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

FORM 10-Q

(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, 2005

- 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

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

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

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

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 29, 2005 was as follows: 34,254,428 shares of Class A common stock, $0.01 par value; 625 shares of Class B common stock, Class B-1, $0.01 par value; 813 shares of Class B common stock, Class B-2, $0.01 par value; 1,287 shares of Class B common stock, Class B-3, $0.01 par value; and 413 shares of Class B common stock, Class B-4, $0.01 par value.

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.

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: increasing competition by foreign and domestic competitors, including new entrants into our markets; our ability to keep pace with rapid technological developments, including our ability to complete the development and implementation of the enhanced functionality required by our customers; our ability to continue introducing competitive new products and services on a timely, cost-effective basis, including through our electronic trading capabilities, and our ability to maintain the competitiveness of our existing products and services; our ability to successfully implement our competitive initiatives; our ability to efficiently and simultaneously operate both open outcry trading and electronic trade execution facilities; our ability to adjust our fixed costs and expenses if our revenues decline; our ability to continue to realize the benefits of our transaction processing agreement with the Chicago Board of Trade; our ability to maintain existing customers and attract new ones; changes in domestic and foreign regulations; changes in government policy, including interest rate policy and policies relating to common or directed clearing; the costs associated with protecting our intellectual property rights and our ability to operate our business without violating the intellectual property rights of others; our ability to generate market data fees that may be reduced or eliminated by the growth of electronic trading; changes in the level of trading activity; changes in our rate per contract due to shifts in the mix of the products traded, the trading venue and the mix of customers (whether the customer receives member or non-member fees or participates in one of our various incentive programs); changes in price levels and volatility in the derivatives markets and in underlying fixed income, equity, foreign exchange and commodities markets; the ability of our joint venture, OneChicago, LLC, to obtain market acceptance of its products and achieve sufficient trading volume to operate profitably; economic, political and market conditions; our ability to accommodate increases in trading volume without failure or degradation of performance of our systems; our ability to execute our growth strategy and maintain our growth effectively; our ability to manage the risks and control the costs associated with our acquisition, investment and alliance strategy; industry and customer consolidation; decreases in trading and clearing activity; and seasonality of the futures business. For a detailed discussion of these and other factors that might affect our performance, see Exhibit 99.1 to this Quarterly Report on Form 10-Q.

CME® Globex® and SPAN® are our registered trademarks. CME E-mini™ is our service mark. CLEARING 21® is a registered trademark 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®, Russell® 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.

Item 1. Financial Statements

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

	March 31, 2005	December 31, 2004
Assets		
Current Assets:		
Cash and cash equivalents	$ 430,619	$ 357,562
Collateral from securities lending	1,637,305	1,582,985
Short-term investments of interest earning facilities	100,231	87,521
Marketable securities	280,420	302,429
Accounts receivable, net of allowance of $891 and $1,089	98,971	78,825
Other current assets	22,710	18,959
Cash performance bonds and security deposits	555,171	269,919
Total current assets	3,125,427	2,698,200
Property, net of accumulated depreciation and amortization of $254,583 and $266,640	132,220	131,361
Other assets	27,279	27,905
Total Assets	$3,284,926	$2,857,466
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 21,483	$ 23,045
Payable under securities lending agreements	1,637,305	1,582,985
Payable to participants in interest earning facilities	100,231	87,521
Other current liabilities	72,409	62,153
Cash performance bonds and security deposits	555,171	269,919
Total current liabilities	2,386,599	2,025,623
Other liabilities	20,416	19,246
Total Liabilities	2,407,015	2,044,869
Shareholders' Equity:		
Preferred stock, $0.01 par value, 9,860,000 shares authorized, none issued and outstanding	—	—
Series A junior participating preferred stock, $0.01 par value, 140,000 shares authorized, none issued and outstanding	—	—
Class A common stock, $0.01 par value, 138,000,000 shares authorized, 34,205,478 and 34,098,623 shares issued and outstanding as of March 31, 2005 and December 31, 2004, respectively	342	341
Class B common stock, $0.01 par value, 3,138 shares authorized, issued and outstanding	—	—
Additional paid-in capital	272,866	261,050
Retained earnings	607,933	552,801
Accumulated net unrealized gains (losses)	(3,230)	(1,595)
Total Shareholders' Equity	877,911	812,597
Total Liabilities and Shareholders' Equity	$3,284,926	$2,857,466

See accompanying notes to unaudited 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,	
	2005	**2004**
Revenues		
Clearing and transaction fees	$ 160,846	$ 122,952
Clearing and transaction processing services	16,796	12,478
Quotation data fees	17,777	15,490
Access fees	4,732	3,990
Communication fees	2,366	2,498
Investment income	5,476	3,097
Securities lending interest income	10,243	3,457
Other	5,670	5,585
Total Revenues	223,906	169,547
Securities lending interest expense	(9,716)	(3,175)
Net Revenues	214,190	166,372
Expenses		
Compensation and benefits	43,929	40,580
Occupancy	6,870	6,705
Professional fees, outside services and licenses	9,512	8,083
Communications and computer and software maintenance	13,065	12,249
Depreciation and amortization	14,791	12,795
Marketing, advertising and public relations	2,238	2,514
Other	5,643	6,034
Total Expenses	96,048	88,960
Income before income taxes	118,142	77,412
Income tax provision	(47,257)	(31,352)
Net Income	$ 70,885	$ 46,060
Earnings per Common Share:		
Basic	$ 2.07	$ 1.40
Diluted	2.04	1.35
Weighted Average Number of Common Shares:		
Basic	34,166,165	32,932,354
Diluted	34,717,625	34,046,784

See accompanying notes to unaudited consolidated financial statements.

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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	Retained Earnings	Accumulated Net Unrealized Securities Gains (Losses)	Total Shareholders’ Equity
	Shares	Shares	Amount			
Balance December 31, 2004	34,098,623	3,138	$ 261,391	$ 552,801	$ (1,595)	$ 812,597
Comprehensive income:						
Net income				70,885		70,885
Change in net unrealized loss on securities, net of tax of $1,045					(1,635)	(1,635)
Total comprehensive income						69,250
Exercise of stock options	101,557		1,492			1,492
Tax benefit related to employee option exercises and restricted stock vesting			7,952			7,952
Vesting of issued restricted Class A common stock	5,298					
Stock-based compensation			2,373			2,373
Quarterly cash dividend on common stock of $0.46 per share				(15,753)		(15,753)
Balance March 31, 2005	34,205,478	3,138	$ 273,208	$ 607,933	$ (3,230)	$ 877,911
Balance December 31, 2003	32,922,061	3,138	$ 194,610	$ 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 option exercises			234			234
Stock-based compensation			1,099			1,099
Quarterly cash dividend on common stock of $0.26 per share				(8,578)		(8,578)
Balance March 31, 2004	32,931,485	3,138	$ 196,150	$ 405,794	$ 1,097	$ 603,041

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2005	2004
Cash Flows from Operating Activities:		
Net income	$ 70,885	$ 46,060
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,791	12,795
Stock-based compensation	2,373	1,099
Deferred income tax provision (benefit)	2,316	(92)
Loss on investment in joint venture	832	1,035
Amortization of purchased intangibles	168	37
Amortization of net premiums on marketable securities	637	919
Loss (gain) on disposal of fixed assets	162	(1)
Decrease in allowance for doubtful accounts	(198)	(62)
Tax benefit related to employee option exercises and restricted stock vesting	7,952	234
Increase in accounts receivable	(19,948)	(25,302)
(Increase) decrease in other current assets	(2,197)	5,492
Increase in other assets	(3,142)	(638)
Decrease in accounts payable	(1,562)	(11,296)
Increase in other current liabilities	10,256	10,575
Increase (decrease) in other liabilities	1,170	(514)
Net Cash Provided by Operating Activities	84,495	40,341
Cash Flows from Investing Activities:		
Purchases of property, net	(15,812)	(9,018)
Purchase of intangible assets	(57)	(4,765)
Purchases of marketable securities	—	(30,657)
Proceeds from maturities of marketable securities	18,692	15,819
Net Cash Provided by (Used in) Investing Activities	2,823	(28,621)
Cash Flows from Financing Activities:		
Cash dividends	(15,753)	(8,578)
Proceeds from exercised stock options	1,492	207
Payments on long-term debt	—	(487)
Net Cash Used in Financing Activities	(14,261)	(8,858)
Net increase in cash and cash equivalents	73,057	2,862
Cash and cash equivalents, beginning of period	357,562	185,124
Cash and cash equivalents, end of period	$430,619	$187,986
Supplemental Disclosure of Cash Flow Information:		
Interest paid (excluding interest for securities lending)	$ 76	$ 18
Income taxes paid	25	2,068
Non-cash investing and financing activities:		
Gross unrealized securities gains (losses)	(2,680)	1,707

See accompanying notes to unaudited 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, 2005 and December 31, 2004, 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, 2004. Quarterly results are not necessarily indicative of results for any subsequent period.

Certain reclassifications have been made to the 2004 financial statements to conform to the presentation in 2005.

2. Performance Bonds and Security Deposits

Each firm that clears futures and options on futures contracts traded on Chicago Mercantile Exchange Inc. and its subsidiaries (CME or the exchange) is required to deposit and maintain specified performance bonds and security deposits principally 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 and security deposits are available to meet the financial obligations of that clearing firm to the exchange. In the event that performance bonds and security deposits of a defaulting clearing firm are inadequate to fulfill that clearing firm’s outstanding financial obligation, the entire security deposit fund is available to cover potential losses after first utilizing operating funds of the exchange in excess of amounts needed for normal operations. 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, 2004.

3. Guarantees

Interest Earning Facility. Clearing firms, at their option, may instruct CME to invest cash on deposit for performance bond or security deposit purposes in a portfolio of securities that is part of the IEF program. The first IEFs were organized in 1997 as two limited liability companies. Interest earned, net of expenses, is passed on to participating clearing firms. The principal of the first IEFs totaled $100.2 million at March 31, 2005, is guaranteed by the exchange, and is included in the accompanying consolidated balance sheets. The investment portfolios of these facilities are managed by an exchange-approved settlement bank and eligible investments include U.S. Treasury bills and notes, U.S. Treasury strips and reverse repurchase agreements. The maximum average portfolio maturity is 90 days and the maximum maturity for an individual security is 13 months. At March 31, 2005, all funds in the first IEFs were invested in overnight reverse repurchase agreements. If funds invested in the IEF are required to be liquidated due to a clearing firm redemption transaction and funds are not immediately available due to lack of liquidity in the investment portfolio, default of a repurchase counterparty, or loss in market value, CME guarantees the amount of the requirement. Management believes that the market risk exposure relating to its guarantee is not material to the consolidated financial statements taken as a whole. Financial Accounting Standards Board Interpretation (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 material liability is required to be recorded.

Intellectual Property Indemnifications. Some agreements with customers accessing CME Globex and utilizing our market data services, CME SPAN® software and our CLEARING 21® clearing system 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 three months of 2005, CME granted stock options totaling 4,600 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 ten-year term with an exercise price of $196.83, the market price at the grant date. In accordance with Statement of Financial Accounting Standards (SFAS) No. 123, “Accounting for Stock-Based Compensation,” as amended, the fair value of the options granted to employees was $0.4 million, measured at the grant date using the Black-Scholes method of valuation. A risk-free rate of 4.3% was used over a period of six years with a volatility factor of 42.8% and a 0.9% dividend yield. This compensation expense will be recognized on an accelerated basis over the vesting period.

In the first three months of 2005, CME also granted 500 shares of restricted stock that have the same vesting provisions as the stock options granted at that time. Compensation expense of $0.1 million relating to this restricted stock will be recognized on an accelerated basis over the vesting period.

The following table summarizes stock option share activity for the three months ended March 31, 2005:

Options Outstanding at December 31, 2004	1,346,792
Granted	4,600
Exercised	(101,557)
Cancelled	(12,405)
Options Outstanding at March 31, 2005	1,237,430
Weighted Average Exercise Price at March 31, 2005	$ 62.72

At March 31, 2005, 445,275 of the outstanding options were exercisable.

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. Prior to the exercise of the remainder of the former CEO's option in the second quarter of 2004, the dilutive effect of that option was calculated as if the entire option, including the Class A share and Class B share portions of the option, was satisfied through the issuance of Class A shares. The diluted weighted average number of common shares outstanding at March 31, 2005 excludes the incremental effect related to 6,500 outstanding stock options that would be anti-dilutive.

	Three Months Ended March 31,	
	2005	**2004**
Net Income (in thousands)	$ 70,885	$ 46,060
Weighted Average Number of Common Shares:		
Basic	34,166,165	32,932,354
Effect of stock options	528,871	1,079,150
Effect of restricted stock grants	22,589	35,280
Diluted	34,717,625	34,046,784
Earnings per Share:		
Basic	$ 2.07	$ 1.40
Diluted	2.04	1.35

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

Results of Operations for the Three Months Ended March 31, 2005 Compared With the Three Months Ended March 31, 2004

Overview

Our operations for the three months ended March 31, 2005 resulted in net income of $70.9 million compared with net income of $46.1 million for the three months ended March 31, 2004. The increase in net income resulted primarily from a 28.7% increase in net revenues that was partially offset by an 8.0% increase in operating expenses. The increase in net revenues was primarily driven by a 30.8% increase in clearing and transaction fees. In addition, we earned an incremental $4.3 million of revenue from clearing and transaction processing services provided to the Chicago Board of Trade (CBOT). Contributing to the $7.0 million overall increase in expenses was $3.3 million related to compensation and benefits, $2.0 million in depreciation and amortization expense and smaller increases in most of our remaining expense categories.

Trading volume for the three months ended March 31, 2005 totaled 240.7 million contracts, representing a 37.2% increase in total trading volume over the 175.5 million contracts traded during the same period in 2004. Average daily trading volume of 3.9 million contracts for the three months ended March 31, 2005 represented an increase of 39.4% over the 2.8 million contracts during the same period in 2004. The increase in average daily trading volume exceeded the increase in total trading volume because of one less trading day for the quarter ended March 31, 2005 compared with the same period in 2004. Average daily trading volume for the month of March 2005 was 4.3 million contracts per day, the highest monthly average daily trading volume in our history. In addition, 68.7% of our trading volume in January 2005 was generated on CME® Globex®, our electronic trading platform, the highest percentage of trading volume on CME Globex during any one-month period in our history.

Revenues

Total revenues increased $54.4 million, or 32.1%, to $223.9 million for the three months ended March 31, 2005 from $169.5 million for the three months ended March 31, 2004. Net revenues increased $47.8 million, or 28.7%, to $214.2 million for the three months ended March 31, 2005 from $166.4 million for the three months ended March 31, 2004. This increase in revenues was attributable primarily to a 37.2% increase in total trading volume for the three months ended March 31, 2005 when compared with the three months ended March 31, 2004. For the first three months of 2005, CME Globex volume represented 66.4% of trading volume, or an average of 2.6 million contracts per day, a 94.6% increase over the same period in 2004. We earn a higher rate per contract for trades executed on CME Globex than for trades executed on our trading floor. The increase in electronic trading volume was led by interest rate product trading volume growth, followed by equity and foreign exchange product electronic trading volume growth. Increased total trading volume levels resulted principally from: interest rate volatility driven by anticipated and actual interest rate movement by the U.S. Federal Reserve Board, CME Globex system enhancements improving speed and reliability in response to increased volume, increased customer demand for the liquidity provided by our markets, the ongoing incentive programs designed to enhance liquidity on CME Globex and to attract new customers, particularly in Europe and Asia, and strong demand from international investors in our foreign exchange products. The additional clearing and transaction fees resulting from the increased trading volume and the increased percentage of trades executed electronically were augmented by fees for clearing and transaction processing services provided to CBOT, additional investment income and increased revenue from quotation data fees.

Clearing and Transaction Fees. Clearing and transaction fees, which include clearing fees, CME Globex electronic trading fees and other volume-related charges, increased $37.8 million, or 30.8%, to $160.8 million for the three months ended March 31, 2005 from $123.0 million for the three months ended March 31, 2004. A significant portion of the increase was attributable to the 37.2% increase in total trading volume. Partially offsetting the impact of our increase in trading volume was a decrease in the average rate, or revenue, per contract.

The average rate per contract decreased to $0.668 for the three months ended March 31, 2005 from $0.699 for the same period in 2004. Our TRAKRS℠ products are charged a much lower rate per contract and, therefore, are not included in volume or revenue used in this calculation of the average rate per contract. Our tiered pricing structure for CME Eurodollars reduced the average rate per contract by $0.031 during the three months ended March 31, 2005 when compared with the same period in 2004, as increased trading

volume in our CME Eurodollar contracts resulted in additional volume incentives. The foreign exchange tiered pricing structure resulted in an additional reduction in our average rate per contract of $0.009 during 2005 when compared with 2004, as a result of the volume growth in foreign exchange products. The shift in the mix of volume generated from non-member trading activity to member and various incentive program trading activity resulted in a $0.025 reduction in rate per contract. Also, the average rate per contract in the first three months of 2005 decreased by $0.008 primarily as a result of the product mix shift of trades from equity E-mini™ products to interest rate products. We earn a lower rate per contract for interest rate products than equity E-mini products. Interest rate products represented 56.6% of our trading volume in the first quarter of 2005, compared with 50.1% in the first quarter of 2004. There was a similar offsetting decrease in the percentage of trading volume attributed to equity E-mini products. In addition, the average rate per contract was further reduced by $0.008 due to the impact of reduced volume from our mutual offset agreement with Singapore Exchange Derivatives Trading Ltd. (SGX) whereby there is a net settlement for trades executed by the originating exchange but transferred to the other exchange. These decreases were partially offset by an increase of $0.046 as a result of the higher percentage of trades executed on CME Globex for all product lines, for which additional fees are assessed. In the first three months of 2005, CME Globex average daily trading volume was approximately 2.6 million contracts, or 66.4% of total trading volume, compared with approximately 1.3 million contracts, or 47.5%, during the same period in 2004.

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

CME Product Line	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Percentage Increase (Decrease)
Interest Rate	2,234,567	1,417,965	57.6%
Equity	1,365,712	1,186,680	15.1
Foreign Exchange	294,235	188,229	56.3
Commodity	51,383	37,591	36.7
Total Average Daily Volume	3,945,897	2,830,465	39.4
TRAKRS	29,839	116,160	(74.3)
Total Average Daily Volume, including TRAKRS	3,975,736	2,946,625	34.9
CME Globex Average Daily Volume, excluding TRAKRS	2,618,310	1,345,383	94.6
CME Globex Average Daily Volume as a Percent of Total Volume, excluding TRAKRS	66.4%	47.5%	
Clearing and Transaction Fees Revenue, excluding TRAKRS (in thousands)	$ 160,823	$ 122,754	
Average Rate per Contract, excluding TRAKRS	$ 0.668	$ 0.699	

We experienced an increase in all of our product lines in the first three months of 2005 when compared with the first three months of 2004. In the first three months of 2005, 51.2% of our interest rate volume was executed on CME Globex compared with 11.0% during the same period in 2004. This increase represented incremental average daily trading volume in our interest rate products on CME Globex of nearly one million contracts. The recent release and utilization of our interest rate product electronic trading functionality, competitive fee programs designed to encourage the participation of market makers and global proprietary trading firms, increased usage of handheld electronic trading units on our trading floor and tiered pricing provided to high volume traders contributed to increased trading volume of CME Eurodollars on CME Globex. A changing interest rate environment contributed to higher trading volume during the first three months of 2005 to a greater extent than was evident in the same period in 2004, particularly in interest rate options, where average daily volume increased approximately 65% to nearly 740,000 contracts per day. Our equity product volume was influenced by increased distribution to customers through CME Globex facilitated by incentive programs introduced during the second quarter of 2004 that enabled additional market participants to obtain reduced fees on our products. The volatility in U.S. equity markets in the first three months of 2005 was lower compared with the first three months of 2004. Despite this low volatility, the trading volume increased partially as a result of the success of our Russell® products and increased activity in our equity option products. Our foreign exchange volume has benefited from strong demand from international investors and automated trading systems, as well as fee incentive programs initiated during the second quarter of 2004 that resulted in increased trading of our foreign exchange products on CME Globex. In the first three months of 2005, 76.4% of our foreign exchange volume was conducted through CME Globex compared with 60.2% during the same period in 2004. A combination of market price levels and volatility patterns contributed to the increase in volume in commodity products during the first three months of 2005 when compared with the first three months of 2004.

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

During the second quarter of 2004, we announced an alliance to provide additional access to electronic trading of CME foreign exchange (FX) products. In March 2005, we launched CME FX on Reuters to bring banks direct futures trading by offering our eFX markets to Reuters' global interbank customer base in a spot equivalent format.

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 our clearing firms. The majority of clearing and transaction fees received from clearing firms represent charges for trades executed on behalf of their customers. We currently have approximately 80 clearing firms. For the three months ended March 31, 2005, one firm, with a significant portion of customer revenue, represented approximately 11% of our net revenues. Should a clearing firm discontinue operations, we believe the customer portion of that firm's trading activity would likely transfer to another clearing firm. 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 Processing Services. Clearing and transaction processing services increased $4.3 million, or 34.6%, to $16.8 million for the three months ended March 31, 2005 from $12.5 million for the three months ended March 31, 2004. Clearing and transaction processing services primarily represents fees derived from providing clearing and settlement services to the CBOT. In addition, fees are also included for listing futures products on CME Globex for NYMEX and processing single stock futures trades for certain of our clearing firms that execute trades at OneChicago, LLC (OneChicago), our joint venture in single stock futures and futures on narrow-based stock indexes. The revenue increase in the first quarter of 2005 from the first quarter of 2004 was a result of increased clearing processing volume for CBOT as well as the expiration of lower initial pricing that was in effect during the first quarter of 2004. We cleared approximately 173.1 million matched contracts for the CBOT during the three months ended March 31, 2005 compared with 136.6 million matched contracts during the three months ended March 31, 2004.

Quotation Data Fees. Quotation data fees increased $2.3 million, or 14.8%, to $17.8 million for the three months ended March 31, 2005 from $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, 2005. Users of our professional service are now charged $35 per month for each market data screen, or device, an increase from the $30 per month charge that was in effect during the first quarter of 2004. At the end of the first quarter 2005, there were approximately 63,000 subscribers to our market data and the data was accessible from approximately 181,000 screens and included approximately 30,000 subscribers to our lower-priced non-professional service. While the total number of subscribers remained relatively constant in the first quarter 2005 compared with the first quarter 2004, the number of lower-priced non-professional subscribers to our E-mini market data service decreased by 2,000 and the number of professional screens increased by 8,000.

For the three months ended March 31, 2005, the two largest resellers of our market data represented approximately 57% 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 $0.7 million, or 18.6%, to $4.7 million for the three months ended March 31, 2005 from $4.0 million for the three months ended March 31, 2004. This increase resulted primarily from CME Globex users switching to a higher bandwidth connection at a higher cost.

Communication Fees. Communication fees decreased $0.1 million, or 5.3%, to $2.4 million for the three months ended March 31, 2005 from $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 2004 to the first quarter of 2005.

Investment Income. Investment income increased $2.4 million, or 76.8%, to $5.5 million for the three months ended March 31, 2005 from $3.1 million for the three months ended March 31, 2004. The annualized average rate earned on all investments increased to approximately 2.4% in the first three months of 2005 compared with approximately 1.4% during the same period in 2004, representing an increase in investment income of approximately $2.0 million. This increase resulted primarily from increases in the interest rate environment. Also, approximately $0.8 million of the increase in interest income resulted from increased funds available for investment including cash performance bonds and security deposits. Partially offsetting these increases was a $0.4 million decrease in the investment results of our non-qualified deferred compensation plan that is included in investment income but does not affect our net income, as there is an equal decrease in our compensation and benefits expense.

Securities Lending Interest Income and Expense. Securities lending interest income increased $6.7 million, to $10.2 million for the three months ended March 31, 2005 from $3.5 million for the three months ended March 31, 2004. The average daily balance of proceeds from securities lending activity was $1.6 billion for the three months ended March 31, 2005 and $1.3 billion for the three months ended March 31, 2004. Securities lending interest expense increased $6.5 million, to $9.7 million for the three months ended March 31, 2005 from $3.2 million for the three months ended March 31, 2004. The net revenues from securities lending represented an annualized return of 0.13% on the average daily balances in the first three months of 2005 compared with 0.09% in the first three months of 2004. The increase in the annualized rate of return was due to favorable interest rate conditions in the marketplace.

Other Revenue. Other revenue increased $0.1 million, or 1.5%, to $5.7 million for the three months ended March 31, 2005 from $5.6 million for the three months ended March 31, 2004. This resulted primarily from a $0.3 million increase in fees associated with managing our IEF programs during the three months ended March 31, 2005 when compared with the three months ended March 31, 2004. This increase was partially offset by $0.2 million of losses incurred on technology equipment that was traded-in or written off during the first three months of 2005.

Expenses

Total operating expenses increased $7.0 million, or 8.0%, to $96.0 million for the three months ended March 31, 2005 from $89.0 million for the three months ended March 31, 2004. This increase was attributed primarily to increases of $3.3 million in compensation and benefits, $2.0 million in depreciation and amortization, $1.4 million in professional fees, outside services and licenses, and $0.9 million in communications and computer and software maintenance expense. These increases were partially offset by reductions in marketing, advertising and public relations and other expense.

Compensation and Benefits Expense. Compensation and benefits expense increased $3.3 million, or 8.3%, to $43.9 million for the three months ended March 31, 2005 from $40.6 million for the three months ended March 31, 2004. There were three significant components to this increase. First, compensation and benefits expense increased by approximately $2.2 million during the first three months of 2005 compared with the first three months of 2004 as a result of annual salary increases and related increases in employer taxes and benefits. Second, the average number of employees increased approximately 4%, or by 55 employees, during the first three months of 2005 from the first three months of 2004. We had 1,293 employees at March 31, 2005. This increased headcount resulted in additional compensation and benefits expense of approximately $1.6 million. Third, stock-based compensation expense increased $1.3 million to $2.4 million for the three months ended March 31, 2005. This increase resulted primarily from the expense recognized during the first quarter 2005 for the options granted in June 2004. These increases were partially offset by a $0.7 million decrease in the bonus expense, which is accrued under the provisions of our annual incentive plan. The threshold for payment of the bonus was increased from 2004 to 2005, resulting in a lower expense in the first quarter of 2005 when compared with the same period in 2004. In addition, we experienced a decrease of $0.4 million in the investment results of our non-qualified deferred compensation plan for the three month period ended March 31, 2005 that is included in compensation and benefits expense but does not affect income, as there is an equal and offsetting impact to our investment income. Finally, during the first three months of 2005, there was a $0.3 million increase in the capitalization of compensation and benefits relating to internally developed software.

Occupancy Expense. Occupancy expense increased $0.2 million, or 2.5%, to $6.9 million for the three months ended March 31, 2005 from $6.7 million for the three months ended March 31, 2004. Occupancy expense increased primarily as a result of rent that began in April 2004 for an additional remote data center. This increase was partially offset by a decrease in trading volume rent due to lower open outcry volume in the first three months of 2005.

Professional Fees, Outside Services and Licenses Expense. Professional fees, outside services and licenses expense increased $1.4 million, or 17.7%, to $9.5 million for the three months ended March 31, 2005 from $8.1 million for the three months ended March 31, 2004. The increase resulted primarily from our revenue sharing agreement with SGX and license fees relating to our equity products. We incurred $0.9 million of expense related to our revenue sharing agreement with SGX. This revenue sharing, which cannot exceed $0.3 million per month, resulted from the growth in electronic trading of CME Eurodollars. There was no similar expense during the first three months of 2004 due to the relatively low percentage of CME Eurodollars trading electronically at that time. In addition, license fees increased by $0.5 million in the first three months of 2005 from the first three months of 2004 as a result of increased trading volume and increased licensing rates related to our equity index licensing agreements.

Communications and Computer and Software Maintenance Expense. Communications and computer and software maintenance expense increased $0.9 million, or 6.7%, to $13.1 million for the three months ended March 31, 2005 from $12.2 million for the three months ended March 31, 2004. This expense is affected primarily by growth in electronic trading. During the first three months of 2005, we experienced an increase in communications expense for connections to CME Globex. This increase was equally offset by the decrease in expense due to cost reduction efforts that were achieved during 2004. Our computer and software maintenance costs are driven by the number of transactions processed and the volume of bid and offer prices received electronically, not the number of contracts traded. During the three months ended March 31, 2005, the number of transactions we processed increased approximately 43%. In addition, we processed approximately 91% of total transactions electronically in the first three months of 2005 compared with nearly 83% in the first three months of 2004, which represented 66.4% and 47.5%, respectively, of total contracts traded. As a result, our expenses for software, software maintenance and hardware maintenance increased $0.9 million during the first three months of 2005 when compared with the same period in 2004.

Depreciation and Amortization Expense. Depreciation and amortization expense increased $2.0 million, or 15.6%, to $14.8 million for the three months ended March 31, 2005 from $12.8 million for the three months ended March 31, 2004. The increase was the result of depreciation and amortization of 2004 and 2005 asset acquisitions exceeding the depreciation and amortization of assets that have become fully depreciated or retired since April 1, 2004. Capital expenditures totaled $15.8 million for the three months ended March 31, 2005 and $67.5 million for the twelve months ended December 31, 2004. For these periods, technology-related
purchases, defined as purchases of computers and related equipment, software, internally developed software and costs associated with the build-out of our data centers, represented approximately 94% and 86%, respectively, of these purchases.

Marketing, Advertising and Public Relations Expense. Marketing, advertising and public relations expense decreased $0.3 million, or 11.0%, to $2.2 million for the three months ended March 31, 2005 from $2.5 million for the three months ended March 31, 2004. This decrease resulted from reductions in product advertising and marketing program costs during the first three months of 2005 when compared with the same period in 2004.

Other Expense. Other expense decreased $0.4 million, or 6.5%, to $5.6 million for the three months ended March 31, 2005 from $6.0 million for the three months ended March 31, 2004. This decrease resulted primarily from a $0.5 million decrease in currency delivery fees resulting from lower fees due to migration to a more efficient delivery system.

Income Tax Provision

We recorded a tax provision of $47.3 million for the three months ended March 31, 2005 compared with $31.4 million for the same period in 2004. The effective tax rate was 40.0% for the first three months of 2005, compared with 40.5% for the first three months of 2004. The effective tax rate was reduced because of a reduction in non-deductible expenses and the resolution of certain tax audit issues.

Liquidity and Capital Resources

Liquidity and Cash Management. Cash and cash equivalents totaled $430.6 million at March 31, 2005, compared with $357.6 million at December 31, 2004. The $73.0 million increase from December 31, 2004 to March 31, 2005 resulted primarily from cash generated by operations for the three months ended March 31, 2005, which was retained primarily in the form of short-term investments that are included as cash equivalents. Also contributing to the increase was $18.7 million of proceeds from maturities of marketable securities and $1.5 million in proceeds from the exercise of stock options. Partially offsetting these increases was $15.8 million in purchases of property, net of trade-in allowances and our quarterly dividend payment that totaled $15.8 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, alternative investment choices and any dividends that we pay.

Included in current and other assets are net deferred tax assets of $9.6 million and $10.8 million at March 31, 2005 and December 31, 2004, respectively. These net deferred tax assets result primarily from depreciation, stock-based compensation and deferred compensation. There is no valuation reserve for these assets as we expect to fully realize their value in the future based on our expectation of future taxable income.

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

Sources and Uses of Cash. Net cash provided by operating activities was $84.5 million for the three months ended March 31, 2005 and $40.3 million for the same period in 2004. The net cash provided by operations increased in the first three months of 2005 primarily as a result of our improved operating results. The net cash provided by operating activities exceeded our net income in the three months ended March 31, 2005 by $13.6 million primarily as a result of non-cash expenses, such as depreciation and amortization in the amount of $14.8 million, which do not adversely impact our cash flow. In addition, we received tax benefits of $8.0 million related to employee option exercises in excess of our book expense associated with these options. This tax benefit reduced our income tax obligations for the three months ended March 31, 2005. The increase was partially offset by an increase in accounts receivable of $19.9 million. Accounts receivable at the end of any period results primarily from the clearing and transaction fees billed in the last month of the reporting period as well as the receivable for the portion of transaction processing services that are billed on a quarterly basis. Clearing and transaction fees were $14.5 million greater in March 2005 than in March 2004.

Cash provided by investing activities was $2.8 million for the three months ended March 31, 2005 compared with cash used in investing activities of $28.6 million for the three months ended March 31, 2004. The change in cash provided of $31.4 million was primarily due to the $18.7 million in proceeds from maturities of marketable securities in the first three months of 2005. In 2005, we elected to retain these proceeds in short-term investments that are included in cash and cash equivalents rather than purchase additional marketable securities. By comparison, in the first quarter of 2004, purchases exceeded maturities by $14.8 million. Cash used to acquire and develop capital assets increased $6.8 million to $15.8 million for the first three months of 2005 from $9.0 million for the same period in 2004. In order to further increase trade matching and clearing capacity to accommodate volume, we expect capital expenditures to range between $80 million and $90 million in 2005.

Cash used in financing activities was $14.3 million for the three months ended March 31, 2005 compared with $8.9 million for the three months ended March 31, 2004. A majority of the increase was due to the $7.2 million increase in dividends paid. Dividends totaled $15.8 million for the three months ended March 31, 2005 compared with $8.6 million for the three months ended March 31, 2004. The increase resulted primarily from our improved prior year's cash earnings that is the basis used to determine the amount of the current year's dividend. Partially offsetting this increase were the proceeds from stock option exercises which increased $1.3 million to $1.5 million for the three months ended March 31, 2005 from $0.2 million for the three months ended March 31, 2004.

Debt Instruments. We maintain a $750.0 million line of credit with a consortium of banks to be used in certain situations, such as a disruption in the domestic payments system that would delay settlement between our exchange and our clearing firms or in the event of a clearing firm default. Effective March 1, 2005, the standby letter of credit for GFX Corporation, our wholly owned subsidiary that engages in futures transactions, was increased to $5.0 million from $2.5 million. In addition, as of March 31, 2005, we were contingently liable on an irrevocable letter of credit totaling $142.0 million in connection with our mutual offset system with SGX.

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 short-term investments of cash, 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. Investment choices primarily include U.S. Treasury and Government agency securities, investment grade corporate obligations and municipal securities escrowed by U.S. Treasury securities. Maturities may extend to a maximum of 60 months.

Interest Rate Risk. Interest income from marketable securities, short-term cash investments and cash performance bonds and security deposits was $5.0 million in the first quarter of 2005 and $2.2 million in the first quarter of 2004. Our marketable securities experienced net unrealized losses of $2.7 million and no realized gains or losses during the three month period ended March 31, 2005 and net unrealized gains of $1.7 million during the three month period ended March 31, 2004. At March 31, 2005, we owned marketable securities with a fair value of $280.4 million.

Contractual maturities and interest coupon rates for fixed rate marketable securities at March 31, 2005 were as follows (dollars in thousands):

Year	Principal Amount	Weighted Average Interest Rate
2005	$ 56,489	2.56%
2006	73,571	3.82
2007	72,317	4.35
2008	80,410	2.34
Total	$ 282,787	3.28
Fair Value	$ 280,420	

The 2008 contractual maturities include $26.7 million principal amount of zero coupon marketable securities. Excluding these securities, the 2008 weighted average interest rate would be 3.51%.

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

Derivatives Trading Risk. GFX engages primarily in the purchase and sale of our foreign exchange futures contracts on CME Globex to provide additional liquidity in these products and subsequently enters into offsetting transactions using futures contracts or spot foreign exchange transactions with approved counterparties in the interbank market to limit market risk. Any potential impact on the earnings of GFX from a change in foreign exchange rates would not be significant. GFX also engaged in purchases and sales of CME Eurodollar futures contracts on CME Globex during the first six months of 2004. At the end of the second quarter of 2004, it was determined that GFX's participation in electronic trading of CME Eurodollars was no longer necessary for liquidity purposes. Net position limits are established for each trader and totaled $12.0 million in aggregate notional value as of March 31, 2005.

At March 31, 2005, GFX held futures positions with a notional value of $96.5 million, offset by a similar amount of spot foreign exchange positions. The notional value of futures positions at March 31, 2004 totaled $99.0 million. All positions are marked to market on a daily basis, with the resulting charge or credit reflected in other revenue. Net trading gains were $2.0 million for the three months ended March 31, 2005 and $2.1 million for the three months ended March 31, 2004.

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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On October 14, 2003, the U.S. Futures Exchange, L.L.C., or Eurex U.S., and U.S. Exchange Holdings, Inc., filed suit against the CBOT and CME in the United States District Court for the District of Columbia. The suit alleges that the CBOT and CME violated the antitrust laws and tortiously interfered with the business relationship and contract between Eurex U.S. and The Clearing Corporation. Eurex U.S. and U.S. Exchange Holdings, Inc. are seeking a preliminary injunction and treble damages. On December 12, 2003, the CBOT and CME filed separate motions to dismiss or, in the event the motion to dismiss is denied, to move the venue to the United States District Court for the Northern District of Illinois. On September 2, 2004, the judge granted the CBOT's and CME's motion to transfer venue to the Northern District of Illinois. In light of that decision, the judge did not rule on the motions to dismiss. On March 25, 2005, Eurex U.S. filed a second amended complaint in the United States District Court for the Northern District of Illinois. CME has until May 6, 2005 to respond to the complaint. Based on its investigation to date and advice from legal counsel, we believe this suit is without merit and we intend to vigorously defend against these charges.

Item 6. Exhibits

10.1 **	Chicago Mercantile Exchange Holdings Inc. 2005 Director Stock Plan (incorporated by reference to Exhibit 99.1 to Chicago Mercantile Exchange Holdings Inc.'s Form 8-K filed with the SEC on April 28, 2005).
10.2 **	Form of Equity Grant Letter for Non-Executive Directors (incorporated by reference to Exhibit 99.2 to Chicago Mercantile Exchange Holdings Inc.'s Form 8-K filed with the SEC on April 28, 2005).
10.3 **	Chicago Mercantile Exchange Holdings Inc. Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.3 to Chicago Mercantile Exchange Holdings Inc.'s Form 8-K filed with the SEC on April 28, 2005).
10.4 *	Letter Agreement, dated February 18, 2005, amending the License Agreement, effective as of September 24, 1997, between Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., and Chicago Mercantile Exchange Inc.
31.1	Section 302 Certification—Craig S. Donohue, Chief Executive Officer.
31.2	Section 302 Certification—James E. Parisi, Managing Director and Chief Financial Officer.
32.1	Section 906 Certification.
99.1	Certain Factors That May Affect Our Business.

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

** Management contract.

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, 2005

By: /s/ James E. Parisi

Name: James E. Parisi
Title: Managing Director and Chief Financial Officer

Exhibit 10.4

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.

February 18, 2005

Mr. Craig S. Donohue
Chief Executive Officer
Chicago Mercantile Exchange Inc.
20 South Wacker Drive
Chicago, Illinois 60606

Re: License Agreement dated September 24, 1997, as amended, between Chicago Mercantile Exchange Inc. and Standard & Poor's

Dear Craig:

Reference is made to the above-referenced agreement (the "License Agreement"). Capitalized terms that are used and not defined herein have the meanings given to them in the License Agreement.

As you know, there currently exist a number of exchange-traded funds that are structured as unit investment trusts or open-end investment companies, ("ETFs"), the shares of which are listed for trading on securities exchanges located in the United States. Certain ETFs maintain a portfolio of securities that seeks to replicate, as closely as possible, the price and yield performance of the S&P Stock Indexes ("S&P Index ETFs"). Standard & Poor's position is that the rights conferred by S&P to CME pursuant to the License Agreement do not authorize CME to create, market, trade, clear or promote futures contracts, options on futures contracts, or any other instrument in which an underlying interest is the share price of an S&P Index ETF.

CME has advised S&P that CME wishes to use certain of the S&P Index ETFs in connection with creating, marketing, trading, clearing and promoting futures contracts and options on futures contracts. CME has further advised S&P that CME believes that such contracts are Indexed Contracts as defined in the License Agreement and that therefore CME's rights under the License Agreement already include the creation, marketing, trading, clearing and promotion by CME of such contracts. In spite of S&P's and CME's disagreement on the scope of CME's rights under the License Agreement, and as an accommodation to each other, S&P and CME are entering into this Letter Amendment to the License Agreement ("Letter Amendment") for the purpose of memorializing their understanding that CME shall be permitted to use the S&P Stock Indexes, and the related S&P Index ETFs (to the full extent that S&P owns intellectual property rights in S&P Index ETFs) and associated S&P Marks, in connection with the creation, marketing, trading, clearing and promotion of S&P ETF Contracts (as defined below).

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.

Therefore, the parties hereby agree to amend the License Agreement as follows:

1. Addition to Section 1(j) “Futures Contract”

Futures Contracts will be deemed to include futures contracts in which the sole underlying interest is an S&P Index ETF, except that such futures contracts will not be so deemed for purposes of

(i) Sections 3(a)-(d), 5(a)-(d), 8(a), 10(c), and 11(a)-(b) of the License Agreement, or

(ii) any other provision of the License Agreement where including futures contracts in which the sole underlying interest is an S&P Index ETF would render the provision meaningless or ambiguous.

2. Addition to Section 1(k) “Indexed Contracts”

S&P ETF Contracts (as defined below) will be deemed to be Indexed Contracts for purposes of the License Agreement, except that S&P ETF Contracts will not be so deemed for purposes of Sections 3, 5, 8(a), 10(c), 11 and any other provision of the License Agreement, as amended hereby, where the context so dictates.

3. Addition of Section 1(v).

Section 1(v). “S&P ETF Contracts” shall mean all futures contracts and Options Contracts that use an S&P Index ETF as their sole underlying interest and that are under the joint jurisdiction of the SEC and CFTC as of the effective date of this Letter Amendment, including any such contract that is a security future as such term is currently defined in Section 1a(31) of the Commodity Exchange Act (CEA). All S&P ETF Contracts shall be based on an underlying amount of 100 shares of the relevant S&P Index ETF.

4. Addition to Section 3. Exclusivity.

Section 3(e). Subject to the terms set forth in this Letter Amendment, the license for any S&P Stock Index that as of the date of this Letter Amendment is licensed by S&P to CME on an exclusive basis pursuant to Section 3 of the License Agreement, shall be exclusive to CME in connection with S&P ETF Contracts that use the relevant S&P Index ETFs as their sole underlying interest. If for any reason an S&P Stock Index is, or becomes in the future, subject to a non-exclusive license to CME under the License Agreement then such S&P Stock Index shall automatically be deemed to be licensed on a non-exclusive basis to CME under this Letter Amendment in connection with the relevant S&P ETF Contracts.

5. Addition to Section 5. LICENSE FEES.

Section 5(g). In lieu of other license fees specified in the License Agreement, CME shall pay S&P $***** for each trade of an S&P ETF Contract. Such license fees shall be paid in accordance with Section 5(e) of the License Agreement.

6. Addition to Section 7. TERMINATION

Section 7(b). S&P shall inform CME in writing of any pending cessation of trading in, or de-listing of, an S&P Index ETF to the extent S&P has knowledge of such actions. CME understands that during the term of the License Agreement, one or more of the S&P Index ETFs may be de-listed or otherwise cease trading and in such event, absent a situation in which such cessation in trading results in S&P having breached an express provision of the License Agreement or this Letter Amendment, S&P shall have no liability to CME in connection therewith. CME acknowledges that the de-listing of, or cessation in trading in,

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.

an S&P Index ETF can and will affect CME's ability to continue to create, market, trade, clear and promote the associated S&P ETF Contracts and that S&P will have no responsibility in connection therewith except as expressly stated above.

7. Addition to Section 9 S&P OBLIGATIONS

Section 9(c). Third Party Trademarks and Intellectual Property. The parties understand that one or more designations used in the names of the S&P Index ETFs (e.g., "iShares") and other intellectual property rights embodied therein are proprietary to such third parties. S&P shall reasonably cooperate with CME in acquiring such rights to the extent such rights are necessary for CME to create, market, trade, clear or promote S&P ETF Contracts. CME shall be ultimately responsible for securing any such licenses.

8. Addition to Section 10(c) "CME Rulebook Disclaimers". CME shall include the addition to Appendix 4 that is set forth in this Letter Amendment in its rules, and take any other action necessary to ensure that its members trading in S&P ETF Contracts are subject to the provisions of such addition to Appendix 4.

9. Addition to Section 11. PROTECTION OF VALUE OF LICENSE

Section 11(c). Unlicensed Use of S&P ETF Contracts or S&P Trademarks. In the event S&P is notified by CME or otherwise becomes aware that any of the S&P Stock Indexes underlying one or more S&P ETF Contracts or, associated S&P Marks, are to be, or have been, used by a third party without the prior written consent of S&P, in a manner materially inconsistent with the terms of the licenses granted to CME hereunder ("Unlicensed ETF User"), and that such use has or may reasonably be expected to have a material adverse impact upon the benefits derived by CME from the licenses hereunder with respect to the S&P ETF Contracts that are used by the Unlicensed ETF User ("Affected S&P ETF Contracts"), S&P shall have the option to either (i) use its best efforts to terminate such use, including, without limitation, by initiating litigation against any such Unlicensed ETF User; or (ii) permit such Unlicensed ETF User to continue such use, in which case CME shall have the rights provided below. S&P shall have thirty (30) days after learning of such unlicensed use in which to notify CME of S&P's decision whether to seek to terminate such use or permit it. If S&P chooses to take action to terminate such use, CME shall continue to pay the license fees required hereunder with respect to the Affected S&P ETF Contracts (and all other S&P ETF Contracts), except that if such use has not been terminated within eighteen (18) months after the date of the notice to CME, then CME shall have the rights provided below. S&P shall, within ten (10) days, give written notice to CME of its decision to cease such effort to terminate such unlicensed use and of any adverse final decision with respect to such efforts by any court or other governmental body as to which there is no further appeal. The costs of any litigation brought under this Subsection 11(c) shall be borne entirely by S&P, and the conduct of such litigation shall remain in the sole control of S&P. In the event litigation initiated pursuant to this Subsection 11(c) is decided adversely to S&P or if S&P is otherwise unsuccessful in terminating such party's use of the Affected S&P ETF Contracts, or if S&P notifies CME that it will not challenge such unlicensed use, then:

(1) S&P shall have no further liability to CME hereunder on account of such use and shall not be deemed to have breached any of its representations, warranties or agreements hereunder. Notwithstanding the foregoing, while this Letter Amendment

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.

remains in effect, S&P shall not enter into any agreement, written or oral, with any third party, pursuant to which S&P will receive revenue, derived from the trading of the Affected S&P ETF Contracts;

(2) CME shall have the right to terminate the license or licenses granted by this Letter Amendment relating to the Affected S&P ETF Contract(s), along with all rights and obligations of the parties thereto, except for such rights and obligations as survive termination of this Letter Amendment, provided that CME gives written notice of such termination to S&P within thirty (30) days of receiving written notice from S&P that it will not seek to terminate such unlicensed use or that its efforts to terminate such unlicensed use have been unsuccessful, or at the end of the eighteen (18) month period specified in Section 11(c); and

(3) if CME does not terminate the license or licenses granted hereby to the Affected S&P ETF Contract(s), the total license fees payable by CME under this Letter Amendment in connection with all the Affected S&P ETF Contracts shall immediately be reduced to $1.00.

It is understood that the rights and obligations under this Section 11(c) are exclusively in relation to S&P ETF Contracts. To remove any doubt, if an Unlicensed ETF User trades an S&P ETF Contract without a license and S&P elects not to terminate such use, CME may choose to continue the license and pay the $1.00 one time fee for its continued trading of the Affected S&P ETF Contracts. In such a case, CME would still be obligated to pay the license fees for trading other Indexed Contracts including all S&P ETF Contracts that are not Affected S&P ETF Contracts.

It is further understood that the unlicensed use of the S&P Stock Indexes or S&P Marks in connection with the trading of S&P ETF Contracts shall have no effect whatsoever on the parties' rights and obligations under Section 11 with respect to Indexed Contracts that are not S&P ETF Contracts.

10. Addition to Section 13. REPRESENTATIONS, WARRANTIES, DISCLAIMERS

(g) Disclaimers, Limitations and Indemnification. CME agrees that the disclaimers and limitations on liability that are set forth in Sections 13(b), (c), (d) and (e) of the License Agreement and S&P's rights of indemnification under Section 14 of the License Agreement, as modified hereby, shall apply to S&P ETF Contracts with equal effect as applied to Indexed Contracts, generally, under the License Agreement. S&P represents and warrants that S&P has the right to license CME to use the S&P Stock Indexes and S&P Marks, as provided in the Letter Amendment.

11. Addition to Section 17 GENERAL PROVISIONS

17(i) No Prejudice. Except as otherwise provided for herein, the parties' entry into this Letter Amendment shall not prejudice, influence or otherwise affect either party's position, now or in the future, as to the scope or nature of CME's rights to use the S&P Stock Indexes and S&P Marks pursuant to the License Agreement, including with respect to the issue of whether S&P ETF Contracts are Indexed Contracts. The parties agree that all of the terms and conditions of the License Agreement shall remain in full force and effect

and that, except as provided for herein, nothing in this Letter Amendment (i) is intended to waive the rights or obligations of either party under the License Agreement, or (ii) constitutes a concession respecting the meaning and/or construction of the License Agreement.

12. Addition to APPENDIX 2. S&P MARKS

28. SPDR

13. Addition to APPENDIX 4. S&P Disclaimer

S&P ETF Contracts Disclaimer

Rule__. Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), does not guarantee the accuracy and/or completeness of the S&P Stock Indices or any data included therein. S&P makes no warranty, express or implied, as to the results to be obtained by any person or any entity from the use of the S&P Index ETFs or any data included therein in connection with the trading of futures contracts, options on futures contracts or any other use. S&P makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to the S&P Index ETFs or any data included therein. Without limiting any of the foregoing, in no event shall S&P have any liability for any special, punitive, indirect, or consequential damages (including lost profits), even if notified of the possibility of such damages.

The above understandings and agreements shall be without prejudice to either party's position with respect to the interpretation of or its rights under the License Agreement as it existed prior to this Letter Amendment, and this Letter Amendment shall not be used in any way in connection with the pending disagreement between the parties concerning the scope of CME's rights under the License Agreement. This Letter Amendment shall not be deemed to limit or otherwise affect in any way either party's rights or obligations under the License Agreement, except to the extent that the License Agreement is modified expressly by the terms of this Letter Amendment.

Please indicate your acceptance of an agreement with the foregoing by signing the enclosed copy of this letter in the place provided below, and returning the signed copy to me.

Sincerely,

/s/ Paul R. Aaronson

Paul R. Aaronson

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.

Accepted and agreed to this 23rd day of
February 2005:

CHICAGO MERCANTILE EXCHANGE INC.

By: /s/ Craig S. Donohue
Craig S. Donohue
President and Chief Executive Officer

Exhibit 31.1

CERTIFICATIONS

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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2005

/s/ Craig S. Donohue

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

Exhibit 31.2

I, James E. Parisi, Chief Financial Officer of the Company, certify that:

1. I have reviewed this 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2005

/s/ James E. Parisi

Name: James E. Parisi
Title: *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, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Craig S. Donohue, as Chief Executive Officer of the Company, and James E. Parisi, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

By: /s/ Craig S. Donohue

Name: Craig S. Donohue
Title: Chief Executive Officer

Date: May 5, 2005

By: /s/ James E. Parisi

Name: James E. Parisi
Title: Chief Financial Officer

Date: May 5, 2005

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

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

Exhibit 99.1

Certain Factors that May Affect Our Business

The following risk factors should be considered carefully in evaluating us and our business.

Shareholders who own trading rights or are officers or directors of others who own trading rights on our exchange account for 12 of the 20 directors on our Board. In addition, our shareholders who own trading rights on our exchange, and who may have interests that differ from or conflict with those of shareholders who are not also members, own a substantial amount of our voting stock. Our dependence on the trading and clearing activities of our members, combined with their share ownership and rights to elect directors, enables them to exert substantial influence over the operation of our business.

We believe that our shareholders who own trading rights on our exchange own a substantial amount of our outstanding Class A common stock. In addition, as of April 27, 2005, the date of our most recent Annual Meeting of Shareholders, 12 of the 20 directors on our Board owned or were officers or directors of others who owned trading rights on our exchange. We are dependent on the revenues from the trading and clearing activities of our members. This dependence also gives them substantial influence over how we operate our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The future success of our business depends in large part on our ability to create interactive electronic marketplaces in a wide range of derivatives products that have the required functionality, performance, reliability, speed and liquidity to attract and retain customers. A significant portion of our current overall volume is generated through electronic trading of our CME Eurodollar contract and E-mini S&P 500® and E-mini NASDAQ-100® products. However, during the first-quarter 2005 approximately 32% of our volume and nearly 23% of our clearing and transaction fee revenues were generated through our open outcry trading facilities. Most of our open outcry volume is related to trading in options on our futures contracts. Our electronic functionality may not be capable of accommodating all of the complex trading strategies typically used for trading options on futures contracts. We have implemented a pilot program for an enhanced options system for trading options on CME Eurodollars for a limited group of market participants. This system is designed to facilitate trading of complex combination and spread trades typically used with short-term interest rate options on futures, within a fully transparent and competitive environment. In the second half of 2005, we plan to link this system with the CME Globex platform to make it accessible to our entire marketplace. We also plan to increase its functionality to include trading of other option contracts. However, we may not complete the development of, or successfully implement, the required electronic functionality for CME's options on futures contracts, including the integration and operation of our enhanced options system. Moreover, our customers who trade options may not accept our electronic trading systems. In either event, our ability to increase trading volume of options on futures contracts on the CME Globex platform would be adversely affected. In addition, if we are unable to develop our electronic trading systems to include other products and markets, or if our electronic marketplaces do not have the required functionality, performance, reliability, speed and liquidity, we may not be able to compete successfully in an environment that is increasingly dominated by electronic trading.

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

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

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

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

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

If we do not successfully enhance our electronic trading platform, or our current or potential customers do not accept it, our revenues and profits will be adversely affected.

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

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

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

The derivatives, securities and financial services industries are highly competitive. We expect that competition will continue to intensify in the future. Our current and prospective competitors, both domestically and around the world, are numerous. They include securities and securities option exchanges, futures exchanges, OTC markets, clearing organizations, market data and information vendors, electronic communications networks, crossing systems and similar entities, consortia of large customers, consortia of some of our clearing firms and electronic brokerage and dealing facilities. At December 31, 2004, there were 56 futures exchanges located in 29 countries, including 9 futures exchanges in the United States. In February 2004, Eurex commenced operation of its U.S. derivatives exchange, Eurex U.S. Eurex U.S.'s initial competitive efforts were directed at the Chicago Board of Trade, or CBOT. However, Eurex U.S. has expanded its product offerings to include futures based on the Russell 1000 and Russell 2000 Indexes in direct competition with us. In March 2004, Euronext.liffe began listing and trading Eurodollar futures contracts.

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

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

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

Our average rate per contract is subject to fluctuation due to a number of factors. As a result, you will not be able to rely on our average rate per contract in any particular period as an indication of our future average rate per contract.

Our average rate per contract, which impacts our operating results, is subject to fluctuation based on the following factors: our rate structure; mix of products traded; method of trade and the mix of trades executed by customers who are members, participants in our various incentive programs or non-members. For example, we earn a higher rate per contract for trades executed on the CME Globex electronic trading platform. In addition, our members and participants in our various incentive programs are charged lower fees than our non-member customers. Each of these factors is difficult to predict and will have an impact on our average rate per contract in the particular period. For example, our average rate per contract decreased to $0.668 for the three months ended March 31, 2005 from $0.699 for the same period in 2004. Because of this fluctuation, you may not be able to rely on our average rate per contract in any particular period as an indication of our future average rate per contract. If we fail to meet securities analysts’ expectations regarding our operating results, the price of our Class A common stock could decline substantially.

Our quarterly operating results fluctuate due to seasonality. As a result, you will not be able to rely on our operating results in any particular quarter as an indication of our future performance.

Generally, we have experienced relatively higher volume during the first and second quarters and lower trading volume in the third and fourth quarters. As a result of this seasonality, 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 results, the price of our Class A common stock could decline substantially.

The Commodity Futures Modernization Act, or CFMA, has reduced the barriers of entry into our markets which has led to increased competition and enabled many of our customers to trade futures contracts other than on exchanges. These changes may adversely affect our trading volume, revenue and profits.

Our industry has been subject to several fundamental regulatory changes, including changes in the statute under which we have operated since 1974. The Commodity Exchange Act generally required all futures contracts to be executed on an exchange that had been approved by the 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 repealed by the CFMA. One of the chief beneficiaries of the CFMA has been OTC dealers and competitors that operate or intend to open electronic trading facilities or to conduct their futures business directly among themselves on a bilateral basis. The customers who may access these trading facilities or engage in bilateral private transactions are the same customers who account for a substantial portion of our trading volume. The CFMA also permits banks, broker-dealers and some of their affiliates to engage in foreign exchange futures transactions for or with retail customers without being subject to regulation under the Commodity Exchange Act. These customers are the same customers who use CME foreign exchange products. In the future, our industry may become subject to new regulations or changes in the interpretation or enforcement of existing regulations. We cannot predict the extent to which any future regulatory changes may adversely impact our business, including our ability to compete with enterprises who offer off-exchange trading and who benefit from a reduced regulatory burden and lower-cost business model.

The CFMA also permits bank clearing organizations and clearing organizations regulated by the Securities and Exchange Commission, or 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% and 79% of our trading volume during the first-quarter 2005 and 2004, respectively. Subject to the oversight of our Board of Directors, our management is charged with making decisions that are designed to enhance shareholder value, which may lead to decisions or outcomes with which our members disagree. These changes may make us less attractive to our members and encourage them to conduct their business at, or seek membership in, another exchange or to trade in equivalent products among themselves on a private, bilateral basis. A material decrease in member trading activity that is not offset by an increase in non-member trading would negatively impact liquidity and trading volume in our products and reduce our revenues. A loss or material reduction in the number of our clearing firms and the capital they provide to guarantee their trades and the trades of their customers would also diminish the strength and attractiveness of our clearing house and our markets.

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

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

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

We are substantially dependent on trading volume from four product offerings for a significant portion of our clearing and transaction fee revenues and profits. The clearing and transaction fee revenues attributable to transactions in CME Eurodollar contracts, all our contracts based on the S&P 500 and NASDAQ-100 (including CME E-mini products), and privately negotiated foreign exchange transactions using our clearing house were approximately 44%, 23%, 8% and 5%, respectively, of our total clearing and transaction fee revenues during the first-quarter 2005 and 43%, 26%, 10% and 6%, respectively, during the year ended December 31, 2004. Any significant decline in our trading volume in any of these products would negatively impact our business, financial condition and operating results.

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

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. 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, 2012.

We cannot assure you that either of our Standard & Poor's or Nasdaq license agreements will be renewed when they terminate. In addition, we cannot assure you that others will not succeed in creating stock index futures based on information similar to that which we have obtained by license or that market participants will not increasingly use alternative instruments, including securities and options based on the S&P and NASDAQ indexes, to manage or speculate on U.S. stock risks. Parties may also succeed in offering indexed products that are similar to our licensed products without being required to obtain a license or in countries that are beyond the jurisdictional reach of us and/or our licensors. We also cannot assure you that Nasdaq will not directly or indirectly through other exchanges offer security futures contracts that compete with our broad-based index futures contracts based upon NASDAQ indexes.

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

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

We may not continue to realize the benefits of our agreement to provide clearing and transaction processing services for CBOT products.

We entered into an agreement with the CBOT in April 2003, which was subsequently amended in March 2004, to provide clearing and transaction processing services for CBOT futures and options on futures contracts. Under the terms of the agreement, clearing services for commodity, equity index and some interest rate products began in November 2003 and for all other CBOT futures and options on futures contracts on January 2, 2004. In the first-quarter 2005 and during the year ended December 31, 2004, we cleared 173 million and 600 million contracts for the CBOT, respectively, which generated approximately $17 million and $55 million, respectively, in clearing and transaction processing services revenue. We cannot assure you that we will continue to realize the benefits received from our clearing and transaction processing agreement. Our future revenues from providing these clearing and transaction processing services will be dependent on the CBOT's ability to maintain and/or expand its trading volume, which is subject to a number of factors beyond its control. As a futures exchange, CBOT's ability to maintain or expand its volume and operate its business is subject to the same types of risks to which we are subject. For example, in February 2004, Eurex launched a registered U.S. derivatives exchange, Eurex U.S., which offers, among other products, contracts on U.S. Treasury notes and bonds in direct competition with contracts currently traded at the CBOT. Any significant decrease in CBOT's trading volume will result in a corresponding decrease in our realized benefits. Our net income from the clearing and transaction processing services we provide to the CBOT will also depend on our ability to control our costs associated with providing such services.

The initial term of the agreement is five years, with subsequent three year renewals upon the mutual consent of the parties. The terms of the agreement also provide that both we and the CBOT may terminate the agreement in some circumstances. We cannot assure you that the agreement will not be terminated prior to the end of its term or that the agreement will be renewed after its initial term. Any such event could have an adverse effect on our revenues.

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

We sell our market data to individuals and organizations that use our markets or monitor general economic conditions. Revenues from our market data totaled $17.8 million, representing 8% of our net revenues, during first-quarter 2005 and $60.9 million, or 8% of our net revenues during the year ended December 31, 2004. Electronic trading systems do not usually impose separate charges for supplying market data to trading terminals. If we do not separately charge for market data supplied to trading terminals, and trading terminals with access to our markets become widely available, we could lose quote fee revenue from those who have access to trading terminals. We will experience a reduction in our revenues if we are unable to recover that lost quote fee revenue through terminal usage fees or transaction fees.

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

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

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

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

From time to time, we have experienced system errors and failures that have resulted in some customers being unable to connect to our electronic trading platform or erroneous reporting, such as transactions that were not authorized by any customer or reporting of filled orders as cancelled. For example, in April 2005, May 2003 and September 2002, we experienced technical failures that resulted in a temporary suspension of trading on the CME Globex platform. The impact of these events has not been material. However, we cannot assure you that if we experience system errors or failures in the future that they will not be material.

Our status as a CFTC registrant generally requires that our trade execution and communications systems be able to handle anticipated present and future peak trading volume. Heavy use of our computer systems during peak trading times or at times of unusual market volatility could cause our systems to operate slowly or even to fail for periods of time. We constantly monitor system loads and performance and regularly implement system upgrades to handle estimated increases in trading volume. However, we cannot assure you that our estimates of future trading volume will be accurate or that our systems will always be able to accommodate actual trading volume without failure or degradation of performance. Increased CME Globex trading volume may result in connectivity problems or erroneous reports that may affect users of the platform. System failure or degradation could lead our customers to file formal complaints with industry regulatory organizations, file lawsuits against us or cease doing business with us or could lead the CFTC or other regulators to initiate inquiries or proceedings for failure to comply with applicable laws and regulations.

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

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

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

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

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

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

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

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

Although the CFMA significantly reduced our regulatory burdens, we remain extensively regulated by the CFTC. Our international operations may be subject to similar regulations in specific jurisdictions. We are registered in a number of countries outside the United States. In some cases, our registrations are subject to annual review and such reviews may subject us to additional requirements in the future. We may also be required to register or become subject to regulation in other jurisdictions in order to accept business from customers in those jurisdictions.

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

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

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

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

Demutualization and the increasing utilization of electronic trading systems by traders from remote locations may, among other developments, impact our ability to continue the traditional form of “self-regulation” that has been an integral part of the CFTC regulatory program. The CFTC is conducting an ongoing review of self-regulatory organizations and the appropriate role, if any, of self regulation in the futures markets. We cannot assure you that the CFTC will not make modifications to its regulations as a result of its review. Any such modification or restructuring of our regulatory functions could entail material costs and may have an adverse effect on the way we conduct our business.

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

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

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

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

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

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

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

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

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

There have been a number of highly publicized cases involving fraud or other misconduct by employees of financial services firms in recent years. Misconduct by our employees, including employees of GFX Corporation, our wholly owned subsidiary that primarily engages in proprietary trading in foreign exchange futures, could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of CME customers or improper use of confidential information. Employee misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Our employees also may commit errors that could subject us to financial claims for negligence, or otherwise, as well as regulatory actions. For example, employees of GFX Corporation enter into transactions to promote liquidity in CME foreign exchange contracts on the CME Globex platform and subsequently enter into offsetting transactions using futures contracts or spot foreign exchange transactions with approved counterparties in the interbank market to limit market risk. In the event the offsetting transaction is not entered into or is not timely or properly executed, we could be exposed to substantial market risk.

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

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

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

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

- difficulties in the assimilation of acquired businesses or technologies;
- diversion of management’s attention from other business concerns;
- assumption of unknown material liabilities;
- difficulties in implementing adequate compliance and risk management methods for new operations;
- failure to achieve financial or operating objectives; and
- potential loss of customers or key employees of acquired companies.

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

We also may seek to expand or enhance some of our operations by forming joint ventures or alliances with various strategic partners throughout the world. Entering into joint ventures and alliances also entails risks, including difficulties in developing and expanding the business of newly formed joint ventures, exercising influence over the activities of joint ventures in which we do not have a controlling interest, and potential conflicts with our joint venture or alliance partners. For example, in 2001 we entered into an operating agreement governing OneChicago, our joint venture with the Chicago Board Options Exchange and the CBOT, to trade single stock futures and futures based on narrow-based stock indexes. We own approximately a 40% interest in the joint venture. OneChicago's performance to date has been poor, and the company has not met our expectations. We continue to monitor its performance and future prospects and evaluate whether or not we will make additional investments in OneChicago. Our ability to control strategic decisions by OneChicago or its Board is limited. In addition, under the terms of our amended operating agreement, until June 30, 2005, we are restricted from in any way engaging in the business of trading, marketing, regulating, selling, purchasing, clearing or settling transactions in single stock futures other than in conjunction with the joint venture. This restriction on our ability to compete applies whether or not we remain part of the joint venture, but it does not apply to futures based on exchange-traded funds or narrow-based stock indexes. We cannot assure you that any joint venture or alliance that we have entered into, including OneChicago, or may enter into in the future will be successful.

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

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

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

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

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

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

- restrictions on the use of trading terminals or the contracts that may be traded;
- becoming subject to extensive regulations and oversight, tariffs and other trade barriers;
- reduced protection for intellectual property rights;
- difficulties in staffing and managing foreign operations;
- general economic and political conditions in the countries from which our markets are accessed may have an adverse effect on our volume from those countries; and
- potentially adverse tax consequences.

In addition, we will be required to comply with the laws and regulations of foreign governmental and regulatory authorities of each country in which we conduct business. These may include laws, rules and regulations relating to any aspect of the derivatives business. To date, we have had limited experience in marketing and operating our products and services internationally. We cannot assure you that we will be able to succeed in marketing our products and services in international markets. We may also experience difficulty in managing our international operations because of, among other things, competitive conditions overseas, management of

foreign exchange risk, established domestic markets, language and cultural differences and economic or political instability. Any of these factors could have a material adverse effect on the success of our international operations and, consequently, on our business, financial condition and operating results.

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

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

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

Patents of third parties may have an important bearing on our ability to offer certain of our products and services. Our competitors as well as other companies and individuals may obtain, and may be expected to obtain in the future, patents related to the types of products and services we offer or plan to offer. We cannot assure you that we are or will be aware of all patents containing claims that may pose a risk of infringement by our products and services. In addition, some patent applications in the United States are confidential until a patent is issued and, therefore, we cannot evaluate the extent to which our products and services may be covered or asserted to be covered by claims contained in pending patent applications. These claims of infringement are not uncommon in our industry.

In general, if one or more of our products or services were to infringe patents held by others, we may be required to stop developing or marketing the products or services, to obtain licenses to develop and market the services from the holders of the patents or to redesign the products or services in such a way as to avoid infringing on the patent claims. We cannot assess the extent to which we may be required in the future to obtain licenses with respect to patents held by others, whether such licenses would be available or, if available, whether we would be able to obtain such licenses on commercially reasonable terms. If we were unable to obtain such licenses, we may not be able to redesign our products or services to avoid infringement, which could materially adversely affect our business, financial condition and operating results.