# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

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# FORM 10-Q

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**(Mark One)**

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

**For the quarterly period ended March 31, 2004**

**- OR -**

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

**For the transition period from ______ to ______**

**Commission file number 001-31553**

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# CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.
**(Exact name of registrant as specified in its charter)**

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| **Delaware**<br>**(State or other jurisdiction of incorporation or organization)** | **36-4459170**<br>**(I.R.S. Employer Identification Number)** |
|---|---|
| **20 South Wacker Drive, Chicago, Illinois**<br>**(Address of principal executive offices)** | **60606**<br>**(Zip Code)** |

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

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

The number of shares outstanding of each of the registrant's classes of common stock as of April 23, 2004 was as follows: 9,068,014 shares of Class A common stock, $0.01 par value; 5,869,066 shares of Class A common stock, Class A-1, $0.01 par value; 5,484,249 shares of Class A common stock, Class A-2, $0.01 par value; 6,444,334 shares of Class A common stock, Class A-3, $0.01 par value; 6,163,009 shares of Class A common stock, Class A-4, $0.01 par value; 625 shares of Class B common stock, Class B-1, $0.01 par value; 813 shares of Class B common stock, Class B-2, $0.01 par value; 1,287 shares of Class B common stock, Class B-3, $0.01 par value; and 413 shares of Class B common stock, Class B-4, $0.01 par value.

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**FORM 10-Q**

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**PART I. FINANCIAL INFORMATION**

From time to time, in written reports and oral statements, we discuss our expectations regarding future performance. Forward-looking statements are based on currently available competitive, financial and economic data, current expectations, estimates, forecasts and projections about the industries in which we operate and management's beliefs and assumptions. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or implied in any forward-looking statements. We want to caution you to not place undue reliance on any forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Among the factors that might affect our performance are: economic, political and market conditions; changes in the level of trading activity, price levels and volatility in the derivatives markets and in underlying fixed income, equity, foreign exchange and commodities markets; changes in domestic and foreign regulations; changes in government policy, including interest rate policy and policies relating to common or directed clearing; industry and customer consolidation; seasonality of the futures business; our ability to adjust our fixed costs and expenses if our revenues decline; our ability to efficiently and simultaneously operate both open outcry trading and electronic trade execution facilities; our ability to keep pace with rapid technological developments; our ability to accommodate increases in trading volume without failure or degradation of performance of our trading systems; increasing competition by foreign and domestic competitors, including new entrants into our markets; our ability to successfully implement our competitive initiatives; our ability to continue introducing competitive new products and services on a timely, cost-effective basis, including through our electronic trading capabilities, and our ability to maintain the competitiveness of our existing products and services; decreases in member trading and clearing activity; our ability to manage the risks and control the costs associated with our acquisition, investment and alliance strategy; the ability of our joint venture, OneChicago, LLC, to obtain market acceptance of its products and achieve sufficient trading volume to operate profitably; the costs associated with protecting our intellectual property rights and our ability to operate our business without violating the intellectual property rights of others; and the continued availability of financial resources in the amounts and on the terms required to support our future business. For a detailed discussion of these and other factors that might affect our performance, see Exhibit 99.1 to this Quarterly Report on Form 10-Q.

Chicago Mercantile Exchange GLOBEX® and SPAN® are our registered trademarks. E-mini™ is our service mark. e-miNY℠ is a service mark of Chicago Mercantile Exchange Inc. and New York Mercantile Exchange, or NYMEX, pursuant to agreement. E-mini S&P 500®, S&P 500®, E-mini NASDAQ-100®, NASDAQ-100® and TRAKRS℠ and other trade names, service marks, trademarks and registered trademarks that are not proprietary to us, are the property of their respective owners and used herein under license.

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**Item 1. Financial Statements**

**CHICAGO MERCANTILE EXCHANGE HOLDINGS INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
(in thousands, except share data)
(unaudited)

| | March 31, 2004 | December 31, 2003 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 187,986 | $ 185,124 |
| Collateral from securities lending | 1,295,706 | 1,004,400 |
| Short-term investments of interest earning facilities | 174,103 | 370,504 |
| Marketable securities | 272,163 | 256,538 |
| Accounts receivable, net of allowance of $804 and $866 | 78,336 | 52,972 |
| Other current assets | 16,097 | 21,589 |
| Cash performance bonds and security deposits | 2,809,580 | 2,832,252 |
| Total current assets | 4,833,971 | 4,723,379 |
| Property, net of accumulated depreciation and amortization | 114,428 | 118,203 |
| Other assets | 34,792 | 31,054 |
| Total Assets | $4,983,191 | $4,872,636 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | $ 13,394 | $ 24,690 |
| Payable under securities lending agreements | 1,295,706 | 1,004,400 |
| Payable to participants in interest earning facilities | 174,103 | 370,504 |
| Other current liabilities | 66,215 | 56,129 |
| Cash performance bonds and security deposits | 2,809,580 | 2,832,252 |
| Total current liabilities | 4,358,998 | 4,287,975 |
| Other liabilities | 21,152 | 21,666 |
| Total Liabilities | 4,380,150 | 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, 32,931,485 and 32,922,061 shares issued and outstanding as of March 31, 2004 and December 31, 2003, respectively | 329 | 329 |
| Class B common stock, $0.01 par value, 3,138 shares authorized, issued and outstanding | — | — |
| Additional paid-in capital | 196,588 | 195,222 |
| Unearned restricted stock compensation | (767) | (941) |
| Retained earnings | 405,794 | 368,312 |
| Accumulated net unrealized gains on securities | 1,097 | 73 |
| Total Shareholders' Equity | 603,041 | 562,995 |
| Total Liabilities and Shareholders' Equity | $4,983,191 | $4,872,636 |

See accompanying notes to consolidated financial statements.

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**CHICAGO MERCANTILE EXCHANGE HOLDINGS INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
(in thousands, except share and per share data)
(unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Revenues | | |
| Clearing and transaction fees | $ 122,952 | $ 102,399 |
| Clearing and transaction services | 12,478 | 180 |
| Quotation data fees | 15,490 | 11,799 |
| Access fees | 3,990 | 3,722 |
| Communication fees | 2,498 | 2,416 |
| Investment income | 3,097 | 1,146 |
| Securities lending interest income | 3,457 | 2,857 |
| Other | 5,585 | 4,081 |
| Total Revenues | 169,547 | 128,600 |
| Securities lending interest expense | (3,175) | (2,584) |
| Net Revenues | 166,372 | 126,016 |
| Expenses | | |
| Compensation and benefits | 40,580 | 33,244 |
| Occupancy | 6,705 | 6,281 |
| Professional fees, outside services and licenses | 8,083 | 7,378 |
| Communications and computer and software maintenance | 12,249 | 12,117 |
| Depreciation and amortization | 12,795 | 13,211 |
| Marketing, advertising and public relations | 2,514 | 5,602 |
| Other | 6,034 | 4,429 |
| Total Expenses | 88,960 | 82,262 |
| Income before income taxes | 77,412 | 43,754 |
| Income tax provision | (31,352) | (17,633) |
| Net Income | $ 46,060 | $ 26,121 |
| Earnings per Common Share: | | |
| Basic | $ 1.40 | $ 0.80 |
| Diluted | 1.35 | 0.77 |
| Weighted average number of common shares: | | |
| Basic | 32,932,354 | 32,534,483 |
| Diluted | 34,046,784 | 33,863,591 |

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)
(unaudited)

| | Class A Common Stock | Class B Common Stock | Common Stock and Additional Paid-In Capital | Unearned Restricted Stock Compensation | Retained Earnings | Accumulated Net Unrealized Gains On Securities | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| | Shares | Shares | Amount | | | | |
| Balance December 31, 2003 | 32,922,061 | 3,138 | $ 195,551 | $ (941) | $ 368,312 | $ 73 | $ 562,995 |
| Comprehensive income: | | | | | | | |
| Net income | | | | | 46,060 | | 46,060 |
| Change in net unrealized gain on securities, net of tax of $683 | | | | | | 1,024 | 1,024 |
| Total comprehensive income | | | | | | | 47,084 |
| Exercise of stock options | 9,424 | | 207 | | | | 207 |
| Tax benefit related to employee stock compensation | | | 234 | | | | 234 |
| Quarterly cash dividends on common stock of $0.26 per share | | | | | (8,578) | | (8,578) |
| Stock-based compensation | | | 925 | | | | 925 |
| Amortization of unearned restricted stock compensation | | | | 174 | | | 174 |
| Balance March 31, 2004 | 32,931,485 | 3,138 | $ 196,917 | $ (767) | $ 405,794 | $ 1,097 | $ 603,041 |
| Balance December 31, 2002 | 32,530,372 | 3,138 | $ 179,994 | $ (665) | $ 266,810 | $ — | $ 446,139 |
| Net income | | | | | 26,121 | | 26,121 |
| Exercise of stock options | 1,200 | | 26 | | | | 26 |
| Cash dividends on common stock of $0.14 per share | | | | | (4,563) | | (4,563) |
| Stock-based compensation | | | 528 | | | | 528 |
| Amortization of unearned restricted stock compensation | | | | 100 | | | 100 |
| Balance March 31, 2003 | 32,531,572 | 3,138 | $ 180,548 | $ (565) | $ 288,368 | $ — | $ 468,351 |

See accompanying notes to consolidated financial statements.

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**CHICAGO MERCANTILE EXCHANGE HOLDINGS INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(in thousands)
(unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | **2004** | **2003** |
| Cash Flows from Operating Activities: | | |
| Net income | $ 46,060 | $ 26,121 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 12,795 | 13,211 |
| Stock-based compensation | 1,099 | 628 |
| Deferred income tax benefit | (92) | (3,225) |
| Loss on investment in joint venture | 1,035 | 1,392 |
| Amortization of purchased intangibles | 37 | — |
| Gain on disposal of fixed assets | (1) | (19) |
| Decrease in allowance for doubtful accounts | (62) | (59) |
| Increase in accounts receivable | (25,302) | (12,784) |
| Decrease in other current assets | 5,492 | 284 |
| Decrease (increase) in other assets | (638) | 2,130 |
| Decrease in accounts payable | (11,296) | (385) |
| Increase in other current liabilities | 10,809 | 9,286 |
| Increase (decrease) in other liabilities | (514) | 1,350 |
| Net Cash Provided by Operating Activities | 39,422 | 37,930 |
| Cash Flows from Investing Activities: | | |
| Purchases of property, net | (9,018) | (10,821) |
| Purchase of intangible assets | (4,765) | — |
| Capital contributions to joint venture | — | (3,413) |
| Purchases of marketable securities | (29,738) | — |
| Proceeds from sales and maturities of marketable securities | 15,819 | — |
| Net Cash Used in Investing Activities | (27,702) | (14,234) |
| Cash Flows from Financing Activities: | | |
| Payments on long-term debt | (487) | (1,465) |
| Cash dividends | (8,578) | (4,563) |
| Proceeds from exercised stock options | 207 | 26 |
| Net Cash Used in Financing Activities | (8,858) | (6,002) |
| Net increase in cash and cash equivalents | 2,862 | 17,694 |
| Cash and cash equivalents, beginning of period | 185,124 | 339,260 |
| Cash and cash equivalents, end of period | $ 187,986 | $ 356,954 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Interest paid | $ 18 | $ 121 |
| Income taxes paid | 2,068 | 1,238 |

See accompanying notes to consolidated financial statements.

## CHICAGO MERCANTILE EXCHANGE HOLDINGS INC. AND SUBSIDIARIES
## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of Presentation

The accompanying interim consolidated financial statements have been prepared by Chicago Mercantile Exchange Holdings Inc. (CME Holdings) without audit. Certain notes and other information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, the accompanying consolidated financial statements include all adjustments necessary to present fairly the financial position of CME Holdings as of March 31, 2004 and December 31, 2003, and the results of its operations and its cash flows for the periods indicated.

The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in Exhibit 13.1 of the Chicago Mercantile Exchange Holdings Inc. Annual Report on Form 10-K for the year ended December 31, 2003. Quarterly results are not necessarily indicative of results for any subsequent period.

### 2. Performance Bonds and Security Deposits

Each firm that clears futures and options on futures contracts traded on Chicago Mercantile Exchange Inc. (CME or the exchange) is required to deposit and maintain specified performance bonds in the form of cash, funds deposited in the various Interest Earnings Facility (IEF) programs, U.S. Government and certain foreign government securities or bank letters of credit. These performance bonds are available only to meet the financial obligations of that clearing firm to the exchange. Cash performance bonds and security deposits may fluctuate due to the investment choices available to clearing firms and the change in the amount of deposits required. As a result, these assets may vary significantly over time. See Note 6 of Notes to Consolidated Financial Statements in Exhibit 13.1 to CME Holdings Annual Report on Form 10-K for the year ended December 31, 2003.

### 3. Guarantees

*Interest Earning Facility.* 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 IEF program. The first IEF was organized in 1997 as two limited liability companies. Interest earned, net of expenses, is passed on to participating clearing firms. The principal of these first IEFs totaled $174.1 million at March 31, 2004 and is guaranteed by the exchange as long as clearing firms maintain investment balances in this portfolio. The investment portfolio of these facilities is managed by two of the exchange’s approved settlement banks and eligible investments include U.S. Treasury bills and notes, U.S. Treasury strips and reverse repurchase agreements. The maximum average portfolio maturity is 90 days, and the maximum maturity for an individual security is 13 months. If funds invested in the IEF are required to be liquidated due to a clearing firm redemption transaction and funds are not immediately available due to lack of liquidity in the investment portfolio, default of a repurchase counterparty, or loss in market value, CME guarantees the amount of invested funds. FASB Interpretation (FIN) No. 45, “Guarantor’s Accounting and Disclosure Requirements of Guarantees of Indebtedness of Others,” requires that an entity (CME) issuing a guarantee recognize, at the inception of the guarantee, a liability equal to the fair value of the guarantee. CME has evaluated its requirements under FIN No. 45 and concluded that no significant liability is required to be recorded.

*Intellectual Property Indemnifications.* Some agreements with customers accessing GLOBEX and utilizing our market data services and SPAN software contain indemnifications from intellectual property claims that may be made against them as a result of their use of these products. The potential future claims relating to these indemnifications cannot be estimated and, therefore, in accordance with FIN No. 45, no liability has been recorded.

### 4. Stock Options

In the first quarter of 2004, CME granted additional stock options totaling 18,200 shares to various employees under the Omnibus Stock Plan. The options vest over a five-year period, with 20% vesting one year after the grant date and on that same date in each of the following four years. The options have a 10-year term with exercise prices ranging from $72.36 to $95.12, the market prices at the grant dates. In accordance with Statement of Financial Accounting Standards (SFAS) Statement No. 123 “Accounting for Stock-Based Compensation,” as amended, the fair value of the options granted to employees was $0.5 million, measured at the grant date using the Black-Scholes method of valuation. A risk-free rate of 3.35% was used over a period of six years with volatility factors ranging from 29.4% to 31.8% and a 1.1% dividend yield. This compensation expense will be recognized on an accelerated basis over the vesting period.

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The following table summarizes stock option activity for the three months ended March 31, 2004:

| | Number of Shares | |
|---|---|---|
| | Class A | Class B |
| Balance at December 31, 2003 | 2,378,214 | 112 |
| Granted | 18,200 | — |
| Exercised | (9,424) | — |
| Cancelled | (52,720) | — |
| Balance at March 31, 2004 | 2,334,270 | 112 |

Total stock options and the portion that were exercisable at March 31, 2004 were as follows:

| | | Total Options Outstanding | Exercisable Shares |
|---|---|---|---|
| Former CEO Option: | | | |
| Tranche A: | Class A Shares | 454,159 | 454,159 |
| | Class B Shares | 49 | 49 |
| Tranche B: | Class A Shares | 575,431 | 575,431 |
| | Class B Shares | 63 | 63 |
| Employee Options: | | | |
| Class A Shares | | 1,304,680 | 441,870 |
| Total Stock Options | | 2,334,382 | 1,471,572 |

**5. Earnings Per Share**

Basic earnings per share is computed by dividing net income by the weighted average number of shares of all classes of common stock outstanding for each reporting period. Diluted earnings per share reflects the increase in shares using the treasury stock method to reflect the impact of an equivalent number of shares of common stock if stock options and restricted stock awards were exercised or converted into common stock. The dilutive effect of the option granted to the former CEO is calculated as if the entire option, including the Class A share and Class B share portions of the option, would be satisfied through the issuance of Class A shares. The diluted weighted average number of common shares outstanding at March 31, 2004, excludes the incremental effect related to 19,700 outstanding stock options that would be anti-dilutive.

| | Three Months Ended March 31 | |
|---|---|---|
| | 2004 | 2003 |
| | *(in thousands, except share and per share data)* | |
| Net income | $ 46,060 | $ 26,121 |
| Weighted Average Number of Common Shares: | | |
| Basic | 32,932,354 | 32,534,483 |
| Effect of stock options | 1,079,150 | 1,286,684 |
| Effect of restricted stock grants | 35,280 | 42,424 |
| Diluted | 34,046,784 | 33,863,591 |
| Earnings per Share: | | |
| Basic | $ 1.40 | $ 0.80 |
| Diluted | 1.35 | 0.77 |

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Results of Operations for the Three Months Ended March 31, 2004 Compared to the Three Months Ended March 31, 2003**

**Overview**

Our operations for the three months ended March 31, 2004 resulted in net income of $46.1 million compared to net income of $26.1 million for the three months ended March 31, 2003. The increase in net income resulted primarily from a 32.0% increase in net revenues that was only partially offset by an 8.1% increase in operating expenses. The increase in net revenues was driven by a 20.1% increase in clearing and transaction fees attributed to a 24.8% increase in total trading volume during the first quarter of 2004 when compared to the first quarter of 2003, as well as an incremental $12.3 million of revenue resulting from clearing and transaction processing services provided to the Chicago Board of Trade (CBOT). Contributing to the $6.7 million overall increase in expenses was $7.3 million related to compensation and benefits as well as a $1.6 million increase in the other expense category. This was partially offset by a $3.1 million reduction in advertising expenses in the first quarter of 2004 as a result of the brand advertising campaign in the first quarter of 2003 for which there was no similar expense in the first quarter of 2004.

Trading volume for the three months ended March 31, 2004 totaled 182.7 million contracts, representing an average daily trading volume of 2.9 million contracts. This was a 24.8% increase over the 146.4 million contracts traded during the same period in 2003 that represented an average daily trading volume of 2.4 million contracts. Average daily volume for the month of March 2004 was 3.1 million contracts per day, the highest average daily volume in any month in CME history. In addition, 51.0% of our trading volume in March 2004 was generated on GLOBEX, our electronic trading platform, the highest percentage of trading volume on GLOBEX in our history.

**Revenues**

Total revenues increased $40.9 million, or 31.8%, from $128.6 million for the three months ended March 31, 2003 to $169.5 million for the three months ended March 31, 2004. Net revenues increased $40.4 million, or 32.0%, from the first quarter of 2003 to the same time period in 2004. The increase in revenues was attributable primarily to a 22.7% increase in average daily trading volume in the three months ended March 31, 2004 when compared to the three months ended March 31, 2003. In the first quarter of 2004, GLOBEX volume represented 49.6% of total trading volume, or nearly 1.5 million contracts per day, a 37.5% increase over the same period in 2003. The increase in electronic trading volume was primarily the result of interest rate and foreign currency trading volume growth. Increased trading volume levels resulted from: GLOBEX system enhancements improving speed, reliability and distribution; continued volatility in currencies; interest rate volatility driven by anticipation of interest rate movement by the U.S. Federal Reserve Board; geopolitical and economic uncertainty; increased customer demand for the liquidity provided by our markets; product offerings that allowed customers to manage their risks; and the introduction of incentive programs to enhance liquidity on GLOBEX and attract new customers. The additional clearing and transaction fees resulting from the increased trading volume were augmented by fees for clearing and transaction processing services provided to the CBOT for all of their products as of January 2, 2004, increased revenue from quotation data fees, additional interest income, increased fees for managing our IEF programs and greater trading revenue from GFX, our wholly owned subsidiary that utilizes GLOBEX to provide liquidity in foreign exchange and Eurodollar futures contracts.

*Clearing and Transaction Fees.* Clearing and transaction fees, which include clearing fees, GLOBEX electronic trading fees and other volume-related charges, increased $20.6 million, or 20.0%, from $102.4 million for the three months ended March 31, 2003 to $123.0 million for the three months ended March 31, 2004. A significant portion of the increase was attributable to the 22.7% increase in average daily trading volume. In addition to the increase in trading volume, there was an increase in the percentage of trading volume executed through GLOBEX, for which additional fees are assessed. In the first quarter of 2004, GLOBEX average daily trading volume was nearly 1.5 million contracts, or 49.6% of total trading volume compared to nearly 1.1 million, or 44.3% during the same period in 2003. All of our product areas, with the exception of commodity products, experienced growth in GLOBEX volume during the three months ended March 31, 2004 when compared to the three months ended March 31, 2003. The volume percentage increase was higher than the increase in transaction fees due to a lower average rate, or revenue, per contract for the first quarter 2004 when compared to the same period in 2003.

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The average rate, or revenue, per contract decreased from $0.699 for the three months ended March 31, 2003 to $0.673 for the same period in 2004. The average rate per contract decreased primarily due to increased volume of our TRAKRS contracts. The average rate per TRAKRS contract increased to $0.028 in the first quarter of 2004 from $0.012 for the same period in 2003 due primarily to $0.1 million of fee adjustments related to prior periods. If volume and fees for TRAKRS were excluded, our average rate per contract would have increased by approximately $0.026 to $0.699 for the three months ended March 31, 2004 and by $0.005 to $0.704 for the same period in 2003. The average rate per contract in the first quarter of 2004 was further reduced as a result of the decrease in the percentage of trades, excluding TRAKRS contracts, executed by non-member customers from 22% for the first quarter of 2003 to 21% for the first quarter of 2004. We believe our lower fee structure for members has resulted in the acquisition of trading rights by parties intending to trade significant volumes on our exchange, creating an increase in member volume. In addition, there was a shift in the product mix to our lowest priced product, Eurodollars, from products that generate more revenue per contract. Partially offsetting these decreases was the change that was effective March 1, 2003 to our tiered pricing structure for Eurodollar products. The thresholds for obtaining the tiered pricing discounts were increased and the amount of the discount was decreased. As a result, the average rate per contract during the first quarter of 2004 was approximately $0.006 greater than if the tiered pricing had remained unchanged. In addition, the expiration of the Eurodollar back month incentive program that was in effect from March 1, 2003 to December 31, 2003 resulted in an increase to the average rate per contract of approximately $0.002 for the three months ended March 31, 2004 when compared to the same period in 2003.

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

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **Product Area** | **2004** | **2003** | **Percentage Increase** |
| Interest Rate | 1,417,965 | 1,121,236 | 26.5% |
| Equity | 1,302,840 | 1,118,142 | 16.5 |
| Foreign Exchange | 188,229 | 126,535 | 48.8 |
| Commodity | 37,591 | 34,706 | 8.3 |
| Total Volume | 2,946,625 | 2,400,619 | 22.7 |
| GLOBEX Volume | 1,461,543 | 1,062,880 | 37.5 |
| GLOBEX Volume as a Percent of Total Volume | 49.6% | 44.3% | |
| Clearing and Transaction Fee Revenues (in thousands) | $ 122,952 | $ 102,399 | |
| Average Rate per Contract | $ 0.673 | $ 0.699 | |

We experienced an increase in our interest rate volume in the first quarter of 2004 when compared to the first quarter of 2003. In 2004, there was uncertainty related to interest rate levels that was not evident in the first quarter of 2003, which contributed to higher volume levels in the three months ended March 31, 2004. In addition, significant fee reductions for customers, market makers and increased usage of hand held trading units on our trading floor contributed to an increase in Eurodollar GLOBEX volume. In the first quarter of 2004, 11.0% of our interest rate volume was conducted on GLOBEX compared to 3.0% during the same period in 2003. Our equity product volume was influenced by increased distribution to customers through GLOBEX. The volatility in U.S. equity markets in the first quarter of 2003 was not as evident during the first quarter of 2004. However, despite the lack of volatility, our equity product volume grew 16.5% during the first quarter of 2004 when compared to the first quarter of 2003 and 7.9% during the same period when excluding TRAKRS products. Our foreign exchange volume has benefited from increased volatility as well as improvements to GLOBEX. In the first quarter of 2004, 60.2% of our foreign exchange volume was conducted through GLOBEX compared to 35.6% during the same period in 2003. In addition, our central counterparty clearing makes our foreign exchange products increasingly attractive to large banks and investment banks. Price levels and volatility patterns contributed to the increase in volume in our commodity products during the first quarter of 2004 when compared to the first quarter of 2003.

During the first quarter of 2004, we introduced pricing incentive programs to further develop our customer base in North America and Asia:

- Effective April 19, we introduced a new Electronic Corporate Membership Program to offer a flexible, cost-effective alternative for electronic proprietary trading groups and trading arcades that are not eligible for existing membership categories and fee incentives. Program participants will be eligible for special GLOBEX transaction and clearing fee rates of 44 cents per side for all CME interest rate, commodity, foreign exchange and E-mini stock index products. Applicable membership requirements will be waived through October 2005. CME members who have held trading privileges during the last two years are not eligible for the new program.
- Additionally, on March 1 we launched a new 18-month Asian Incentive Program for hedge funds and banks located in the Pacific Rim. These organizations represent another potential high-growth customer segment for the exchange. Applicable membership requirements will be waived throughout the term of the program and program participants will be eligible for reduced GLOBEX transaction and clearing fees.

Also, during the first quarter of 2004 we introduced three programs to encourage trading of Eurodollar contracts on GLOBEX:

- As of February 18, 2004, we reduced GLOBEX fees for customers to $0.55 from $0.80 per side.
- Effective March 1, 2004, we expanded the GLOBEX market maker program in our electronic Eurodollar futures market by increasing the number of market makers allowed in the program from 6 to 15 and by extending the program to include CME's regular trading hours session from 7:20 a.m. to 2:00 p.m. (CST). Qualified participants in the expanded market maker program will have all GLOBEX fees waived. In addition, the program allows non-member proprietary trading groups or arcades to participate at a discounted rate for all Eurodollar futures trades.
- Also, from March 1, 2004 through the remainder of the year, we are waiving transaction fees for traders who trade more the 1,000 Eurodollar contracts per day using our handheld trading devices.

On May 1, 2004, we will launch the following programs related to foreign currency products:

- A 12-month GLOBEX fee incentive program designed to encourage equity member firms to increase their proprietary non-automated trading volume. The minimum volume threshold is 150,000 sides per month. The new volume discounts will apply to both GLOBEX and clearing fees. The first 150,000 sides traded in a month will be charged $0.20 per side. All trades in excess of 150,000 sides per month will be charged $0.10 per side.
- An incentive pricing program designed to attract increased electronic trading of foreign exchange contracts by certain members, such as fund managers, by making fees more competitive with alternative trading venues. The GLOBEX trading fees will be lowered for these members to $0.44 from $0.70 per side.
- A non-member electronic automated market maker incentive program designed to attract automated trading systems presently quoting over-the-counter foreign currency trading platforms. The fees will be tiered based on reaching certain volume thresholds.

A substantial portion of our clearing and transaction fees, as well as telecommunications fees and various service charges included in other revenues, 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. We currently have nearly 65 clearing firms. For the three months ended March 31, 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 revenues received from any particular clearing firm.

*Clearing and Transaction Services.* Clearing and transaction services increased $12.3 million from $0.2 million for the three months ended March 31, 2003 to $12.5 million for the three months ended March 31, 2004. The increase was a result of providing clearing and transaction processing services to the CBOT. We began providing clearing services for some CBOT products on November 24, 2003 and, as of January 2, 2004, we began clearing all of CBOT's products. We cleared 136.6 million matched contracts for the CBOT during the three months ended March 31, 2004. For the three months ended March 31, 2003 and 2004, we earned $0.2 million related to NYMEX transaction processing.

*Quotation Data Fees.* Quotation data fees increased $3.7 million, or 31.3%, from $11.8 million for the three months ended March 31, 2003 to $15.5 million for the three months ended March 31, 2004. 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 are now charged $30 per month for each market data screen or device. During the three months ended March 31, 2003, users of the professional service were charged $60 per month for the first screen at each location and $12 per month for each additional screen at the same location. At the end of the first quarter of 2004, there were approximately 63,000 subscribers to our market data and the data was accessible from approximately 175,000 screens and included approximately 32,000 subscribers to our lower-priced non-professional service. This represented a decrease of approximately 3,000 screens displaying our data from March 31, 2003, when the total was approximately 178,000 screens. While the number of subscribers has increased from approximately 55,000 at March 31, 2003, the increase occurred in our lower-priced non-professional E-mini market data service. The change in the number of subscribers, screens and locations from the first quarter of 2003 to the first quarter of 2004 is consistent with the trend experienced over the course of 2003.

For the three months ended March 31, 2004, the two largest resellers of our market data represented nearly 50% of our quotation data fees revenue. Should one of these vendors no longer subscribe to our market data, we believe the majority of that firm’s customers would likely subscribe to our market data through another reseller. Therefore, we do not believe we are exposed to significant risk from the loss of revenue received from any particular market data reseller.

*Access Fees.* Access fees increased $0.3 million, or 7.2%, from $3.7 million for the three months ended March 31, 2003 to $4.0 million for the three months ended March 31, 2004. This increase resulted primarily from an increase in the number of GLOBEX users during the first quarter of 2004, particularly those accessing GLOBEX through our T1 connection.

*Communication Fees.* Communication fees were relatively constant at $2.4 million for the three months ended March 31, 2003 and $2.5 million for the three months ended March 31, 2004. The number of individuals and firms utilizing our communications services and the associated rates have been relatively constant from the first quarter of 2003 to the first quarter of 2004.

*Investment Income.* Investment income increased $2.0 million, or 170.2%, from $1.1 million for the three months ended March 31, 2003 to $3.1 million for the three months ended March 31, 2004. This increase resulted primarily from an increase of approximately $0.5 million in interest income as a result of increased balances in short-term investments of available funds and cash performance bonds and security deposits. In addition, the average rate earned on all investments improved to approximately 1.4% in the first quarter of 2004 compared to approximately 1.2% during the same time period in 2003, representing an increase in investment income of approximately $0.3 million. Another component of the increase in investment income was the $0.5 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. Finally, as a result of the issuance of FIN No. 46 by the FASB in January 2003, the first IEFs that we initiated in 1997 have been determined to be variable interest entities and have been included in our consolidated financial statements beginning with the third quarter of 2003. While this consolidation has no effect on our net income, investment income for the three months ended March 31, 2004 includes $0.6 million of interest income from the first IEFs with a similar increase in our expenses to reflect fees paid for managing these IEFs and the distribution of these IEF earnings to the participants. There was no similar investment income in the first quarter of 2003.

*Securities Lending Interest Income and Expense.* Securities lending interest income increased $0.6 million, or 21.0%, from $2.9 million for the three months ended March 31, 2003 to $3.5 million for the three months ended March 31, 2004. The average balance of proceeds from securities lending activity was $842.3 million for the three months ended March 31, 2003 and $629.2 million for the three months ended March 31, 2004. Securities lending interest expense increased $0.6 million, or 22.9%, from $2.6 million for the three months ended March 31, 2003 to $3.2 million for the three months ended March 31, 2004. This expense is an integral part of our securities lending program and is required to engage in securities lending transactions. Therefore, this expense is presented in the consolidated statements of income as a reduction of total revenues. The net revenue from securities lending represented a return of 0.18% on the average daily balance in the first quarter of 2004 compared to 0.13% in the first quarter of 2003.

*Other Revenue.* Other revenue increased $1.5 million, or 36.9%, from $4.1 million for the three months ended March 31, 2003 to $5.6 million for the three months ended March 31, 2004. This increase is attributed primarily to a $0.7 million increase in the trading revenue generated by GFX, a $0.4 million decrease in our share of the OneChicago net loss and a $0.3 million increase in fees associated with managing our IEF programs.

**Expenses**

Total operating expenses increased $6.7 million, or 8.1%, from $82.3 million for the three months ended March 31, 2003 to $89.0 million for the three months ended March 31, 2004. This increase was primarily attributable to increases in compensation and benefits as well as other expenses that was partially offset by a reduction in marketing and advertising expenses.

*Compensation and Benefits Expense.* Compensation and benefits expense increased $7.3 million, or 22.1%, from $33.2 million for the three months ended March 31, 2003 to $40.6 million for the three months ended March 31, 2004. There were three significant components to this increase. First, as a result of our improved operating results, the bonus expense for the first quarter of 2004, as accrued under the provisions of our annual incentive plan, increased $3.0 million when compared to the same period in 2003. Second, the average number of employees increased approximately 6%, or by 71 employees, from the first quarter of 2003 to the first quarter of 2004. We had 1,238 employees at March 31, 2004. This increased headcount resulted in additional compensation and benefits expense of approximately $1.9 million. Third, compensation and benefits expense increased from the first quarter of 2003 to the first quarter of 2004 by approximately $2.0 million as a result of annual salary increases and related increases in employer taxes, pension and benefits. Less significant contributors to the expense increase included the $0.5 million increase in the earnings of the deferred compensation plan which resulted in increased compensation and benefits expense for the first three months of 2004 and a $0.5 million increase in stock-based compensation.

*Occupancy Expense.* Occupancy expense increased $0.4 million, or 6.8%, from $6.3 million for the three months ended March 31, 2003 to $6.7 million for the three months ended March 31, 2004. The impact of additional space we lease at our main location resulted in greater rent and operating expenses.

*Professional Fees, Outside Services and Licenses Expense.* Professional fees, outside services and licenses expense increased $0.7 million, or 9.6%, from $7.4 million for the three months ended March 31, 2003 to $8.1 million for the three months ended March 31, 2004. License fees relating to our equity products increased $0.4 million from the first quarter of 2003 to the first quarter of 2004 as a result of increased trading volume in these products. In addition, we experienced a $0.7 million increase in other professional fees related primarily to product development, security and director nominee recruiting efforts. Partially offsetting these increases was a $0.4 million decrease in legal fees. In the first quarter of 2003, we incurred legal fees related to the secondary offering completed in the second quarter of 2003. There was no similar expense in the first quarter of 2004.

*Communications and Computer and Software Maintenance Expense.* Communications and computer and software maintenance expense increased $0.1 million, or 1.1%, from $12.1 million for the three months ended March 31, 2003 to $12.2 million for the three months ended March 31, 2004. This expense is affected primarily by growth in electronic trading. In the first quarter of 2004, we experienced greater communications expense that included a $0.3 million increase for connections to GLOBEX in addition to the impact of a $0.5 million refund from our telecommunications provider in March 2003 as a result of a billing error that related to a prior period. There was no similar refund in the first quarter of 2004. The increase in GLOBEX communication expenses was offset by a decrease in other communication expenses as a result of network consolidation and cost reduction efforts. Our computer and software maintenance costs are driven by the number of transactions processed, not the volume of contracts traded. We processed nearly 85% of total transactions electronically in the first quarter of 2004 compared to nearly 80% in the first quarter of 2003, which represented approximately 50% and 45%, respectively, of total contracts traded. As a result, our expenses for software, software maintenance and hardware maintenance increased $0.3 million from the first quarter of 2003 to the first quarter of 2004.

*Depreciation and Amortization Expense.* Depreciation and amortization expense decreased $0.4 million, or 3.1%, from $13.2 million for the three months ended March 31, 2003 to $12.8 million for the three months ended March 31, 2004. The decrease was primarily a result of a $3.6 million reduction related to assets that became fully depreciated after March 31, 2003, as well as asset retirements recorded in December 2003. This decrease was partially offset by $3.2 million of depreciation on asset additions for the twelve months ended March 31, 2004. Capital expenditures totaled $63.0 million for the twelve months ended December 31, 2003, with technology-related purchases representing approximately 76% of total purchases, and totaled $9.0 million for the first quarter of 2004.

*Marketing, Advertising and Public Relations Expense.* Marketing, advertising and public relations expense decreased $3.1 million, from $5.6 million for the three months ended March 31, 2003 to $2.5 million for the three months ended March 31, 2004. In the first quarter of 2003, we incurred $5.1 million of expense associated with our brand advertising campaign. There was no similar expense in the first quarter of 2004. Partially offsetting this decreased brand advertising expense was an increase in product advertising and other marketing-related efforts in the first quarter of 2004.

*Other Expense.* Other expense increased $1.6 million, or 36.2%, from $4.4 million for the three months ended March 31, 2003 to $6.0 million for the three months ended March 31, 2004. The primary factor in this increase was a $0.5 million expense related to the consolidation of the first IEF program that resulted from the adoption of FIN No. 46 in the third quarter of 2003. This expense represents the distribution of the net earnings of these IEFs to the participants in the program. In addition, we experienced a $0.3 million increase in currency delivery fees resulting from increased currency delivery revenue, a $0.2 million increase in bank fees as well as increases in other general administrative expenses.

**Income Tax Provision**

We recorded a tax provision of $31.4 million for the three months ended March 31, 2004 compared to $17.6 million for the same period in 2003. The effective tax rate was 40.5% for the first quarter of 2004, compared to 40.3% for the first quarter of 2003.

**Liquidity and Capital Resources**

*Liquidity and Cash Management.* Cash and cash equivalents increased $2.9 million during the three months ended March 31, 2004, totaling $188.0 million at March 31, 2004 compared to $185.1 million at December 31, 2003. The increase resulted primarily from cash provided by operations of $39.4 million that was substantially offset by purchases of marketable securities, net of sales and maturities, of $13.9 million; $9.0 million of property purchased, net of trade-in allowances; and our regular quarterly dividend payment that totaled $8.6 million. The balance retained in cash and cash equivalents was a function of anticipated or possible short-term cash needs, prevailing interest rates, our investment policy and alternative investment choices and any dividends that we pay.

Current assets readily convertible into cash include accounts receivable and marketable securities. When combined with cash and cash equivalents, these assets represented 76.5% of our total assets at March 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 from year-end 2003 to March 31, 2004 resulted primarily from cash generated by operations during the first three months of 2004 that was partially offset by additions to capital assets and a dividend payment. Cash performance bonds and security deposits, as well as collateral from securities lending activities and IEF balances, are excluded from total assets and total liabilities for purposes of this comparison as these balances may vary significantly over time and there are equal and offsetting current liabilities that correspond to these current assets.

Included in other assets are deferred tax assets of $13.8 million and $14.0 million at March 31, 2004 and December 31, 2003, respectively. These deferred tax assets result primarily from depreciation, stock-based compensation and deferred compensation. There is no valuation reserve for these assets as we expect to fully realize their value in the future based on our expectation of future taxable income.

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

*Sources and Uses of Cash.* Net cash provided by operating activities was $39.4 million for the three months ended March 31, 2004 and $37.9 million for the same period in 2003. While net income increased from period to period by $20.0 million, the cash provided by operations showed a more modest increase primarily as a result of an increase in accounts receivable and a decrease in accounts payable during the first quarter of 2004. 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 $9.1 million greater in March 2004 than in March 2003. Additional receivables also existed at March 31, 2004 as a result of the clearing services we provided to the CBOT that were fully implemented on

January 2, 2004. There was no similar receivable at March 31, 2003. We experienced a decrease in accounts payable of $11.3 million during the three month period ended March 31, 2004 compared to a decrease of $0.4 million for the same period in 2003. This change was driven primarily by the change in payables for membership sales in the respective periods as well as a decrease in trade accounts payable. The payable for membership sales arises when funds are deposited to purchase trading rights and the payment of funds to complete the transfer has not yet occurred.

Cash used in investing activities was $27.7 million for the three months ended March 31, 2004 compared to $14.2 million for the three months ended March 31, 2003. The increase of $13.5 million is primarily due to the $13.9 million of purchases of marketable securities in excess of the cash provided by the sale of marketable securities in 2004 as a result of the change in our investment policy that we began to implement in the third quarter of 2003. There were no similar purchases in the same period of 2003. The intellectual property and operating assets of Liquidity Direct Technology, LLC were acquired for $5.3 million, of which $4.8 million represented intangible assets and $0.5 million related to software that is reflected as part of the purchases of property. While no additional contributions to OneChicago were made in the first three months of 2004, additional investments of $3.4 million were made in the first three months of 2003. Cash used to acquire and develop capital assets decreased $1.8 million, from $10.8 million for the first three months of 2003 to $9.0 million for the same period in 2004. For the year 2004, we anticipate capital expenditures will total $60 to $70 million.

Cash used in financing activities was $8.9 million for the three months ended March 31, 2004 compared to $6.0 million for the same period in 2003. The increase resulted primarily from the payment of the regular quarterly dividend that totaled $8.6 million in the first quarter of 2004 compared to $4.6 million in the first quarter of 2003. The increased dividend resulted primarily from our improved cash earnings, the measurement that is used to determine the amount of the dividend, and the increase in our annual dividend target from 20% of the prior year’s cash earnings to 30% of the prior year’s cash earnings that was effective with the dividend payment in the fourth quarter of 2003. In addition, cash used in financing activities for both periods included regularly scheduled payments on long-term debt related to our capital lease obligations.

*Debt Instruments*. As of March 31, 2004, we were contingently liable on irrevocable letters of credit totaling $50.0 million in connection with our mutual offset system with The Singapore Derivatives Exchange Ltd.

**Item 3. 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 change to our investment policy that expands our investment choices and extends the maturity of our investments relative to the investment policy that had been in effect since the third quarter of 2002. Investment choices have been expanded to include primarily U.S. Treasury and agency securities and other securities escrowed by U.S. Treasury securities. Pursuant to this new policy, maturities may now extend to a maximum of 60 months and we plan to hold these investments to maturity.

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

*Interest Rate Risk.* Interest income from marketable securities, short-term cash investments and cash performance bonds and security deposits was $2.2 million in the first quarter of 2004 and $1.4 million in the first quarter of 2003. Our marketable securities experienced net unrealized gains of $1.7 million during the three month period ended March 31, 2004. There were no realized or unrealized gains during the same period of 2003. At March 31, 2004, we owned marketable securities with a fair value of $272.2 million. Contractual maturities and interest coupon rates for fixed rate marketable securities at March 31, 2004 were as follows *(dollars in thousands):*

| Year | Principal Amount | Weighted Average Interest Rate |
|---|---|---|
| 2004 | $ 49,421 | 2.97% |
| 2005 | 67,162 | 2.65 |
| 2006 | 65,271 | 3.95 |
| 2007 | 64,442 | 4.30 |
| 2008 | 16,562 | 3.01 |
| Total | $ 262,858 | 3.50% |
| Fair Value | $ 272,163 | |

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

*Derivatives Trading Risk.* GFX engages in the trading of our foreign exchange and Eurodollar futures contracts on GLOBEX to promote liquidity in our products and subsequently enters into offsetting transactions using futures contracts or spot foreign exchange transactions with approved counterparties in the interbank market to limit market risk. Since these offsetting transactions occur subsequent to the initial trades, intra-day positions, subject to our established trading limits, will exist until the offsetting transaction is completed. This risk will be offset before the end of any trading day. Net position limits equal to $2.0 million of notional value have been established for each trader, representing a maximum exposure at any time of $8.0 million in aggregate notional value. In addition to this trading risk, there is a potential impact on earnings from a change in foreign exchange rates. However, this risk would not be significant.

At March 31, 2004, GFX held futures positions with a notional value of $99.0 million, offset by a similar amount of spot foreign exchange positions. The notional value of futures positions at March 31, 2003 totaled $64.1 million. All positions are marked-to-market through a charge or credit to other revenue on a daily basis. Net trading gains were $2.1 million for the three months ended March 31, 2004 and $1.4 million for the three months ended 2003.

**Item 4. Controls and Procedures**

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

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

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## PART II. OTHER INFORMATION

### Item 4. Submission of Matters to a Vote of Security Holders

(c) A special meeting of the holders of the Class B common stock of Chicago Mercantile Exchange Holdings Inc. was held on March 16, 2004. At the special meeting the following proposal was approved by the Class B shareholders:

To give the Board of Directors the authority, but not the obligation, to transition trading in an orderly fashion in the first and second near-by quarterly expiration Eurodollar futures contract months to our GLOBEX electronic trading system as follows:

(1) in the first near-by quarterly expiration Eurodollar futures contract month, if trading volume on GLOBEX in the first near-by quarterly expiration Eurodollar futures contract during regular trading hours, RTH:

(ii) is less than 25 percent of total RTH trading volume in that contract month for the five trading days beginning April 26, 2004 and ending on, and including, April 30, 2004; or

(ii) for the period subsequent to April 30, 2004, is less than 25 percent of total RTH trading volume in that contract month during three consecutive five day trading periods, as measured on the last full day of each trading week (in each case including the last day of the week); and

(2) in the second near-by quarterly expiration Eurodollar futures contract month, if trading volume on GLOBEX in the second near-by quarterly expiration Eurodollar futures contract during RTH:

(ii) is less than 20 percent of total RTH trading volume in that contract month for the five trading days beginning April 26, 2004 and ending on, and including, April 30, 2004; or

(ii) for the period subsequent to April 30, 2004, is less than 20 percent of total RTH trading volume in that contract month during three consecutive five day trading periods, as measured on the last full day of each trading week (in each case including the last day of the week).

Total RTH trading volume in the applicable contract month will be calculated as open outcry pit trading plus GLOBEX, excluding any pack, bundle or spread that includes any contract other than the two near-by contract months. In addition, with respect to the second near-by quarterly expiration Eurodollar futures contract month, we will suspend the calculation for the four weeks immediately following the expiration of the near-by futures contract.

The results of the vote were as follows:

| Votes For | Votes Against | Abstentions |
|---|---|---|
| 3,196.36 | 652.12 | 36.32 |

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits:

| | |
|---|---|
| 10.1* | Amendment to Clearing Services Agreement, dated as of March 1, 2004, by and between Chicago Mercantile Exchange Inc. and The Board of Trade of the City of Chicago, Inc. |
| 10.2** | Employment Agreement, dated as of March 1, 2004, by and between Chicago Mercantile Exchange Inc. and Scott Robinson. |
| 31.1 | Section 302 Certification—Craig S. Donohue, Chief Executive Officer. |
| 31.2 | Section 302 Certification—David G. Gomach, Managing Director and Chief Financial Officer. |
| 32.1 | Section 906 Certification. |
| 99.1 | Certain Factors That May Affect Our Business. |

* Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934.

** Management contract.

(b) Reports on Form 8-K:

On January 12, 2004, Chicago Mercantile Exchange Holdings Inc. filed a Current Report on Form 8-K reporting under Item 5 that it had issued a press release regarding the acquisition of the assets of Liquidity Direct Technology, LLC.

On February 3, 2004, Chicago Mercantile Exchange Holdings Inc. furnished a Current Report on Form 8-K reporting under Item 12 that it had issued a press release reporting its financial results for the first quarter of 2004.

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**SIGNATURES**

Pursuant to the requirements 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.

**CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.**
(Registrant)

Dated: May 5, 2004

By: /s/ David G. Gomach

Name: David G. Gomach
Title: Managing Director and Chief Financial Officer

**Exhibit 10.1**

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

# AMENDMENT TO
# CLEARING SERVICES AGREEMENT

This Amendment to Clearing Services Agreement (the "Amendment") is entered into as of March 1, 2004, by and between Chicago Mercantile Exchange Inc. ("CME"), a business corporation organized under the laws of the State of Delaware and having its principal office situated at 30 South Wacker Drive, Chicago, Illinois 60606, and The Board of Trade of The City of Chicago, Inc. ("CBOT"), a non share corporation organized under the laws of the State of Delaware and having its principal office situated at 141 W. Jackson Blvd., Chicago, Illinois 60604.

## RECITALS:

**WHEREAS**, CME and CBOT entered into a Clearing Services Agreement (the "CSA") effective as of April 16, 2003, pursuant to which CME provides clearing services to CBOT in respect of trading in CBOT Products; and

**WHEREAS**, CME and CBOT have determined that it is in their mutual best interests to modify the terms of the CSA.

**NOW, THEREFORE**, in consideration of the mutual covenants contained in this Amendment, the parties agree as follows:

A. Modification of Initial Term. The Initial Term, as defined in Section 2 of the CSA, is modified to begin as of the Effective Date of the CSA and terminate on January 10, 2009.

B. *****

C. Entire Agreement. Except as otherwise expressly modified or amended by this Amendment, all terms and conditions contained in the CSA remain in full force and effect and are not altered by this Amendment. Capitalized terms used in this Amendment and not defined herein have the meanings given in the CSA. The CSA and this Amendment constitute the complete agreement of the parties with respect to their subject matter and supersede any other agreements or representations, whether oral or written.

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

**IN WITNESS WHEREOF**, the parties have caused this Amendment to be executed by their duly authorized representatives as of the date written above.

| **CHICAGO MERCANTILE EXCHANGE INC.** | | **THE BOARD OF TRADE OF THE CITY OF CHICAGO, INC.** | |
|---|---|---|---|
| By: | /s/ Craig S. Donohue | By: | /s/ Bernard W. Dan |
| | Craig S. Donohue<br>Chief Executive Officer | | Bernard W. Dan<br>President and Chief Executive Officer |

**Exhibit 10.2**

# EMPLOYMENT AGREEMENT

THIS AGREEMENT, made and entered into this 1st day of March 2004, by and between CHICAGO MERCANTILE EXCHANGE Inc. (“Employer” or “CME”), a Delaware Corporation, having its principal place of business at 20 South Wacker Drive, Chicago, Illinois, and Scott Robinson (“Employee”).

## R E C I T A L S:

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

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

1) **Employment.** Subject to the terms of the Agreement, Employer hereby agrees to employ Employee during the Agreement Term as Managing Director, Corporate Development and Employee hereby accepts such employment. Employee shall report to the Employer’s Chief Executive Officer. The duties of Employee shall include, but not be limited to, the performance of all duties associated with overseeing and directing CME’s mergers and acquisitions activities and serve as an integral member of CME’s senior management team. Employee will be responsible for adding important managerial insight to CME’s strategic planning process and business plan implementation - including mergers and acquisitions, joint ventures, strategic alliances and related activities. Employee will also work with senior executive management and CME’s Board of Directors (“Board”) to further develop and refine CME’s global corporate strategy. Employee will provide such business and professional services in the performance of his duties that are consistent with Employee’s position as Managing Director, Corporate Development, and as shall reasonably be assigned to him by the Chief Executive Officer or Board. Employee shall devote his full time, ability and attention to the business of Employer during the Agreement Term.

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

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

3) **Compensation.**

(a) Annual Base Salary. Effective March 1, 2004, and continuing through March 1, 2007, Employer shall pay to Employee a base salary at a rate not less than $300,000.00 per year ("Base Salary"), payable in accordance with the Employer's normal payment schedule.

(b) Bonuses. Employee shall be eligible to participate in the Employer's Annual Incentive Plan (the "AIP") as in existence or as amended from time to time in accordance with its terms as applicable to Employee. For performance during calendar year 2004, Employee will receive a guaranteed minimum bonus of $300,000.00, payable no later than March 2005, and provided Employee remains on the Employer payroll as of the date the bonus is paid. As a participant in the AIP, Employee will be eligible to receive this minimum or a higher amount not to exceed the maximum level applicable to a Management Team member, which currently is 150% of base earnings. For years after 2004, Employee will continue to participate in the AIP in accordance with its terms as applicable to Employee.

(c) Equity Compensation. Employee shall be eligible to participate in the Employer's Equity Incentive Plan, as in existence or as amended from time to time, in accordance with the terms of the Plan for Managing Directors and members of the Management Team.

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

5) **Expense Reimbursement.** During the Agreement Term, Employer shall reimburse Employee, in accordance with Employer's policies and procedures, for all proper expenses incurred by him in the performance of his duties hereunder. Employee is also eligible to receive reimbursement for relocation and out-of-state commuting expenses as described in the Relocation Assistance Policy provided to him.

6) **Termination.**

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

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

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

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

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

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

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

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

If Employer terminates Employee's employment for Cause, he shall be entitled to accrued Base Salary through the date of the termination of his employment, other accrued

employee benefits to which Employee is entitled upon his termination of employment with Employer, in accordance with the terms of the plans and programs of CME. Upon termination for Cause, Employee will forfeit any unvested or unearned compensation or long-term incentives, unless otherwise provided herein or specified in the terms of the plans and programs of CME.

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

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

(2) a one time lump sum severance payment equal to 1 times his Base Salary as of the date of Employee's termination.

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

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

(a) Employee shall not at anytime during the Agreement Term *or thereafter*, make use of or disclose, directly or indirectly to any competitor or potential competitor of CME, or divulge, disclose or communicate to any person, firm,

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

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

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

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

8) **Non-solicitation**.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If to CME, to:

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

With a copy to:

Kathleen M. Cronin
Managing Director, General Counsel and Corporate Secretary
Chicago Mercantile Exchange Inc.
20 South Wacker Drive
Chicago, IL 60606
(312) 930-3488

If to Employee, to:

Scott Robinson
P.O. Box 215
Delaplane, VA 20144
(540) 364-6247

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

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

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

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

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

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

| **Chicago Mercantile Exchange Inc.** | | **Scott Robinson** | |
|---|---|---|---|
| **By:** | /s/ E. Beth Keeve | /s/ Scott Robinson | |
| **Its:** | Managing Director, Organizational Development | | |
| **Date:** | March 1, 2004 | **Date:** | March 1, 2004 |

**EXHIBIT 31.1**

**SECTION 302 CERTIFICATION**

I, Craig S. Donohue, Chief Executive Officer of the Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) 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.

May 5, 2004 By: /s/ Craig S. Donohue

Name: Craig S. Donohue
Title: Chief Executive Officer

**EXHIBIT 31.2**

## SECTION 302 CERTIFICATION

I, David G. Gomach, Managing Director & Chief Financial Officer of the Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) 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.

May 5, 2004 By: /s/ David G. Gomach

Name: David G. Gomach
Title: Managing Director & Chief Financial Officer

**EXHIBIT 32.1**

**SECTION 906 CERTIFICATION**

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 Quarterly Report on Form 10-Q of Chicago Mercantile Exchange Holdings Inc. (the “Company”) for the quarter ended March 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 David G. Gomach, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Craig S. Donohue

Name: Craig S. Donohue
Title: Chief Executive Officer
Date: May 5, 2004

By: /s/ David G. Gomach

Name: David G. Gomach
Title: Chief Financial Officer
Date: May 5, 2004

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by § 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or is staff upon request.

## Certain Factors that May Affect Our Business

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

*Our shareholders who are members and own trading rights on our exchange, and who may have interests that differ from or conflict with those of shareholders who are not also members, currently own more than a majority of our voting stock. Shareholders who own trading rights on our exchange account for 12 of the 20 directors on our Board and currently have the ability to control the election of all directors. Our dependence on the trading and clearing activities of our members, combined with their ability to control the election of directors, enables them to exert substantial influence over the operation of our business.*

As of March 31, 2004, we estimated that our shareholders who own trading rights on our exchange together owned, of record, shares representing approximately 68% of our outstanding Class A common stock. As a result, they will, if voting in the same manner, control all matters submitted to our shareholders for approval, including electing directors and approving changes of control. As of 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 own memberships on our exchange. In addition, we are dependent on the revenues from the trading and clearing activities of our members. This dependence also gives them substantial influence over how we operate our business.

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

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

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

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

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

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

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

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

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

- economic, political and market conditions;
- broad trends in industry and finance;
- changes in levels of trading activity, price levels and price volatility in the derivatives markets and in underlying fixed-income, equity, foreign exchange and commodity markets;
- legislative and regulatory changes;

- competition;
- changes in government monetary policies and foreign exchange rates;
- consolidation in our customer base and within our industry; and
- inflation.

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

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

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

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

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

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

Both newly formed organizations and established exchanges are increasingly employing trading systems that provide fast, low-cost execution of trades by matching buyers and sellers

electronically. These organizations are attracting order flow away from some traditional open outcry trading markets. Many market participants believe that these electronic trading systems represent a threat to the continued viability of the open outcry method of trading. Some major European and Asian futures exchanges have closed their traditional open outcry trading facilities and replaced them entirely with electronic systems. Although we offer an electronic trading system, in the first quarter of 2004 approximately 39% of our revenues from clearing and transaction fees were generated by open outcry trading. Reductions in our open outcry trading volume that are not offset by increases in our electronic trading volume would have a material adverse effect on our revenue, earnings and stock price.

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

The future success of our business depends in large part on our ability to create interactive electronic marketplaces in a wide range of derivatives products that have the required functionality, performance, reliability, speed and liquidity to attract and retain customers. A significant portion of our current overall volume is generated through electronic trading of our E-mini S&P 500 and E-mini NASDAQ-100 products. However, during the first quarter of 2004 approximately 49% of our volume and approximately 39% of our clearing and transaction fee revenues were generated through our open outcry trading facilities. Most of that open outcry volume is related to trading in Eurodollar contracts. Our electronic functionality may not be capable of accommodating all of the complex trading strategies typically used for trading our Eurodollar contracts. We have implemented electronic system upgrades and have acquired technology-related assets and intellectual property of Liquidity Direct to incorporate additional technology into our GLOBEX electronic platform. In addition, we are developing additional functionality to accommodate more Eurodollar trading strategies. We may not complete the development of, or successfully implement the required electronic functionality for, our Eurodollar marketplace, including the integration and operation of the technology-related assets and intellectual property of Liquidity Direct. Moreover, our Eurodollar customers may not accept our electronic trading systems. In either event, our ability to increase our electronic Eurodollar trading volume would be adversely affected. In addition, if we are unable to develop our electronic trading systems to include other products and markets, or if our electronic marketplaces do not have the required functionality, performance, reliability, speed and liquidity, we may not be able to compete successfully in a new environment that we expect to be increasingly dominated by electronic trading.

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

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

products could be detrimental to our business. In addition, we may expend resources on the maintenance of our open outcry facilities that could be more efficiently used to develop our capacity and reduce our costs in the increasingly competitive market for electronic trading facilities.

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

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

- provide reliable and cost-effective services to our customers;
- develop, in a timely manner, the required functionality to support electronic trading in some of our key products in a manner that is competitive with the functionality supported by other electronic markets;
- match fees of our competitors that offer only electronic trading facilities;
- increase the number of trading and order routing terminals capable of sending orders to our floor and to our electronic trading system;
- attract independent software vendors to write front-end software that will effectively access our electronic trading system and automated order routing system;
- respond to technological developments or service offerings by competitors; and
- generate sufficient revenue to justify the substantial capital investment we have made and will continue to make to develop our electronic trading facilities.

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

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

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

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

The derivatives, securities and financial services industries are highly competitive. We expect that competition will intensify in the future. Our current and prospective competitors, both domestically and around the world, are numerous. They include securities and securities option exchanges, futures exchanges, over-the-counter, or OTC, markets, clearing organizations, market data and information vendors, electronic communications networks, crossing systems and similar entities, consortia of large customers, consortia of some of our clearing firms and electronic brokerage and dealing facilities. At December 31, 2003, there were 52 futures exchanges located in 27 countries, including 7 futures exchanges in the United States. On February 8, 2004, Eurex commenced operation of its U.S. derivatives exchange, Eurex U.S. Eurex U.S.'s initial competitive efforts are directed at CBOT, but we anticipate that it may begin trading our products in the near future. In March 2004, Euronext.liffe began listing and trading our Eurodollar future 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. Recent changes in federal law allow institutions that have been major participants on our exchange to trade the same or similar products among themselves without utilizing any exchange or trading system. Many of our competitors and potential competitors have greater financial, marketing, technological and personnel resources than we do. These factors may enable them to develop similar products, to provide lower transaction costs and better execution to their customers and to carry out their business strategies more quickly and efficiently than we can. In addition, our competitors may:

- respond more quickly to competitive pressures due to their corporate governance structures, which may be more flexible and efficient than our corporate governance structure;
- develop products that are preferred by our customers;
- develop risk transfer products that compete with our products;
- price their products and services more competitively;
- develop and expand their network infrastructure and service offerings more efficiently;
- utilize better, more user-friendly and more reliable technology;
- take greater advantage of acquisitions, alliances and other opportunities;
- more effectively market, promote and sell their products and services;
- better leverage existing relationships with customers and alliance partners or exploit better recognized brand names to market and sell their services; and
- exploit regulatory disparities between traditional, regulated exchanges and alternative markets that benefit from a reduced regulatory burden and lower-cost business model.

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

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

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

The Commodity Futures Modernization Act also permits bank clearing organizations and clearing organizations regulated by the Securities and Exchange Commission, or 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 approximately 78% of our trading volume during the first quarter of 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 would negatively impact liquidity and trading volume in our products and reduce our revenues. A loss or material reduction in the number of our clearing firms and the capital they provide to guarantee their trades and the trades of their customers would also diminish the strength and attractiveness of our clearing house and our markets.

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

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

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

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

We are substantially dependent on trading volume from three product offerings for a significant portion of our clearing and transaction fee revenues and profits. The clearing and transaction fee revenues attributable to transactions in our Eurodollar contracts, all our contracts based on the S&P 500 and NASDAQ-100 (including our E-mini products), and privately negotiated foreign exchange transactions using our clearing house were approximately 36%, 30%, 12% and 7%, respectively, of our total clearing and transaction fee revenues during the first quarter of 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 Eurodollar product serves as a global financial benchmark, but we cannot assure you that, in the future, other products will not become preferred alternatives to the Eurodollar contract as a means of managing or speculating on interest rate risk. We also cannot assure you that competitors will not enter the Eurodollar market. For example, in 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.

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

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

We cannot assure you that either of our Standard & Poor’s or Nasdaq license agreements will be renewed when they terminate. In addition, we cannot assure you that others will not succeed in creating stock index futures based on information similar to that which we have obtained by license or that market participants will not increasingly use alternative instruments, including securities and options based on the S&P and NASDAQ indexes, to manage or speculate on U.S. stock risks. We also cannot assure you that Nasdaq will not directly or indirectly through other exchanges offer security futures contracts that compete with our broad-based index futures contracts based upon NASDAQ indexes. Currently, NQLX, LLC offers futures contracts based on an exchange-traded fund called QQQ, which may compete with our NASDAQ-100 futures contracts. Any of these events could have an adverse effect on our trading volume, revenues and profits.

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

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

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

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

Our anticipated net revenues and net income from providing these clearing services will be dependent on CBOT’s ability to maintain and/or expand its trading volume, which is subject to a number of factors beyond CBOT’s control. As a futures exchange, CBOT’s ability to maintain or expand its volume and operate its business is subject to the same types of risks to which we are subject. For example, on February 8, 2004, Eurex launched a registered U.S. derivatives

exchange, Eurex U.S., which initially offers, among other products, contracts on U.S. Treasury notes and bonds in direct competition with contracts currently traded at CBOT. Our net income from the clearing services we provide to CBOT will also depend on our ability to control our costs associated with providing the clearing services.

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

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

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

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

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

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

We cannot assure you that we will not experience systems failures from power or telecommunications failure, acts of God, war or terrorism, human error, natural disasters, fire, sabotage, hardware or software malfunctions or defects, computer viruses, acts of vandalism or similar events. If any of our systems do not operate properly or are disabled, including as a result of system failure, 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 our GLOBEX platform. The impact of these events has not been material.

Our status as a CFTC registrant requires that our trade execution and communications systems be able to handle anticipated present and future peak trading volume. Heavy use of our computer systems during peak trading times or at times of unusual market volatility could cause our systems to operate slowly or even to fail for periods of time. We constantly monitor system loads and performance and regularly implement system upgrades to handle estimated increases in trading volume. However, we cannot assure you that our estimates of future trading volume will be accurate or that our systems will always be able to accommodate actual trading volume without failure or degradation of performance. For example, as of March 31, 2004, GLOBEX had achieved 284 days of volume greater than one million contracts, excluding the volume attributable to the first-day trading volumes of TRAKRS. During the initial period of increased GLOBEX trading volume, there were instances of connectivity problems or erroneous reports that affected some users of the platform. System failure or degradation could lead our customers to file formal complaints with industry regulatory organizations, file lawsuits against us or cease doing business with us or could lead the CFTC or other regulators to initiate inquiries or proceedings for failure to comply with applicable laws and regulations.

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

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

Some of our largest clearing firms, which are significant customers and intermediaries in our products, have increasingly stressed the importance to them of centralizing clearing of futures

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

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

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

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

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

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

Although the Commodity Futures Modernization Act significantly reduced our regulatory burdens, we remain extensively regulated by the CFTC. Our international operations may be

subject to similar regulations in specific jurisdictions. We are registered in the United Kingdom, Australia, Japan and Hong Kong. In some cases, our registrations are subject to annual review and such reviews may subject us to additional requirements in the future. We may also be required to register or become subject to regulation in other jurisdictions in order to accept business from customers in those jurisdictions.

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

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

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

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

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

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

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

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

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

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

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

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

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

There have been a number of highly publicized cases involving fraud or other misconduct by employees of financial services firms in recent years. Misconduct by our employees, including employees of GFX Corporation, our wholly owned subsidiary that engages in proprietary trading in foreign exchange and Eurodollar futures, could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of customers or improper use of confidential

information. Employee misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Our employees also may commit errors that could subject us to financial claims for negligence, or otherwise, as well as regulatory actions. For example, employees of GFX Corporation enter into transactions to promote liquidity in our products 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

licenses would be available or, if available, whether we would be able to obtain such licenses on commercially reasonable terms. If we were unable to obtain such licenses, we may not be able to redesign our products or services to avoid infringement, which could materially adversely affect our business, financial condition and operating results.

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

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

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

We are a holding company with no business operations. Our only significant asset is the outstanding capital stock of our subsidiary. As a result, we must rely on payments from our subsidiary to meet our obligations. In 2003, we paid regular quarterly dividends of $0.14, $0.14, $0.14 and $0.21 per share to our Class A and Class B shareholders. As of September 3, 2003, our annual dividend target was increased from 20% of the prior year’s cash earnings to 30% of the prior year’s cash earnings. On March 25, 2004, we paid a quarterly dividend of $0.26 per share to the Class A and Class B shareholders. We currently expect that the earnings and cash flow of our subsidiary will primarily be retained and used by it in its operations, including servicing any debt obligations it may have now or in the future. Accordingly, our subsidiary may not be able to generate sufficient cash flow to pay a dividend or distribute funds to us in order to allow us to pay a dividend on or make a distribution in respect of our Class A common stock. Our existing credit facility, as well as future credit facilities, other future debt obligations and statutory provisions, may limit our ability to pay dividends.