in the U.S. dollar; geopolitical and economic uncertainty; increased customer demand for the liquidity provided by our markets; the continued expansion of hedging as a tool to effectively manage risk; and the introduction of incentive programs, including programs designed to increase awareness of CME Globex in European markets in order to attract new customers and enhance liquidity. In 2004, CME Globex volume represented 57.4% of average daily trading volume, or an average of nearly 1.8 million contracts per day, a 71.4% increase over 2003. The increase in electronic trading volume was led by interest rate product trading volume growth, followed by equity and foreign exchange product growth. In addition, in March 2004, our Class B shareholders approved a proposal to transition the front two CME Eurodollar futures contracts onto CME Globex if minimum volume thresholds are not maintained. This initiative was combined with certain fee changes and incentives that led to increased electronic trading volume for these contracts. The additional clearing and transaction fees resulting from the increased trading volume and the increased percentage of trades executed electronically were augmented by fees for clearing and transaction processing services provided to CBOT, increased revenue from quotation data fees, additional investment income, increased fees for managing our IEF programs and greater trading revenue from GFX.

Clearing and Transaction Fees. Clearing and transaction fees, which include clearing fees, CME Globex electronic trading fees and other volume-related charges, increased $124.2 million, or 29.0%, to $553.0 million for the year ended December 31, 2004 from $428.8 million for the year ended December 31, 2003. A significant portion of the increase was attributable to the 26.4% increase in average daily trading volume. In addition, there was an increase in the percentage of trading volume executed through CME Globex. In 2004, CME Globex volume was 57.4% of average daily trading volume, compared to 42.3% during 2003. All of our product areas, with the exception of commodity products, experienced growth in CME Globex volume during the year ended December 31, 2004 when compared to the year ended December 31, 2003.

The average rate, or revenue, per contract, excluding TRAKRS contracts, increased to $0.702 for the year ended December 31, 2004 from $0.691 for the year ended December 31, 2003. The average rate per contract for 2004 increased by $0.027 as a result of the higher percentage of trades executed on CME Globex. In addition, we experienced an increase of $0.004 due to a shift in equity E-mini trades on CME Globex from member to non-member customers and special programs that earn a higher rate per contract than member trades. Partially offsetting these increases to the average rate per contract was a reduction of $0.008 due to the impact of reduced volume from our mutual offset agreement with SGX whereby there is a net settlement for trades executed by the originating exchange but transferred to the other exchange. The average rate per contract was also reduced by $0.006 in 2004 when compared to 2003 as a result of $3.6 million related to two large clearing fee audit assessments that increased revenues during the year ended December 31, 2003. There were no similar large assessments during 2004. Also, our tiered pricing structure for CME Eurodollars reduced the average rate per contract by an additional $0.005 during the year ended December 31, 2004 when compared to 2003 as increased trading volume in our CME Eurodollar contracts resulted in additional fee reductions related to volume incentives. Although the CME Eurodollar back month incentive program, that began on March 1, 2003, ended on December 31, 2003, similar incentives were granted during 2004 through our CME Eurodollar market maker program. Therefore, the increase in the average rate per contract from the expiration of one program was offset by the impact of the new program. Finally, the foreign exchange tiered pricing structure resulted in an additional reduction in average rate per contract of $0.003 during 2004 when compared to 2003, as a result of the volume growth in foreign exchange products and the related impact on these incentives.

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

	YEAR ENDED DECEMBER 31		
	2004	2003	Percentage Increase (Decrease)
Product Area:			
Interest Rate	**1,705,329**	1,234,190	38.2%
Equity	**1,163,458**	1,056,685	10.1
Foreign Exchange	**202,404**	134,988	49.9
Commodity	**40,216**	35,602	13.0
Total Volume	**3,111,407**	2,461,465	26.4
TRAKRS	**71,763**	79,049	(9.2)
Total Volume, including TRAKRS	**3,183,170**	2,540,514	25.3
CME Globex Volume, excluding TRAKRS	**1,785,747**	1,041,721	71.4
CME Globex Volume as a Percent of Total Volume, excluding TRAKRS	**57.4%**	42.3%	
Clearing and Transaction Fees Revenue, excluding TRAKRS (in thousands)	**$ 552,565**	$ 428,673	
Average Rate per Contract, excluding TRAKRS	**$ 0.702**	$ 0.691	

We experienced an increase in our interest rate volume for the year ended December 31, 2004 when compared to the year ended December 31, 2003. During 2004, 34.8% of our volume in interest rate products was executed on CME Globex compared to 3.7% during 2003. This increase represented incremental average daily trading volume in our interest rate products on CME Globex of nearly 600,000 contracts. More competitive customer fees, the participation of market makers, increased usage of handheld electronic trading units on our trading floor and the enhancements allowing complex trading strategies to be completed on CME Globex contributed to increased electronic trading volume of CME Eurodollars. In 2004, there has been increased interest rate volatility contributing to higher volume levels that was not as evident in the year ended December 31, 2003. The volatility in U.S. equity markets in the year ended December 31, 2003 was not as evident during the year ended December 31, 2004. Despite this lower volatility, our equity product volume grew 10.1% during 2004 when compared to 2003. Our equity product volume was influenced by increased distribution to customers through CME Globex combined with incentive programs introduced during the second quarter of 2004 that enabled additional market participants to obtain reduced fees on some of our products. Our foreign exchange volume has benefited from increased volatility and fee incentive programs initiated during the second quarter of 2004, which have resulted in increased trading on CME Globex. For the year ended December 31, 2004, 66.3% of our foreign exchange volume was conducted through CME Globex compared to 43.8% during the same period in 2003. Price levels and volatility patterns contributed to the increase in volume in commodity products during the year ended December 31, 2004 when compared to the year ended December 31, 2003.

Clearing and Transaction Processing Services. Clearing and transaction processing services revenue increased $54.1 million to $55.9 million for the year ended December 31, 2004 from $1.8 million for the year ended December 31, 2003. This increase was the result of providing clearing and transaction processing services to CBOT. We began providing these services for some CBOT products on November 24, 2003 and, as of January 2, 2004, we began clearing all CBOT products. We cleared approximately 600 million matched contracts for CBOT during the year ended December 31, 2004. In addition to fees for services provided to CBOT, we earned $0.7 million related to NYMEX and OneChicago transaction processing, which was relatively constant with amounts earned in 2003.

Quotation Data Fees. Quotation data fees increased $7.7 million, or 14.6%, to $60.9 million for the year ended December 31, 2004 from $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 January 1, 2004. At that time, we modified our market data pricing to a flat fee structure. Users of the professional service were charged $30 per month for each market data screen or device during 2004. Previously, users of the professional service were charged a higher fee for the first screen at each location and a lower fee for each additional screen at the same location. At December 31, 2004, there were approximately 63,000 subscribers to our market data and the data was accessible from approximately 179,000 screens and included approximately 30,000 subscribers to our lower-priced, non-professional service. This represented an increase from December 31, 2003 of approximately 5,000 screens displaying our data and 3,000 subscribers, including 2,000 subscribers to our lower-priced, non-professional CME E-mini market data service.

Access Fees. Access fees increased $0.9 million, or 5.8%, to $16.4 million for the year ended December 31, 2004 from $15.5 million for the year ended December 31, 2003. This increase was attributed to expanded distribution that was partially offset by our customers consolidating connections into higher capacity bandwidths.

Communication Fees. Communication fees increased $0.3 million, or 3.8%, to $10.0 million for the year ended December 31, 2004 from $9.7 million for the year ended December 31, 2003. The increase was due largely to greater usage of handheld electronic trading devices.

Investment Income. Investment income increased $5.3 million, or 57.1%, to $14.5 million for the year ended December 31, 2004 from $9.2 million for the year ended December 31, 2003. The average interest rate earned on all investments was approximately 1.6% for the year ended December 31, 2004 compared to approximately 1.2% during the same time period in 2003, representing an increase in investment income of approximately $3.0 million. The increase in rates earned was due to a change in our investment policy that we began to implement in the third quarter of 2003 as well as increases in market interest rates. Also, approximately $2.5 million of the increase in interest income resulted from increased cash performance bonds and security deposits in the first three quarters of 2004 and increased funds available for investment. In addition, as a result of the issuance of FIN No. 46 in January 2003, the first IEFs that we initiated in 1997 have been included in our consolidated financial statements beginning with the third quarter of 2003. Investment income for the year ended December 31, 2004 includes $2.1 million of interest income from the first IEFs compared to $1.4 million during 2003. Consolidation of the first IEFs has no effect on our net income since a corresponding increase is reflected in our expenses related to fees paid for managing these IEFs and the distribution of these IEF earnings to the participants. Partially offsetting these increases was a $0.7 million decrease in the investment results of our non-qualified deferred compensation plan that are included in investment income but do not affect our net income, as there is an equal decrease in our compensation and benefits expense.

Securities Lending Interest Income and Expense. Securities lending interest income increased $10.8 million, to $20.3 million for the year ended December 31, 2004 from $9.5 million for the year ended December 31, 2003. The average daily balance of proceeds from securities lending activity was $1.4 billion for the year ended December 31, 2004 and $0.7 billion for the year ended December 31, 2003. Securities lending interest expense increased $10.3 million, to $19.0 million for the year ended December 31, 2004 from $8.7 million for the year ended December 31, 2003. The net revenues from securities lending represented an annualized return of 0.09% on the average daily balances for 2004 compared to 0.10% for 2003.

Other Revenue. Other revenue increased $4.6 million, or 26.7%, to $21.8 million for the year ended December 31, 2004 from $17.2 million for the year ended December 31, 2003. This increase resulted from a variety of factors. There was a $1.8 million increase in fees associated with managing our IEF programs during the year ended December 31, 2004 when compared to the year ended December 31, 2003, a $1.3 million decrease in our share of the net loss of OneChicago, a $0.9 million increase in the trading revenue generated by GFX and a $0.7 million increase in sales of our CME SPAN software.

Expenses

Total operating expenses increased $36.2 million, or 11.0%, to $366.1 million for the year ended December 31, 2004 from $329.9 million for the year ended December 31, 2003. This change was attributed primarily to increases of $23.8 million in compensation and benefits, $5.5 million in professional fees, outside services and licenses, and smaller increases in most of our remaining expense categories that were partially offset by a decrease in marketing, advertising and public relations of $0.9 million.

Compensation and Benefits Expense. Compensation and benefits expense increased $23.8 million, or 16.9%, to $164.8 million for the year ended December 31, 2004 from $141.0 million for the year ended December 31, 2003. There were four significant components to this increase. First, compensation and benefits increased approximately $8.9 million during 2004 when compared to 2003 as a result of annual salary increases and related increases in employer taxes and benefits. Second, stock-based compensation expense increased $6.3 million to $7.8 million during 2004. This increase resulted primarily from a full year of expense in 2004 for the options granted in June 2003 as well as the seven months of expense related to the employee options grant in June 2004. Also, stock-based compensation was reduced by $2.6 million in the fourth quarter of 2003 as a result of the forfeiture of a portion of our former CEO’s stock option. There were no similar significant forfeitures in 2004. Third, the average number of employees increased approximately 4%, or by 50 employees, from the year ended December 31, 2003 to the year ended December 31, 2004. We had 1,244 employees at December 31, 2004. This increased headcount resulted in additional compensation and benefits, excluding bonuses, of approximately $5.3 million. Finally, the bonus expense for 2004, as accrued under the provisions of our annual incentive plan, increased $4.4 million when compared to 2003. These increases were partly offset by a decrease of $0.7 million in the investment results of our non-qualified deferred compensation plan in 2004 that is included in compensation and benefits but does not affect income, as there is an equal and offsetting impact to our investment income. In addition, we experienced a $0.5 million increase in the capitalization of compensation and benefits expense relating to internally developed software, thereby reducing the amount of compensation and benefits that was expensed in 2004.

Occupancy Expense. Occupancy expense increased $2.3 million, or 9.2%, to $27.2 million for the year ended December 31, 2004 from $24.9 million for the year ended December 31, 2003. Occupancy expense increased primarily as a result of rent that began in April 2004 for an additional remote data center, additional space we now lease at our main location and increased operating expenses.

Professional Fees, Outside Services and Licenses Expense. Professional fees, outside services and licenses expense increased $5.5 million, or 17.4%, to $37.2 million for the year ended December 31, 2004 from $31.7 million for the year ended December 31, 2003. The increase resulted primarily from our revenue sharing agreement with SGX and license fees relating to our equity products. We incurred $2.5 million of expense related to our revenue sharing agreement with SGX. This revenue sharing, which cannot exceed $0.3 million per month, resulted from the growth in electronic trading of CME Eurodollars. There was no similar expense in 2003 due to the relatively low percentage of CME Eurodollars trading electronically at that time. In addition, license fees increased by $1.9 million for the year ended December 31, 2004 from the year ended 2003 as a result of increased trading volume and increased licensing rates for certain of our equity products. We also experienced an increase of $1.0 million for consulting and auditing services related to Sarbanes-Oxley reporting requirements.

Communications and Computer and Software Maintenance Expense. Communications and computer and software maintenance expense increased $2.5 million, or 5.5%, to $48.3 million for the year ended December 31, 2004 from $45.8 million for the year ended December 31, 2003. This expense is affected primarily by growth in electronic trading. During 2004, we experienced greater communications expense that included a $0.4 million increase for connections to CME Globex. Also, during 2003, we received $2.5 million in refunds from our primary telecommunications provider for billing errors in prior periods. We received a similar refund of $0.4 million during 2004, resulting in a net increase in expenses of $2.1 million during 2004. This increase in communications expense was offset by a $1.4 million decrease in other communications expense as a result of network consolidation and cost reduction efforts. Our computer and software maintenance costs are primarily driven by the number of transactions processed and the volume of bid and offer prices received electronically, not the volume of contracts traded. During 2004, the number of transactions we processed increased approximately 31%. In addition, we processed approximately 87% of total transactions electronically in 2004 compared to nearly 80% in 2003, which represented 57.4% and 42.3%, respectively, of total contracts traded. As a result, our expenses for software, software maintenance and hardware maintenance increased $2.4 million during 2004 when compared to 2003. This increase was offset by $0.7 million that was awarded during the fourth quarter of 2004 as settlement of the arbitration of a dispute relating to the maintenance charges previously paid that related to certain software used to access CME Globex.

Depreciation and Amortization Expense. Depreciation and amortization expense increased $0.4 million, or 0.7%, to $53.4 million for the year ended December 31, 2004 from $53.0 million for the year ended December 31, 2003. This increase was the result of depreciation and amortization of 2004 asset acquisitions exceeding the depreciation and amortization of assets that have become fully depreciated or retired since December 31, 2003. Contributing to this increase was the decrease in the depreciable lives, effective January 1, 2004, for new technology equipment purchases from four to three years and for new personal computer purchases from three to two years. Capital expenditures totaled $67.5 million for the year ended December 31, 2004 and $63.0 million for the year ended December 31, 2003. Technology-related purchases, defined as purchases of computers and related equipment, software, internally developed software, and costs associated with the build-out of our third data center, as well as the expansion of our second data center, represented approximately 86% and 80%, respectively, of these expenditures.

Marketing, Advertising and Public Relations Expense. Marketing, advertising and public relations expense decreased $0.9 million, or 7.6%, to $11.0 million for the year ended December 31, 2004 from $11.9 million for the year ended December 31, 2003. For the year ended December 31, 2003, we incurred $6.2 million of expense associated with our brand advertising campaign. There was no similar expense in 2004. Substantially offsetting this decreased brand advertising expense was an increase in product advertising and other marketing-related efforts during the year ended December 31, 2004 when compared to the same period in 2003.

Other Expense. Other expense increased $2.6 million, or 11.8%, to $24.3 million for the year ended December 31, 2004 from $21.7 million for the year ended December 31, 2003. A factor in this increase was $0.6 million of expense related to the consolidation of the first IEF program that was effective in the third quarter of 2003. This expense represents the distribution of the net earnings of these IEFs to the participants in the program. However, there is no impact on net income as a result of including the related IEF earnings as part of investment income. In addition, we experienced a $0.6 million increase in bank fees, including securities lending fees, a $0.5 million increase in bad debt expense, a $0.4 million increase in currency delivery fees resulting from increased currency delivery revenue and increases in other general administrative expenses.

Income Tax Provision

We recorded a tax provision of $148.1 million for the year ended December 31, 2004 compared to $84.0 million for the same period in 2003. The effective tax rate was 40.3% for 2004, compared to 40.7% for 2003. The decrease in the effective tax rate resulted primarily from expenses incurred in connection with the June and November 2003 secondary offerings that were not deductible for tax purposes. There were no similar expenses in 2004.

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 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 13.1% 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 CME Globex. The increased CME 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 $22.3 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 620.3 million contracts, representing average daily trading volume of 2.5 million contracts. This was a 13.1% increase over the 548.7 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 through 2003. Average daily volume in March 2003 was 2.8 million contracts per day, the second highest on record at CME through 2003. In addition, on March 17, 2003, 1.8 million contracts were traded on CME Globex, the highest Globex volume day on record, excluding TRAKRS volume, through 2003.

Revenues

Total revenues increased $75.7 million, or 16.1%, to $544.8 million for the year ended December 31, 2003 from $469.1 million for the year ended December 31, 2002. Net revenues increased $82.9 million, or 18.3%, during 2003 from 2002. The increase in net revenues was attributable primarily to the 13.1% 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 42.3% of average daily trading volume, or 1.0 million contracts per day, a 39.5% increase over 2002. Increased trading volume levels resulted primarily from: CME Globex system enhancements improving speed, reliability and distribution; continued volatility in currencies and U.S. stocks early in 2003; interest rate volatility and the reduction in the U.S. federal funds rate in June 2003; 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 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, CME Globex electronic trading fees and other volume-related charges increased $72.4 million, or 20.3%, to $428.8 million for the year ended December 31, 2003 from $356.4 million for the year ended December 31, 2002. A significant portion of the increase was attributable to the 13.1% increase in average daily trading volume. In addition to the increase in trading volume, there was a 39.5% increase in trading volume executed through CME Globex. In 2003, CME Globex volume represented 42.3% of average daily trading volume compared to 34.3% during 2002. Also, the product mix shifted to more equity product volume. For the year ended December 31, 2003, equity products represented 42.9% of trading volume, compared to 37.9% during 2002. By contrast, interest rates represented 50.1% of our volume in 2003, compared to 56.3% 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 per contract, excluding TRAKRS contracts, increased to $0.691 for the year ended December 31, 2003 from $0.649 for the same period in 2002. The change was primarily the result of an increased percentage of trades executed through CME Globex and a product mix shift away from interest rate products. In addition, the tiered pricing for CME 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 CME Eurodollar futures contract, or those contract months that trade three to ten 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.

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 CME Globex platform, and clearing and transaction fees revenue 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	**1,056,685**	824,456	28.2
Foreign Exchange	**134,988**	96,289	40.2
Commodity	**35,602**	30,160	18.0
Total Volume	**2,461,465**	2,177,248	13.1
TRAKRS	**79,049**	38,815	103.7
Total Volume, including TRAKRS	**2,540,514**	2,216,063	14.6
CME Globex Volume, excluding TRAKRS	**1,041,721**	746,800	39.5
CME Globex Volume as a Percent of Total Volume, excluding TRAKRS	**42.3%**	34.3%	
Clearing and Transaction Fees Revenue, excluding TRAKRS (in thousands)	**$ 428,673**	$ 356,335	
Average Rate per Contract, excluding TRAKRS	**$ 0.691**	$ 0.649	

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 U.S. 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 CME 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 CME 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 Processing Services. Clearing and transaction processing services increased $1.4 million to $1.8 million for the year ended December 31, 2003 from $0.4 million for the year ended December 31, 2002. The increase was a result of our transaction processing agreement with CBOT 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%, to $53.2 million for the year ended December 31, 2003 from $48.7 million for the year ended December 31, 2002. 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 CME 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%, to $15.5 million for the year ended December 31, 2003 from $12.9 million for the year ended December 31, 2002. This increase resulted primarily from an increase in the number of CME Globex users, particularly those accessing CME Globex through a T-1 connection, and those utilizing this access capability as market data vendors and customers.

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

Investment Income. Investment income increased $1.5 million, or 19.4%, to $9.2 million for the year ended December 31, 2003 from $7.7 million for the year ended December 31, 2002. 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 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 corresponding 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 the previously discussed 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.

Securities Lending Interest Income and Expense. Securities lending interest income decreased $8.7 million, or 47.9%, to $9.5 million for the year ended December 31, 2003 from $18.2 million for the year ended December 31, 2002. The average daily balance of collateral received for securities lending activity was $723.2 million for 2003 and $924.1 million for 2002. Securities lending interest expense decreased $7.2 million, or 45.0%, to $8.7 million for 2003 from $15.9 million for 2002. 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 have decreased from 2002 to 2003.

Other Revenue. Other revenue increased $2.2 million, or 14.6%, to $17.2 million for the year ended December 31, 2003 from $15.0 million for the year ended December 31, 2002. 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%, to $329.9 million for the year ended December 31, 2003 from $298.9 million for the year ended December 31, 2002. This increase was attributed primarily to increased 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%, to $141.0 million for the year ended December 31, 2003 from $118.7 million for the year ended December 31, 2002. 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 non-qualified 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. This decrease was 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 was 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 transaction processing agreement with CBOT. There was no similar reimbursement arrangement during the year ended December 31, 2002.

Occupancy Expense. Occupancy expense increased $2.5 million, or 11.2%, to $24.9 million for the year ended December 31, 2003 from $22.4 million for the year ended December 31, 2002. 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 leased at our main location during 2003.

Professional Fees, Outside Services and Licenses Expense. Professional fees, outside services and licenses expense decreased $0.8 million, or 2.7%, to $31.7 million for the year ended December 31, 2003 from $32.5 million for the year ended December 31, 2002. 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 transaction processing agreement with CBOT, 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 consulting 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%, to $45.8 million for the year ended December 31, 2003 from $46.6 million for the year ended December 31, 2002. Communications expense decreased $3.0 million from 2002 to 2003, primarily as a result of $2.5 million in refunds from our primary 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%, to $53.0 million for the year ended December 31, 2003 from $48.5 million for the year ended December 31, 2002. Capital expenditures totaled $63.0 million in 2003 and $56.9 million in 2002. Technology-related purchases represented approximately 80% of total purchases in 2003 and 93% in 2002. Equipment and software represent the greatest portion of these technology-related additions and were depreciated over a three- or four-year period. Therefore, these 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 represented the present value of these payments.

Marketing, Advertising and Public Relations Expense. Marketing, advertising and public relations expense increased $5.4 million to $11.9 million for the year ended December 31, 2003 from $6.5 million for the year ended December 31, 2002. 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%, to $21.7 million for the year ended December 31, 2003 from $17.5 million for the year ended December 31, 2002. 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.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Cash Management

Cash and cash equivalents totaled $357.6 million at December 31, 2004 compared to $185.1 million at December 31, 2003. The $172.5 million increase from December 31, 2003 to December 31, 2004 resulted primarily from cash generated by operations for the year ended December 31, 2004. Also contributing to the increase in cash and cash equivalents was $6.0 million in proceeds from the exercise of stock options. Partially offsetting these increases was $51.9 million in purchases of marketable securities, net of proceeds from maturities; $67.5 million in purchases of property, net of trade-in allowances; and our quarterly dividend payments that totaled $35.1 million. During 2004 and 2003, 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, 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 80.6% of our total assets at December 31, 2004, excluding cash performance bonds and security deposits, collateral from securities lending activities and IEF balances, compared to 74.4% at December 31, 2003. The increase in these assets at December 31, 2004 from year-end 2003 resulted primarily from cash generated by operations during 2004, and was partially offset by purchases of 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 net deferred tax assets of $10.8 million and $14.0 million at December 31, 2004 and 2003, respectively. These net 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 and the market risk associated with these contracts. 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. Cash performance bonds decreased significantly from December 31, 2003 to December 31, 2004 due to a shift in clearing firm deposits from cash to securities.

Cash performance bonds and security deposits, collateral from securities lending and balances in the first IEFs consisted of the following:

(in thousands)	DECEMBER 31 2004	2003
Cash Performance Bonds	**$ 255,273**	$ 2,814,362
Cash Security Deposits	**11,920**	17,223
Cross-Margin Cash Held Jointly with Options Clearing Corporation	**2,726**	667
Total Cash Performance Bonds and Security Deposits	**$ 269,919**	$ 2,832,252
Collateral from Securities Lending Activities and Payable Under Securities Lending Agreements	**1,582,985**	1,004,400
Short-Term Investments and Payable to Participants in First Interest Earning Facilities	**87,521**	370,504
Total	**$ 1,940,425**	$ 4,207,156

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 marketable 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. These balances increased during 2004, as we began to clear all trades for CBOT on January 2, 2004. Securities, at fair market value, and IEF funds were deposited for the following purposes at December 31:

(in thousands)	2004	2003
Performance Bonds	**$ 43,442,645**	$ 34,914,979
Security Deposits	**1,008,897**	995,245
Cross-Margin Securities Held Jointly with Options Clearing Corporation	**633,918**	323,971
Total	**$ 45,085,460**	$ 36,234,195

Sources and Uses of Cash

Net cash provided by operating activities was $328.8 million for 2004 and $191.1 million for 2003. The net cash provided by operations increased in 2004 primarily as a result of our improved operating results. The increase was partially offset by an increase in accounts receivable of $26.1 million. Accounts receivable at the end of any period results primarily from the clearing and transaction fees billed in the last month of the reporting period. Clearing and transaction fees were $9.2 million greater in December 2004 than in December 2003. Additional receivables also existed at December 31, 2004 as a result of the clearing and transaction processing services we provide to CBOT that were fully implemented on January 2, 2004. The net cash provided by operating activities exceeded our net income in 2004 and 2003 primarily as a result of non-cash expenses, such as depreciation and amortization, which do not adversely impact our cash flow. In addition, we received tax benefits related to employee option exercises in excess of our book expense associated with these options and this tax benefit reduced our income tax obligations for 2004.

Cash used in investing activities was $125.8 million for 2004 compared to $327.1 million for 2003. The decrease in cash used of $201.3 million was primarily due to a reduction in the purchases of marketable securities in excess of the cash provided by the maturities of marketable securities from 2003 to 2004. Purchases of marketable securities, net of maturities, totaled $51.9 million in 2004 compared to $256.4 million in 2003. Additional investments in OneChicago totaled $1.6 million for 2004 compared to $7.6 million for 2003. Cash used to acquire and develop capital assets increased $4.5 million to $67.5 million for 2004 from $63.0 million for 2003. Technology-related expenditures, defined as purchases of computers and related equipment, software, internally developed software and costs associated with the build-out of our data centers, totaled $58.1 million in 2004. Property additions in 2004 also included leasehold improvements of $7.7 million related primarily to the remodeling of the office space at our main location. Technology-related expenditures totaled $50.4 million in 2003, primarily for equipment and software. Property additions in 2003 also included leasehold improvements of $8.3 million related to the expansion and remodeling of the office space at our main location, and $3.6 million related to the new lobby entrance that was opened in November 2003.

Capital expenditures, which includes expenditures for purchased and internally developed software as well as equipment acquired utilizing capital leases, have varied from 2002 through 2004, as demonstrated in the table below:

	YEAR ENDED DECEMBER 31		
(in millions, except percentages)	**2004**	2003	2002
Total Capital Expenditures	**$ 67.5**	$ 63.0	$ 56.9
Technology (including data center leasehold improvements)	**58.1**	50.4	52.8
Percent for Technology	**86.1%**	80.0%	92.8%

This highlights our commitment to continual enhancements to the technology we employ. Technology-related software and equipment purchases in 2004 included $22.5 million for equipment in our remote data centers and $16.8 million for purchased and internally developed software. These expenditures related primarily to expanding capacity to accommodate the growth of CME Globex, clearing trades for CBOT, improving speed and reliability in our systems, and implementing other system enhancements. We also completed $12.8 million of leasehold improvements to our first remote data center as we continue the process of expanding our capacity at that location. In 2003, capital expenditures included $23.8 million for equipment in our data centers, $19.0 million for purchased and internally developed software, and $2.7 million for leasehold improvements to our first remote data center. 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 first remote data center.

Cash used in financing activities was $30.5 million for the year ended December 31, 2004 compared to $18.2 million for the year ended December 31, 2003. A majority of the increase was due to the $14.5 million increase in dividends paid. Dividends totaled $35.1 million in 2004 compared to $20.6 in 2003. The increase resulted primarily from our improved prior year’s cash earnings that is the basis used to determine the amount of the current year’s dividend and the increase in our annual dividend target from 20% to approximately 30% of the prior year’s cash earnings. This increase in the target was effective with the dividend payment in the fourth quarter of 2003. Partially offsetting this increase was a $4.0 million decrease in payments on long-term debt related to capital leases. Long-term debt payments totaled $1.5 million in 2004 compared to $5.5 million in 2003. All long-term debt had been retired during 2004. In addition, the proceeds from stock option exercises decreased $1.9 million to $6.0 million for 2004 from $7.9 million for 2003. The majority of stock option exercises during 2004 did not result in the receipt of cash since the former CEO and certain employees elected to satisfy the exercise price of their options through the surrender of a portion of their options.

Cash Requirements

Cash will be required for commitments reflected as liabilities on our consolidated balance sheet at December 31, 2004, operating leases and noncancelable purchase obligations. These commitments are as follows (in thousands):

Year	Operating Leases	Purchase Obligations	Other Long-Term Liabilities	Total
2005	$13,419	$ 21,232	$ 2,352	$ 37,003
2006–2007	25,484	17,251	4,000	46,735
2008–2009	15,241	4,196	733	20,170
Thereafter	9,583	8,326	—	17,909
Total	$63,727	$ 51,005	$ 7,085	$121,817

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, with the first payment made 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.

In 2004, we acquired the intellectual property and operating assets of Liquidity Direct Technology, LLC, a private trading technology firm that 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 was implemented. The platform was implemented in the third quarter of 2004 and these additional payments will extend over three years, but will not exceed $16.8 million. Additional payments in 2004 totaled $0.1 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 2005 capital expenditures to be in the range of $70.0 to $80.0 million.

We intend to pay regular quarterly dividends to our shareholders. In 2004, our annual dividend target remained at approximately 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 deems relevant. On January 31, 2005, the Board of Directors declared a regular quarterly dividend of $0.46 per share to be paid on March 28, 2005 to shareholders of record on March 10, 2005. Assuming no changes in the number of shares outstanding, the dividend payment will total approximately $15.8 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 other than a one day draw in 2004 for $10.0 million to ensure that the facility would operate as intended. On October 15, 2004, at the annual renewal date, the line of credit was renewed at the existing amount of $750.0 million and 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 and any performance bond deposits of the defaulting firm.

In addition, as of December 31, 2004, we were contingently liable on irrevocable letters of credit totaling $65.0 million in connection with our mutual offset system with SGX.

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 futures positions. 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 deposits would first be used to cover any 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, has been completely paid as of December 31, 2004. As a result, there is no debt on our consolidated balance sheet as of that date.

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 implemented a new investment policy whereby we 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.

Our previous investment policy, which became effective in the third quarter of 2002 and was in effect until we implemented 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 $11.2 million in 2004, $5.8 million in 2003 and $5.9 million in 2002. Our marketable securities experienced net unrealized losses of $2.8 million in 2004, and net realized and unrealized gains of $0.1 million in 2003 and $2.2 million in 2002. At December 31, 2004, we owned marketable securities with a fair value of $302.4 million. Contractual maturities and interest coupon rates for fixed rate marketable securities at December 31, 2004 were as follows (dollars in thousands):

Year	Principal Amount	Weighted Average Interest Rate
2005	$ 75,181	2.56%
2006	73,571	3.82
2007	72,317	4.35
2008	80,410	2.34
Total	$301,479	3.24%
Fair Value	$302,429	

The 2008 contractual maturity includes certain zero coupon marketable securities. Excluding these securities, the 2008 weighted average interest rate would be 3.51%.

Under our new investment policy that has been in effect since the third quarter of 2003, 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 to interest rate risk.

Derivatives Trading Risk

GFX engages primarily in the purchase and sale of our foreign exchange futures contracts on CME Globex to provide additional liquidity in these 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 the earnings of GFX from a change in foreign exchange rates would not be significant. GFX also engaged in purchases and sales of CME Eurodollar futures contracts on CME Globex during 2003 and the first six months of 2004. At the end of the second quarter of 2004, it was determined that GFX's participation in electronic trading of CME Eurodollars was no longer necessary for liquidity purposes. Net position limits are established for each trader and totaled $12.0 million in aggregate notional value as of December 31, 2004.

At December 31, 2004, GFX held futures positions with a notional value of $99.1 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 $7.7 million for the year ended December 31, 2004, $6.8 million for the year ended December 31, 2003 and $3.2 million for the year ended December 31, 2002.

ACCOUNTING MATTERS

Recent Accounting Pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R (revised 2004), "Share-Based Payment." This statement requires use of the fair value method of accounting for share-based payment transactions with employees. At year-end 2002, we elected to account for stock options under the fair value method of accounting, retroactive to 2000 as provided by SFAS No. 123, as amended. With the adoption of SFAS No. 123R, we will be required to estimate expected forfeitures of stock grants instead of our current practice of accounting for forfeitures as they occur. In addition, we will begin to classify the excess tax benefits, if any, related to employee option exercises as financing activities rather than operating activities in our consolidated statement of cash flows. We will also consider whether to begin using a binomial model as a valuation technique to determine the fair value of stock option grants rather than the Black-Scholes model we currently use. The provisions of SFAS No. 123R are required to be adopted as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. We will adopt SFAS No. 123R effective July 1, 2005 and are currently evaluating the impact of adoption on our consolidated financial statements.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision of the Chief Executive Officer and Chief Financial Officer, our management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control–Integrated Framework.

Based on our assessment, management believes that, as of December 31, 2004, the company's internal control over financial reporting is effective. The company's independent auditors have audited our assessment of the company's internal control over financial reporting, as stated in their report which is included herein.

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Chicago Mercantile Exchange Holdings Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Chicago Mercantile Exchange Holdings Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Chicago Mercantile Exchange Holdings Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Chicago Mercantile Exchange Holdings Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004 of Chicago Mercantile Exchange Holdings Inc. and our report dated February 11, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

Chicago, Illinois
February 11, 2005

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, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (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 as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Chicago Mercantile Exchange Holdings Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 11, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

Chicago, Illinois
February 11, 2005

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	AT DECEMBER 31 2004	2003
Assets		
Current Assets:		
Cash and cash equivalents	**$ 357,562**	$ 185,124
Collateral from securities lending	**1,582,985**	1,004,400
Short-term investments of interest earning facilities	**87,521**	370,504
Marketable securities	**302,429**	256,538
Accounts receivable, net of allowance of $1,089 and $ 866	**78,825**	52,972
Other current assets	**15,624**	21,589
Cash performance bonds and security deposits	**269,919**	2,832,252
Total current assets	**2,694,865**	4,723,379
Property, net of accumulated depreciation and amortization	**131,361**	118,203
Other assets	**31,240**	31,054
Total Assets	**$2,857,466**	$4,872,636
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	**$ 23,045**	$ 24,690
Payable under securities lending agreements	**1,582,985**	1,004,400
Payable to participants in interest earning facilities	**87,521**	370,504
Other current liabilities	**62,153**	56,129
Cash performance bonds and security deposits	**269,919**	2,832,252
Total current liabilities	**2,025,623**	4,287,975
Other liabilities	**19,246**	21,666
Total liabilities	**2,044,869**	4,309,641
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, 34,098,623 and 32,922,061 shares issued and outstanding as of December 31, 2004 and 2003, respectively	**341**	329
Class B common stock, $0.01 par value, 3,138 shares authorized, issued and outstanding	**—**	—
Additional paid-in capital	**261,050**	194,281
Retained earnings	**552,801**	368,312
Accumulated net unrealized securities gains (losses)	**(1,595)**	73
Total shareholders' equity	**812,597**	562,995
Total Liabilities and Shareholders' Equity	**$2,857,466**	$4,872,636

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 2004	2003	2002
Revenues			
Clearing and transaction fees	**$ 552,953**	$ 428,802	$ 356,396
Clearing and transaction processing services	**55,882**	1,752	390
Quotation data fees	**60,940**	53,168	48,717
Access fees	**16,393**	15,501	12,945
Communication fees	**10,035**	9,669	9,733
Investment income	**14,520**	9,245	7,740
Securities lending interest income	**20,320**	9,473	18,169
Other	**21,759**	17,174	14,989
Total Revenues	**752,802**	544,784	469,079
Securities lending interest expense	**(19,013)**	(8,743)	(15,902))
Net Revenues	**733,789**	536,041	453,177
Expenses			
Compensation and benefits	**164,843**	140,997	118,710
Occupancy	**27,193**	24,900	22,400
Professional fees, outside services and licenses	**37,200**	31,683	32,549
Communications and computer and software maintenance	**48,264**	45,765	46,569
Depreciation and amortization	**53,408**	53,016	48,509
Patent litigation settlement	**—**	—	6,240
Marketing, advertising and public relations	**10,973**	11,872	6,514
Other	**24,252**	21,683	17,457
Total Expenses	**366,133**	329,916	298,948
Income before income taxes	**367,656**	206,125	154,229
Income tax provision	**(148,101)**	(83,993)	(60,162)
Net Income	**$ 219,555**	$ 122,132	$ 94,067
Earnings per Common Share:			
Basic	**$ 6.55**	$ 3.74	$ 3.24
Diluted	**6.38**	3.60	3.13
Weighted Average Number of Common Shares:			
Basic	**33,544,693**	32,691,427	29,066,242
Diluted	**34,410,880**	33,934,958	30,060,537

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	Common Stock and Additional Paid-In Capital Amount	Retained Earnings	Accumulated Net Unrealized Securities Gains (Losses)	Total Shareholders’ Equity
Balance December 31, 2001	28,771,562	3,138	$ 58,056	$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			3,811			3,811
Balance December 31, 2002	32,530,372	3,138	$ 179,329	$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 option exercises			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			1,488			1,488
Balance December 31, 2003	32,922,061	3,138	$ 194,610	$368,312	$ 73	$ 562,995
Comprehensive income:						
Net income				219,555		219,555
Change in net unrealized gain on securities, net of tax of $1,135					(1,668)	(1,668)
Total comprehensive income						217,887
Exercise of stock options	1,152,255		6,049			6,049
Tax benefit related to employee option exercises			52,982			52,982
Cash dividends on common stock of $1.04 per share				(35,066)		(35,066)
Vesting of issued restricted Class A common stock	24,307					
Stock-based compensation			7,750			7,750
Balance December 31, 2004	34,098,623	3,138	$ 261,391	$552,801	$ (1,595)	$ 812,597

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 2004	2003	2002
Cash Flows from Operating Activities:			
Net income	**$ 219,555**	$ 122,132	$ 94,067
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**53,408**	53,016	48,509
Stock-based compensation	**7,750**	1,488	3,811
Deferred income tax provision (benefit)	**4,263**	3,310	(5,637)
Loss on investment in joint venture	**3,593**	4,958	2,876
Amortization of purchased intangibles	**361**	—	—
Amortization of net premiums on marketable securities	**3,159**	—	—
Loss on disposal of fixed assets	**930**	1,323	7
Increase (decrease) in allowance for doubtful accounts	**223**	(366)	270
Tax benefit related to employee stock compensation	**52,982**	5,915	—
Increase in accounts receivable	**(26,076)**	(1,741)	(10,149)
Decrease (increase) in other current assets	**5,965**	(10,074)	(4,844)
Increase in other assets	**(781)**	(4,844)	(4,717)
Increase (decrease) in accounts payable	**(1,645)**	(2,917)	3,773
Increase in other current liabilities	**7,539**	14,337	8,792
Increase (decrease) in other liabilities	**(2,420)**	4,612	7,038
Gain on sale of marketable securities	**—**	—	(2,658)
Net Cash Provided by Operating Activities	**328,806**	191,149	141,138
Cash Flows from Investing Activities:			
Purchases of property, net	**(67,496)**	(63,016)	(56,341)
Purchases of intangible assets	**(4,867)**	—	—
Capital contributions to joint venture	**(1,620)**	(7,619)	(3,071)
Purchases of marketable securities	**(120,182)**	(256,416)	(43,956)
Proceeds from sales and maturities of marketable securities	**68,329**	—	137,723
Net Cash Provided by (Used in) Investing Activities	**(125,836)**	(327,051)	34,355
Cash Flows from Financing Activities:			
Payments on long-term debt	**(1,515)**	(5,482)	(5,506)
Cash dividends	**(35,066)**	(20,630)	(17,290)
Proceeds from exercised stock options	**6,049**	7,878	3
Net proceeds from initial public offering	**—**	—	117,459
Net Cash Provided by (Used in) Financing Activities	**(30,532)**	(18,234)	94,666
Net increase (decrease) in cash and cash equivalents	**172,438**	(154,136)	270,159
Cash and cash equivalents, beginning of year	**185,124**	339,260	69,101
Cash and Cash Equivalents, End of Year	**$ 357,562**	$ 185,124	$ 339,260
Supplemental Disclosure of Cash Flow Information:			
Interest paid (excluding interest for securities lending)	**$ 2,096**	$ 379	$ 599
Income taxes paid	**84,877**	79,726	64,728
Non-cash investing and financing activities:			
Gross unrealized securities gains (losses)	**(2,803)**	122	(461)
Capital leases—asset additions and related obligations	**—**	—	558

See accompanying notes to consolidated financial statements.

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC. AND SUBSIDIARIES

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). On December 11, 2002, CME Holdings completed an initial public offering of 3.7 million shares of Class A common stock and the Class A common stock is 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), the first Interest Earning Facilities (IEFs), as well as the holding company, CME Holdings (collectively, the company). The assets of CME Holdings consist of marketable securities, 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. Effective July 1, 2003, the consolidated financial statements include the first Interest Earning Facility program to reflect the provisions of Financial Accounting Standards Board Interpretation (FIN) No. 46, “Consolidation of Variable Interest Entities—An Interpretation of Accounting Research Bulletin (ARB) No. 51,” as amended. All intercompany transactions have been eliminated in consolidation.

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 and products for which it provides third-party clearing and transaction processing services.

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 were from shareholders of the company. At December 31, 2004, there were approximately 80 clearing firms that were also shareholders. One firm with a significant portion of customer revenue represented approximately 11% of net revenues in 2004, 10% in 2003 and 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 by the exchange, and any interest earned 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 two 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 (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 as the software is placed in service. Purchased software is amortized over 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 CME 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 as well as specific adjustment requests. 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 Processing Services. Clearing and transaction processing services revenue includes fees derived from providing clearing and settlement services under a clearing transaction services agreement with the Chicago Board of Trade (CBOT) that was implemented in November 2003, listing new energy and metals futures products on CME 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, the joint venture in single stock futures and futures on narrow-based stock indexes that initiated trading in November 2002.

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 market data vendors and customers. They include line charges, license fees for CME 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. The company accounts for stock-based compensation under the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended. In 2002, under the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," the company elected to adopt the retroactive restatement method. All periods presented reflect stock-based compensation expense recognized in accordance with the provisions of SFAS No. 123 applied to all options granted to employees during the periods presented. The company recognizes 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 that grant vests. Forfeitures of unvested stock grants are recognized as a reduction of expense when they occur.

Marketing Costs. Marketing costs are incurred for the 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 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 as of 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. In December 2004, the FASB issued SFAS No. 123R (revised 2004), "Share-Based Payment." This statement requires use of the fair value method of accounting for share-based payment transactions with employees. At year-end 2002, the company elected to account for stock options under the fair value method of accounting, retroactive to 2000 as provided by SFAS No. 123, as amended. With the adoption of SFAS No. 123R, the company will be required to estimate expected forfeitures of stock grants instead of the current policy of accounting for forfeitures as they occur. In addition, the company will begin to classify the excess tax benefits, if any, related to employee option exercises as financing activities rather than operating activities in its consolidated statement of cash flows. The company will also consider whether to begin using a binomial model as a valuation technique to determine the fair value of stock option grants rather than the Black-Scholes model that is currently used. The provisions of SFAS No. 123R are required to be adopted as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The company will adopt SFAS No. 123R effective July 1, 2005 and is currently evaluating the impact of adoption on its consolidated financial statements.

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 its 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, 2004 and 2003, the fair value of securities on loan was $1.6 billion and $1.0 billion, respectively. CME's policy allows lending of up to 50% of total available securities. At December 31, 2004 and 2003, securities available totaled $5.7 billion and $3.7 billion, respectively. The average daily balance of securities on loan for the years ended December 31, 2004, 2003 and 2002 was $1.4 billion, $723.2 million and $924.1 million, respectively.

At December 31, 2004, the securities lending activity utilized some of the securities deposited by 11 clearing firms. Collateral from securities lending at December 31, 2004 and 2003 was invested in a bank money market mutual fund, an overnight repurchase agreement or held in the form of cash.

4. MARKETABLE SECURITIES

During the third quarter of 2003, the company implemented a new investment policy and began to convert a portion of its short-term investments (cash equivalents) to marketable securities. This new 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.

Prior to approving this new investment policy, it was the company's policy to invest in institutional money market mutual 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. When this policy was adopted in 2002, the company converted its marketable securities to short-term investments, resulting in realized gains of $2.7 million that were included in investment income in 2002.

Marketable securities included in current assets have been classified as available for sale. The amortized cost and fair value of marketable securities at December 31 were as follows:

	2004		2003	
(in thousands)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
U.S. Treasury	**$ 193,929**	**$192,198**	$ 158,566	$158,841
U.S. Government agency	**68,423**	**67,788**	72,397	72,252
State and municipal	**42,757**	**42,443**	25,453	25,445
Total	**$ 305,109**	**$302,429**	$ 256,416	$256,538

Net unrealized gains (losses) on marketable securities classified as available for sale are reported as a component of comprehensive income and included in the accompanying consolidated statements of shareholders' equity. Marketable securities with unrealized losses, where the unrealized loss had existed for less than one year at December 31, 2004 and 2003, had a fair value of $301.0 million and $93.4 million, respectively. The unrealized losses on these securities were $2.7 million at December 31, 2004 and $0.3 million at December 31, 2003. Marketable securities with unrealized losses, where the unrealized loss had existed for more than one year at December 31, 2004, had a fair value of $1.4 million and the unrealized losses on these securities were insignificant. At December 31, 2003, there were no marketable securities with unrealized losses that existed for more than one year. These unrealized losses were caused by increases in interest rates that occurred after the marketable securities were purchased. The company has the ability and intent to hold these marketable securities until a recovery of fair value, which may be maturity, and therefore does not consider these marketable securities to be other-than-temporarily impaired at December 31, 2004 and 2003. The amortized cost and fair value of marketable securities at December 31, 2004, by contractual maturity, were as follows:

(in thousands)	**Amortized Cost**	**Fair Value**
Maturity of one year or less	$ 75,560	$ 75,177
Maturity between one and five years	229,549	227,252
Total	$ 305,109	$302,429

5. OTHER CURRENT ASSETS

Other current assets consisted of the following at December 31:

(in thousands)	**2004**	2003
Prepaid pension	**$ 3,611**	$ 4,963
Prepaid insurance	**3,090**	3,678
Other prepaid expenses	**5,690**	5,953
Accrued interest receivable	**2,800**	2,265
Refundable income taxes	**—**	4,011
Other	**433**	719
Total	**$15,624**	$21,589

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, standing as an intermediary on every open futures and options on futures contract cleared. Additionally, CME began to provide clearing transaction processing services to CBOT in November 2003 for certain products trading at CBOT and began clearing all CBOT products on January 2, 2004. CME acts as guarantor for products traded at CBOT, but cleared by CME. For CBOT products cleared by CME, CME combines those products with that clearing firm's CME contracts 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 to the extent that funds are not otherwise available to the exchange to satisfy the obligation under the applicable contract. CME reduces its exposure through a risk management program that includes 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. Valuation calculations employ a factor, or haircut, that is applied to the current market prices of these obligations and non-cash deposits. These haircuts are applied for 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 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 $87.5 million at December 31, 2004 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, 2004, all funds in the first 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 in exchange for cash deposits previously pledged. In the fourth quarter of 2003, CME organized the IEF4 program. Similar in nature to IEF3, IEF4 affords participating clearing firms the ability to pledge securities such as corporate notes and municipal bonds to CME, but under IEF4 the securities are under CME's control until such time as CME releases them to the control of the pledging firm or until the securities mature. In the third quarter of 2004, CME organized the IEF5 program. The IEF5 program allows participating clearing firms the ability to invest cash in an interest-bearing bank account, maintained at selected banks, in order to earn a cash benefit. As with IEF2, the principal of IEF3, IEF4, as well as the principal and accrued benefit of IEF5, are not guaranteed by CME. The total principal in all IEF programs was approximately $19.2 billion at December 31, 2004 and $14.4 billion at December 31, 2003. The consolidated financial statements reflect earned management fees under the IEF programs of $8.0 million, $6.2 million and $5.6 million during 2004, 2003 and 2002, respectively. These fees are included as other revenue.

CME and the Options Clearing Corporation (OCC) have a cross-margin arrangement, whereby a common clearing firm may maintain a cross-margin account in which the clearing firm's positions in certain CME futures and options on futures are combined with certain positions cleared by OCC for purposes of calculating performance bond requirements. The performance bond deposits are held jointly by CME and OCC (note 19). 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 the 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 that 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 $123.6 million at December 31, 2004.

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, 2004 and 2003. Clearing firm security deposits received in the form of U.S. Treasury or Government agency securities, or in money market mutual funds purchased through IEF2, as well as the 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.

When CME began to clear all CBOT products on January 2, 2004, CME experienced an increase in performance bond deposits. Cash and securities held as performance bonds and security deposits at fair value at December 31 were as follows:

	2004		2003	
(in thousands)	**Cash**	**Securities and IEF Funds**	Cash	Securities and IEF Funds
Performance bonds	**$ 255,273**	**$ 43,442,645**	$ 2,814,362	$ 34,914,979
Security deposits	**11,920**	**1,008,897**	17,223	995,245
Cross-margin deposits	**2,726**	**633,918**	667	323,971
Total	**$ 269,919**	**$ 45,085,460**	$ 2,832,252	$ 36,234,195

Cash performance bonds may include intraday settlement, if any, that is owed to clearing firms and paid the following business day. The balance of intraday settlements was $41.4 million at December 31, 2004 and $20.3 million at December 31, 2003. These amounts are invested on an overnight basis and are offset by an equal liability owed to other clearing firms.

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)	**2004**	2003
Performance bonds	**$ 496,625**	$ 350,025
Security deposits	**10,000**	10,000
Cross-margin accounts	**164,250**	141,750
Total Letters of Credit	**$ 670,875**	$ 501,775

Cross-margin cash, securities and letters of credit jointly held with OCC under the cross-margin agreement are listed at 50% of the total, or CME's proportionate share per that agreement (note 19). All performance bonds and letters of credit are available to meet only the financial obligations of that clearing firm to the exchange.

7. PROPERTY

A summary of the property accounts at December 31 is presented below:

(in thousands)	2004	2003
Furniture, fixtures and equipment	**$ 176,326**	$ 151,338
Leasehold improvements	**129,713**	110,289
Software and software development costs	**91,962**	82,601
Total property	**398,001**	344,228
Less accumulated depreciation and amortization	**(266,640)**	(226,025)
Property, net	**$ 131,361**	$ 118,203

Included in property are assets that were acquired through capital leases with a cost of $11.7 million and $12.0 million (and accumulated depreciation and amortization of $11.1 million and $10.3 million) at December 31, 2004 and 2003, 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)	2004	2003
Non-qualified plan assets	**$11,654**	$11,102
Net deferred tax asset	**10,840**	13,968
Intangible assets	**4,505**	—
Investment in OneChicago, LLC	**1,918**	3,891
Other	**2,323**	2,093
Total	**$31,240**	$31,054

Non-qualified plan assets consist primarily of trading securities held in connection with non-qualified deferred compensation plans. Investment income includes net unrealized gains (losses) relating to the plans' trading securities of $1.0 million, $1.7 million and $(0.8) million for the years ended December 31, 2004, 2003 and 2002, respectively.

Intangible assets represents the intellectual property and operating assets of Liquidity Direct Technology, LLC, a private trading technology firm that developed technology to facilitate the trading of complex combinations and spreads typically used with options. CME acquired the assets of Liquidity Direct Technology, LLC in 2004. The gross carrying amount of intangible assets and accumulated amortization were $4.9 million and $0.4 million, respectively, at December 31, 2004. Amortization expense totaled $0.4 million in 2004. The weighted-average amortization period of these intangible assets is eight years.

On August 28, 2001, CME entered into a joint venture, OneChicago, LLC, with the Chicago Board Options Exchange and CBOT to trade single stock futures and futures on narrow-based stock indexes. As of December 31, 2004, CME owned 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, 2004 represents CME's total capital contribution of $13.6 million reduced by CME's proportionate share of the joint venture's net loss. The net loss is included in other revenue and totaled $3.6 million, $5.0 million and $2.9 million for the years ended December 31, 2004, 2003 and 2002, respectively. CME provides certain communications and regulatory services to OneChicago, LLC, which is included in other revenue, and earned $2.7 million, $2.7 million and $0.7 million in revenue for these services in 2004, 2003 and 2002, respectively.

9. VARIABLE INTEREST ENTITIES

Financial Accounting Standards Board Interpretation (FIN) No. 46R, "Consolidation of Variable Interest Entities," which superseded FIN No. 46, addresses the requirements for business enterprises to consolidate related entities in which they are determined to be the primary 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 and FIN No. 46R, is an increase to both assets and liabilities of $87.5 million and $370.5 million at December 31, 2004 and 2003, respectively, and there is no significant impact on revenues or expenses.

OneChicago, LLC is also a variable interest entity. However, CME has concluded that it does not meet the consolidation requirements set forth in FIN No. 46R.

10. INCOME TAXES

The provision for income taxes is composed of the following:

(in thousands)	YEAR ENDED DECEMBER 31 2004	2003	2002
Current:			
Federal	**$ 117,701**	$65,064	$53,811
State	**26,137**	15,619	11,988
Total	**143,838**	80,683	65,799
Deferred:			
Federal	**3,754**	3,777	(4,617)
State	**509**	(467)	(1,020)
Total	**4,263**	3,310	(5,637)
Total Provision for Income Taxes	**$148,101**	$83,993	$60,162

Reconciliation of the statutory U.S. federal income tax rate to the effective tax rate is as follows:

	YEAR ENDED DECEMBER 31 2004	2003	2002
Statutory U.S. federal tax rate	**35.0%**	35.0%	35.0%
State taxes, net of federal benefit	**4.7**	4.8	4.6
Tax-exempt interest income	**(0.1)**	—	(0.3)
Nondeductible expenses	**0.4**	0.4	0.2
Other, net	**0.3**	0.5	(0.5)
Effective Tax Rate	**40.3%**	40.7%	39.0%

At December 31, the components of deferred tax assets (liabilities) were as follows:

(in thousands)	2004	2003
Deferred Tax Assets:		
Depreciation and amortization	**$ 5,976**	$ 6,846
Deferred compensation	**3,440**	4,085
Accrued expenses	**1,302**	1,143
Stock-based compensation	**4,133**	6,337
Net unrealized losses on securities	**1,086**	—
Other	**1,886**	1,613
Subtotal	**17,823**	20,024
Valuation allowance	**—**	—
Deferred Tax Assets	**17,823**	20,024
Deferred Tax Liabilities:		
Software development costs	**(6,879)**	(5,989)
Net unrealized gains on securities	**—**	(49)
Other	**(104)**	(18)
Deferred Tax Liabilities	**(6,983)**	(6,056)
Net Deferred Tax Asset	**$10,840**	$13,968

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, 2004 or 2003.

11. OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following at December 31:

(in thousands)	2004	2003
Accrued salaries and benefits	**$36,926**	$ 30,419
Accrued operating expenses	**14,729**	15,733
Accrued income taxes	**4,579**	4,457
Accrued fee adjustments	**3,113**	1,986
Unearned revenue	**1,601**	1,856
Current portion of long-term debt	**—**	1,515
Other	**1,205**	163
Total	**$62,153**	$ 56,129

12. COMMITMENTS

Leases. CME has commitments under operating leases for certain facilities 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 $8.9 million to $9.5 million. CME leases trading facilities from the Chicago Mercantile

Exchange Trust (CME Trust) through October 2009, with annual minimum rentals between approximately $0.7 and $1.2 million, and has an option to extend the term of the lease with a three-year extension through October 2012 and two successive seven-year extensions through October 2019 and October 2026. Minimum annual rent for these extensions begins at $0.7 million for the period from November 2009 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 open outcry trading volume. This expense totaled $0.9 million, $1.0 million and $1.3 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Currently, annual rent paid to CME Trust cannot exceed $2.5 million. 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 CME, have any residual interest in the assets of CME Trust. Leases for other locations where CME maintains offices expire at various times from 2011 to 2014 with annual minimum rentals that will not exceed $2.4 million in any year. Total rental expense, including equipment rental, was $22.5 million in 2004, $21.0 million in 2003 and $19.9 million in 2002.

Commitments. Commitments include long-term liabilities (note 14) as well as contractual obligations that are non-cancelable. These contractual obligations totaled $51.0 million at December 31, 2004 and relate primarily to software licenses and maintenance as well as telecommunication services that are expensed as the related services are used.

Future minimum obligations under noncancelable purchase obligations and operating leases in effect at December 31, 2004 are payable as follows:

(in thousands)	Purchase Obligations	Operating Leases
2005	$21,232	$13,453
2006	11,525	12,867
2007	5,726	12,617
2008	2,114	12,084
2009	2,082	3,157
Thereafter	8,326	9,583
Total minimum payments	51,005	63,761
Less sublease commitments	—	(34)
Total	$51,005	$63,727

Licensing Agreements. CME 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 renegotiate potential extensions.

Asset Purchase Agreement. In 2004, CME acquired 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, not to exceed $16.8 million, based on revenue generated when this electronic platform was implemented. The platform was implemented in the third quarter of 2004 and additional payments in 2004 totaled $0.1 million.

13. LONG-TERM DEBT

During 2004, the company repaid all its debt, which consisted of capitalized lease obligations. Therefore, there was no outstanding debt as of December 31, 2004. These lease obligations were categorized as current liabilities as of December 31, 2003.

14. OTHER LIABILITIES

Other liabilities consisted of the following at December 31:

(in thousands)	2004	2003
Non-qualified plan liabilities	**$11,654**	$11,102
Litigation settlement payable	**3,551**	5,217
Deferred rent	**1,953**	1,307
Unearned revenue	**1,180**	2,608
Other	**908**	1,432
Total	**$19,246**	$21,666

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 projected benefit obligation, fair value of plan assets, the prepaid benefit cost and the components of pension cost are indicated below:

(in thousands)	2004	2003
Change in Projected Benefit Obligation:		
Benefit obligation at beginning of year	**$32,115**	$25,267
Service cost	**4,149**	3,645
Interest cost	**2,064**	1,953
Actuarial loss (gain)	**(966)**	2,517
Benefits paid	**(1,912)**	(1,267)
Projected Benefit Obligation at End of Year	**$35,450**	$32,115

The accumulated benefit obligation at December 31, 2004 and 2003 was $27.4 million and $26.7 million, respectively.

(in thousands)	2004	2003	2002
Change in Plan Assets:			
Fair value of plan assets at beginning of year	**$32,582**	$22,148	$17,898
Actual return on plan assets	**3,542**	4,958	(934)
Employer contribution	**2,500**	6,743	6,402
Benefits paid	**(1,912)**	(1,267)	(1,218)
Fair Value of Plan Assets at End of Year	**$36,712**	$32,582	$22,148
Funded Status at December 31:	**$ 1,262**	$ 467	$ (3,119)
Unrecognized transition asset	**—**	(38)	(112)
Unrecognized prior service cost	**63**	44	1
Unrecognized net actuarial gain	**2,286**	4,490	5,748
Prepaid Benefit Cost	**$ 3,611**	$ 4,963	$ 2,518
Components of Pension Cost:			
Service cost	**$ 4,149**	$ 3,645	$ 2,963
Interest cost	**2,064**	1,953	1,661
Expected return on plan assets	**(2,304)**	(1,543)	(1,443)
Amortization of prior service cost	**(19)**	(44)	(44)
Amortization of transition asset	**(38)**	(74)	(74)
Recognized net actuarial gain	**—**	362	106
Net Pension Cost	**$ 3,852**	$ 4,299	$ 3,169

The assumptions used to determine end of year projected benefit obligation and net pension cost are indicated below:

	2004	2003
Weighted Average Assumptions Used to Determine End of Year Benefit Obligation:		
Discount rate	**5.75%**	6.25%
Rate of compensation increase	**5.00**	5.00
Cash balance interest crediting rate	**4.00**	6.00

	2004	2003	2002
Weighted Average Assumptions Used to Determine Net Pension Cost:			
Discount rate	**6.25%**	6.75%	7.25%
Rate of compensation increase	**5.00**	5.00	5.00
Expected return on plan assets	**7.50**	7.50	9.00
Interest crediting rate	**4.25**	6.00	6.00

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 over the long term. The security markets are represented by the returns on various domestic and international stock and bond indexes. These returns are weighted according to the allocation of plan assets to each market and measured individually. 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, 2004 was as follows: equity securities, 57%; debt securities, 38%; and other investments, 5%. The target allocation for the plan for 2005 is the same as 2004.

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 2004 assumptions have been used to project the liabilities and assets from December 31, 2004 to December 31, 2005. The result of this projection is that estimated liabilities would exceed the fair value of plan assets at December 31, 2005 by approximately $5.0 million. Accordingly, it is estimated that a $5.0 million contribution in 2005 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)	
2005	$ 2,206
2006	2,700
2007	3,112
2008	3,630
2009	4,245
2010–2014	29,204

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 $4.4 million, $3.8 million and $3.1 million in 2004, 2003 and 2002, 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 $11.7 million and $11.1 million at December 31, 2004 and 2003, 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 $0.6 million, $0.7 million and $0.6 million in 2004, 2003 and 2002, 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 employees. Beginning in 2003, the contribution rate was 3%, representing a change from the 8% contribution rate in previous years. Also, effective in 2003, contributions vest at one time once five years of service are attained. 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, $(0.1) million and $0.8 million in 2004, 2003 and 2002, respectively.

16. CAPITAL STOCK

On December 11, 2002, CME Holdings completed an initial public offering of Class A common stock. 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.

Shares Outstanding. As of December 31, 2004, 34,098,623 shares of Class A 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—Pursuant to CME Holdings' Certificate of Incorporation, CME Class A common stock was exchanged for shares of Class A-1, A-2, A-3 and A-4 common stock of CME Holdings that were subject to transfer restrictions. These transfer restrictions expired on June 4, 2004 at which time all issued and outstanding separate classes of Class A stock became Class A stock. There were 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.

Ownership Requirements. Prior to October 1, 2004, each clearing firm was required to own 72,093 shares of Class A common stock in addition to Class B stock. Effective October 1, 2004, that Class A requirement was reduced to 30,000 shares for new clearing firms. Each of CME's existing clearing firms may reduce their holdings ratably over a 12-month period. At December 31, 2004, the total Class A common stock held pursuant to this requirement was 4,758,744 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, 2004 (note 17).

17. STOCK OPTIONS

In 2000, the company established an Omnibus Stock Plan. The exchange has elected to account for stock options under SFAS 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 adopted the fair value method for determining stock-based compensation expense and elected the retroactive restatement method.

Options granted in 2004 and 2003 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 equal to the market price at the grant date. Options granted in 2002 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. These options have a 10-year term and an exercise price of $35.00 per share.

The weighted average fair value of options granted in 2004, 2003 and 2002 was $44.78, $17.92, and $16.35, respectively. The compensation expense for these options is recognized on an accelerated basis over the vesting period. As provided in SFAS No. 123, as amended, the fair value of each option grant was estimated on the date of grant using the Black-Scholes method of valuation. The following assumptions were used for these grants:

	Year of Grant		
	2004	2003	2002
Dividend yield	**0.46% –1.10%**	1.20% – 1.30%	1.43%
Expected volatility	**29.40% – 36.40%**	29.20% – 32.00%	41.00%
Risk-free interest rate	**3.35% – 4.30%**	2.52%	3.50%
Expected life	**6 years**	6 years	6 years

Restricted stock has also been granted to employees. These grants have the same vesting provisions as stock options and the related compensation expense is recognized on an accelerated basis over the vesting period. The shares of restricted stock granted and the related compensation expense were as follows:

	Year of Grant		
(dollars in millions)	**2004**	2003	2002
Shares granted	**16,400**	13,600	—
Total compensation expense	**$ 1.9**	$ 0.9	—

In addition, 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 was 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 was 10 years. Under the option agreement, the exercise of the option could be settled with any combination of shares of Class A common stock or cash, at the discretion of the company. Although the option was for all classes of common stock outstanding, any exercise of the option was required to be for all or a portion of the option that was vested at the date of exercise. The former CEO could not 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.

When the former CEO exercised his option, CME elected to provide Class A shares for the value of the Class B portion of the option. As of December 2004, the former CEO had exercised all of his stock option. The option was satisfied through the issuance of 944,411 shares from the Omnibus Stock Plan to satisfy the Class A portion of the option and the issuance of 169,369 shares to satisfy the Class B portion of the option pursuant to a registration statement on Form S-8. In addition, the former CEO elected to satisfy the exercise price of his exercises in April and June 2004 through the surrender of a portion of the option, resulting in the cancellation of 206,451 Class A shares and 68 Class B shares.

The following table summarizes stock option activity for the three-year period ended December 31, 2004:

	Weighted Average Exercise Price	Employee Options Number of Shares	Former CEO Option Number of Shares	
			Class A	Class B
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
Granted	125.20	338,400	—	—
Exercised	28.12	(217,380)	(823,139)	(44)
Cancelled	46.42	(122,852)	(206,451)	(68)
Balance at December 31, 2004	$ 59.29	1,346,792	—	—

Total stock options outstanding and the portion of each option that can be exercised at December 31, 2004 were as follows:

	Total Options Outstanding	Exercisable Shares
Class A shares, by exercise price:		
$22.00	608,890	468,640
$35.00	16,650	9,050
$63.01 to $ 74.68	403,227	59,347
$84.37 to $ 223.99	318,025	500
Total Stock Options	1,346,792	537,537

The weighted average contractual maturity of options outstanding and exercisable at December 31, 2004 was 7.7 years and 6.6 years, respectively. The employee options granted in 2002 and 2003 were 60% and 20% vested, respectively, at December 31, 2004.

18. CREDIT FACILITY

On October 15, 2004, CME renewed its $750.0 million secured committed line of credit with a consortium of banks. The secured credit agreement, which expires on October 14, 2005, is collateralized by clearing firm security deposits held by the exchange in the form of U.S. Treasury or agency securities, security deposit funds in IEF2 and performance bond deposits of the defaulting firm (if any). The amount held as available security deposit collateral at December 31, 2004 was $1.0 billion. The facility, which has never been used other than a one day draw in 2004 for $10.0 million to ensure that the facility would operate as intended, 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 before maturity is calculated at the U.S. federal funds rate plus 45/100 of 1% per annum and after maturity at the U.S. federal funds rate plus 2.4% per annum. Commitment fees for the line of credit were $0.5 million for each of the years ended December 31, 2004, 2003 and 2002.

19. CONTINGENCIES AND GUARANTEES

Legal Matters. In November 2002, a former employee filed a complaint against CME in the Circuit Court of Cook County, Illinois which was subsequently amended to allege common law claims of retaliatory discharge. He is seeking damages in excess of $3.0 million. On November 19, 2004, the Circuit Court granted CME's motion to dismiss the retaliatory discharge claim for failure to state a claim, with prejudice. CME has asserted three counterclaims against the former employee for breach of fiduciary duty, unlawful destruction of personal property and conversion, which remain pending. 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 $2.0 million, plus actual damages to be determined at trial. CME has asserted the same three counterclaims in the federal action as alleged in the state action. Both parties have filed motions for summary judgment. Based on its investigation and advice from legal counsel, management believes that plaintiff's 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. On September 2, 2004, the judge granted CBOT's and CME's motion to transfer venue to the Northern District of Illinois. In light of that decision, the judge did not rule on the motions to dismiss. Based on its investigation to date and advice from legal counsel, CME believes this suit lacks factual or legal foundation and intends to vigorously defend itself against these charges.

On August 3, 2004, McGraw-Hill Companies, Inc. filed suit against CME in the Southern District of New York seeking declaratory and injunctive relief relating to the scope and proper interpretation of the 1997 License Agreement under which the company trades various products based on S&P® indexes. McGraw-Hill claims that statements about a launch by CME of a variance product based on an S&P index amounts to a threatened breach of contract, misappropriation, federal trademark infringement and unfair competition, federal and state trademark dilution, common law trademark infringement, and common law unfair competition. McGraw-Hill is seeking unspecified damages in addition to an injunction. On September 20, 2004, CME filed its answer and counterclaims against McGraw-Hill, including a claim for breach of contract. CME is seeking unspecified damages. CME also named CBOE and CBOE Futures Exchange, LLC as additional parties and is seeking unspecified damages for tortious interference with contractual and prospective business relations and misappropriation. Based on its investigation to date and advice from legal counsel, the company believes McGraw-Hill's claims are without merit and intends to defend them vigorously.

In addition, the company is a defendant in, and has potential for, various other legal proceedings arising from its regular business activities. While the ultimate results of such proceedings against the company cannot be predicted with certainty, the company believes that the resolution of any of these matters will not have a material adverse 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, 2004, CME was contingently liable on irrevocable letters of credit totaling $65.0 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 and the Options Clearing Corporation (OCC) have a cross-margin arrangement, whereby a common clearing firm may maintain a cross-margin account in which the clearing firm's positions in certain CME futures and options on futures are combined with certain positions cleared by OCC for purposes of calculating performance bond requirements. The performance bond deposits are held jointly by CME and OCC. If a participating firm defaults, the gain or loss on the liquidation of the firm's open position and the proceeds from the liquidation of the cross-margin account are split 50.0% each to OCC and CME.

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 the FICC cross-margin agreements, if, after liquidation of all the positions and collateral of the defaulting firm at each respective clearing organization, and taking into account any cross-margining loss sharing payments, 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 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 $87.5 million at December 31, 2004 and is guaranteed by the exchange. The investment portfolios of these facilities are 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, 2004, all funds in the first IEFs were invested in overnight reverse repurchase agreements. 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 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 CME Globex and utilizing market data services and CME 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 primarily in the purchase and sale of CME foreign exchange contracts. GFX also engaged in purchases and sales of CME Eurodollar futures contracts on CME Globex during 2003 and the first six months of 2004. GFX posts bids and offers in these products on the CME Globex electronic trading platform to maintain a market and promote additional 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 $7.7 million in 2004, $6.8 million in 2003 and $3.2 million in 2002. At December 31, 2004, futures positions held by GFX had a notional value of $99.1 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. 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 option granted to the former CEO has been fully exercised as of June 2004. Prior to that date, the dilutive effect of this option was 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, 2004 excludes the incremental effect related to 2,500 outstanding stock options that would be anti-dilutive.

	2004	2003	2002
Net Income (in thousands)	**$ 219,555**	$ 122,132	$ 94,067
Weighted Average Common Shares Outstanding:			
Basic	**33,544,693**	32,691,427	29,066,242
Effect of stock options	**840,300**	1,210,740	959,253
Effect of restricted stock grants	**25,887**	32,791	35,042
Diluted	**34,410,880**	33,934,958	30,060,537
Earnings per Share:			
Basic	**$ 6.55**	$ 3.74	$ 3.24
Diluted	**6.38**	3.60	3.13

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 recognized 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, 2004:					
Net revenues	$ 166,372	$ 187,001	$ 192,389	$ 188,027	$ 733,789
Income before income taxes	77,412	96,274	99,879	94,091	367,656
Net income	46,060	57,283	59,428	56,784	219,555
Earnings per share:					
Basic	$ 1.40	$ 1.72	$ 1.75	$ 1.67	$ 6.55
Diluted	1.35	1.66	1.72	1.64	6.38
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

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 10, 2005, there were 748 holders of record of our Class A Common Stock.

The following table sets forth the high and low sales prices per share of our Class A common stock on a quarterly basis, as reported on the New York Stock Exchange.

2003	High	Low	2004	High	Low
First Quarter	$50.00	$41.35	First Quarter	$ 99.74	$ 72.50
Second Quarter	70.04	46.15	Second Quarter	144.85	96.51
Third Quarter	79.30	65.55	Third Quarter	162.55	116.61
Fourth Quarter	75.05	63.85	Fourth Quarter	229.67	161.00

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), 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 10, 2005, there were 1,969 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	Record Date	Dividend per Share
March 10, 2003	$ 0.14	March 10, 2004	$ 0.26
June 10, 2003	0.14	June 10, 2004	0.26
September 10, 2003	0.14	September 10, 2004	0.26
December 10, 2003	0.21	December 10, 2004	0.26

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 January 31, 2005, the board of directors declared a regular quarterly dividend of $0.46 per share, representing a 77 percent increase over the prior quarter, to be paid on March 28, 2005, to shareholders of record on March 10, 2005.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-105236) pertaining to the Amended and Restated Omnibus Stock Plan of Chicago Mercantile Exchange Holdings Inc., and

(2) Registration Statement (Form S-8 No. 333-104804; Form S-8 No. 333-115656) pertaining to the Agreement between Chicago Mercantile Exchange Holdings Inc. and James J. McNulty;

of our reports dated February 11, 2005, with respect to the consolidated financial statements of Chicago Mercantile Exchange Holdings Inc., Chicago Mercantile Exchange Holdings Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Chicago Mercantile Exchange Holdings Inc., incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 2004, and our report included in the following paragraph with respect to the financial statement schedules of Chicago Mercantile Exchange Holdings Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2004.

Our audits also included the financial statement schedules of Chicago Mercantile Exchange Holding Inc. listed in Item 15(a). These schedules are the responsibility of Chicago Mercantile Exchange Holding Inc.'s management. Our responsibility is to express an opinion based on our audits. In our opinion, as to which the date is February 11, 2005, 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
March 10, 2005

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) 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

d) 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 10, 2005

/s/ Craig S. Donohue

Name: Craig S. Donohue
Title: *Chief Executive Officer*

Exhibit 31.2

I, James E. Parisi, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) 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

d) 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 10, 2005

/s/ James E. Parisi

Name: James E. Parisi
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, 2004 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 James E. Parisi, 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 10, 2005

/s/ James E. Parisi

Name: James E. Parisi
Title: Chief Financial Officer

Date: March 10, 2005

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.