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 June 30, 2004

- OR -

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

For the transition period from ______ to ______

Commission file number 001-31553

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

Delaware **(State or other jurisdiction of incorporation or organization)**	**36-4459170** **(I.R.S. Employer Identification Number)**
20 South Wacker Drive, Chicago, Illinois **(Address of principal executive offices)**	**60606** **(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 July 30, 2004 was as follows: 33,978,132 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.

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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: economic, political and market conditions; changes in the level of trading activity, price levels and volatility in the derivatives markets and in underlying fixed income, equity, foreign exchange and commodities markets; changes in domestic and foreign regulations; changes in government policy, including interest rate policy and policies relating to common or directed clearing; industry and customer consolidation; seasonality of the futures business; our ability to adjust our fixed costs and expenses if our revenues decline; our ability to efficiently and simultaneously operate both open outcry trading and electronic trade execution facilities; our ability to keep pace with rapid technological developments; our ability to accommodate increases in trading volume without failure or degradation of performance of our trading systems; increasing competition by foreign and domestic competitors, including new entrants into our markets; our ability to successfully implement our competitive initiatives; our ability to continue introducing competitive new products and services on a timely, cost-effective basis, including through our electronic trading capabilities, and our ability to maintain the competitiveness of our existing products and services; decreases in member trading and clearing activity; our ability to manage the risks and control the costs associated with our acquisition, investment and alliance strategy; the ability of our joint venture, OneChicago, LLC, to obtain market acceptance of its products and achieve sufficient trading volume to operate profitably; the costs associated with protecting our intellectual property rights and our ability to operate our business without violating the intellectual property rights of others; and the continued availability of financial resources in the amounts and on the terms required to support our future business. For a detailed discussion of these and other factors that might affect our performance, see Exhibit 99.1 to this Quarterly Report on Form 10-Q.

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

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Item 1. Financial Statements

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

	June 30, 2004	December 31, 2003
Assets		
Current Assets:		
Cash and cash equivalents	$ 222,344	$ 185,124
Collateral from securities lending	739,595	1,004,400
Short-term investments of interest earning facilities	185,956	370,504
Marketable securities	266,706	256,538
Accounts receivable, net of allowance of $971 and $866	81,648	52,972
Other current assets	51,753	21,589
Cash performance bonds and security deposits	2,028,056	2,832,252
Total current assets	3,576,058	4,723,379
Property, net of accumulated depreciation and amortization	123,892	118,203
Other assets	33,417	31,054
Total Assets	$3,733,367	$4,872,636
Liabilities and Shareholders’ Equity		
Current Liabilities:		
Accounts payable	$ 17,246	$ 24,690
Payable under securities lending agreements	739,595	1,004,400
Payable to participants in interest earning facilities	185,956	370,504
Other current liabilities	49,601	56,129
Cash performance bonds and security deposits	2,028,056	2,832,252
Total current liabilities	3,020,454	4,287,975
Other liabilities	20,274	21,666
Total Liabilities	3,040,728	4,309,641
Shareholders’ Equity:		
Preferred stock, $0.01 par value, 9,860,000 shares authorized, none issued and outstanding	—	—
Series A junior participating preferred stock, $0.01 par value, 140,000 shares authorized, none issued and outstanding	—	—
Class A common stock, $0.01 par value, 138,000,000 shares authorized, 33,912,820 and 32,922,061 shares issued and outstanding as of June 30, 2004 and December 31, 2003, respectively	339	329
Class B common stock, $0.01 par value, 3,138 shares authorized, issued and outstanding	—	—
Additional paid-in capital	242,684	195,222
Unearned restricted stock compensation	(2,295)	(941)
Retained earnings	454,276	368,312
Accumulated net unrealized gains (losses) on marketable securities	(2,365)	73
Total Shareholders’ Equity	692,639	562,995
Total Liabilities and Shareholders’ Equity	$3,733,367	$4,872,636

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Revenues				
Clearing and transaction fees	$ 265,826	$ 218,207	$ 142,874	$ 115,808
Clearing and transaction services	26,651	360	14,173	180
Quotation data fees	30,286	25,369	14,796	13,570
Access fees	7,969	7,605	3,979	3,883
Communication fees	5,056	4,828	2,558	2,412
Investment income	5,865	3,310	2,768	2,164
Securities lending interest income	7,400	4,886	3,943	2,029
Other	11,026	8,330	5,441	4,249
Total Revenues	360,079	272,895	190,532	144,295
Securities lending interest expense	(6,706)	(4,488)	(3,531)	(1,904)
Net Revenues	353,373	268,407	187,001	142,391
Expenses				
Compensation and benefits	81,210	71,214	40,630	37,970
Occupancy	13,528	12,575	6,823	6,294
Professional fees, outside services and licenses	16,930	14,939	8,847	7,561
Communications and computer and software maintenance	24,915	23,299	12,666	11,182
Depreciation and amortization	25,911	26,532	13,116	13,321
Marketing, advertising and public relations	4,981	7,136	2,467	1,534
Other	12,212	9,588	6,178	5,159
Total Expenses	179,687	165,283	90,727	83,021
Income before income taxes	173,686	103,124	96,274	59,370
Income tax provision	(70,343)	(41,990)	(38,991)	(24,357)
Net Income	$ 103,343	$ 61,134	$ 57,283	$ 35,013
Earnings per Common Share:				
Basic	$ 3.12	$ 1.88	$ 1.72	$ 1.07
Diluted	3.02	1.81	1.66	1.03
Weighted average number of common shares:				
Basic	33,093,055	32,579,249	33,253,756	32,624,015
Diluted	34,247,521	33,865,296	34,448,257	33,867,000

See accompanying notes to consolidated financial statements.

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

	Class A Common Stock	Class B Common Stock	Common Stock and Additional Paid-In Capital	Unearned Restricted Stock Compensation	Retained Earnings	Accumulated Net Unrealized Gains (Losses) On Marketable Securities	Total Shareholders' Equity
	Shares	Shares	Amount				
Balance December 31, 2003	32,922,061	3,138	$ 195,551	$ (941)	$ 368,312	$ 73	$ 562,995
Comprehensive income:							
Net income					103,343		103,343
Change in net unrealized gain (loss) on securities, net of tax of $1,625						(2,438)	(2,438)
Total comprehensive income							100,905
Exercise of stock options	968,319		1,146				1,146
Tax benefit related to employee stock compensation			42,298				42,298
Quarterly cash dividends on common stock of $0.26 per share					(17,379)		(17,379)
Vesting of issued restricted Class A common stock	22,440						
Stock-based compensation			2,314				2,314
Forfeited restricted stock			(86)	86			—
Grant of 15,800 shares of restricted Class A common stock			1,800	(1,800)			—
Amortization of unearned restricted stock compensation				360			360
Balance June 30, 2004	33,912,820	3,138	$ 243,023	$ (2,295)	$ 454,276	$ (2,365)	$ 692,639
Balance December 31, 2002	32,530,372	3,138	$ 179,994	$ (665)	$ 266,810	$ —	$ 446,139
Net income					61,134		61,134
Exercise of stock options	157,903		3,224				3,224
Tax benefit related to employee stock compensation			2,205				2,205
Quarterly cash dividends on common stock of $0.14 per share					(9,122)		(9,122)
Vesting of issued restricted Class A common stock	20,600						
Stock-based compensation			1,215				1,215
Grant of 12,800 shares of restricted Class A common stock			807	(807)			—
Amortization of unearned restricted stock compensation				238			238
Balance June 30, 2003	32,708,875	3,138	$ 187,445	$ (1,234)	$ 318,822	$ —	$ 505,033

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2004	**2003**
Cash Flows from Operating Activities:		
Net income	$ 103,343	$ 61,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,911	26,532
Stock-based compensation	2,674	1,453
Deferred income tax liability (benefit)	2,762	(4,791)
Loss on investment in joint venture	1,892	2,434
Tax benefit related to employee stock compensation	42,298	2,205
Amortization of purchased intangibles	75	—
Amortization of purchased premiums on investments in debt securities	1,795	—
Loss on disposal of fixed assets	172	927
Increase (decrease) in allowance for doubtful accounts	105	(42)
Increase in accounts receivable	(28,781)	(18,408)
Decrease (increase) in other current assets	(30,164)	3,166
Decrease (increase) in other assets	199	(3,682)
Increase (decrease) in accounts payable	(7,444)	1,566
Increase (decrease) in other current liabilities	(5,578)	15,637
Increase (decrease) in other liabilities	(1,392)	2,356
Net Cash Provided by Operating Activities	107,867	90,487
Cash Flows from Investing Activities:		
Purchases of property, net	(31,773)	(24,993)
Purchase of intangible assets	(4,765)	—
Capital contributions to joint venture	(900)	(3,413)
Purchases of marketable securities	(48,643)	—
Proceeds from maturities of marketable securities	32,615	—
Net Cash Used in Investing Activities	(53,466)	(28,406)
Cash Flows from Financing Activities:		
Payments on long-term debt	(948)	(2,608)
Cash dividends	(17,379)	(9,122)
Proceeds from exercised stock options	1,146	3,224
Net Cash Used in Financing Activities	(17,181)	(8,506)
Net increase in cash and cash equivalents	37,220	53,575
Cash and cash equivalents, beginning of period	185,124	339,260
Cash and cash equivalents, end of period	$ 222,344	$ 392,835
Supplemental Disclosure of Cash Flow Information:		
Interest paid (excludes securities lending interest expense)	$ 31	$ 222
Income taxes paid	61,839	34,411

See accompanying notes to consolidated financial statements.

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

1. Basis of Presentation

The accompanying interim consolidated financial statements have been prepared by Chicago Mercantile Exchange Holdings Inc. (CME Holdings) without audit. Certain notes and other information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, the accompanying consolidated financial statements include all adjustments necessary to present fairly the financial position of CME Holdings as of June 30, 2004 and December 31, 2003, and the results of its operations and its cash flows for the periods indicated.

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

Certain reclassifications have been made to the 2003 financial statements to conform to the presentation in 2004.

2. Performance Bonds and Security Deposits

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

3. Guarantees

Interest Earning Facility. Clearing firms, at their option, may instruct CME to invest cash on deposit for performance bond purposes in a portfolio of securities that is part of the IEF program. The first IEF was organized in 1997 as two limited liability companies. Interest earned, net of expenses, is passed on to participating clearing firms. The principal of these first IEFs totaled $186.0 million at June 30, 2004 and is guaranteed by the exchange as long as clearing firms maintain investment balances in this portfolio. The investment portfolio of these facilities is managed by two of the exchange's approved settlement banks and eligible investments include U.S. Treasury bills and notes, U.S. Treasury strips and reverse repurchase agreements. The maximum average portfolio maturity is 90 days, and the maximum maturity for an individual security is 13 months. If funds invested in the IEF are required to be liquidated due to a clearing firm redemption transaction and funds are not immediately available due to lack of liquidity in the investment portfolio, default of a repurchase counterparty, or loss in market value, CME guarantees the amount of invested funds. FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements of Guarantees of Indebtedness of Others," requires that an entity (CME) issuing a guarantee recognize, at the inception of the guarantee, a liability equal to the fair value of the guarantee. CME has evaluated its requirements under FIN No. 45 and concluded that no significant liability is required to be recorded.

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

4. Capital Stock

On June 4, 2004, transfer restrictions on each of the shares of Class A-1, A-2, A-3 and A-4 common stock expired. When these restrictions expired, the issued and outstanding shares of Class A-1, A-2, A-3 and A-4 common stock converted into shares of unrestricted Class A common stock. As of June 30, 2004, 33,912,820 shares of Class A common stock were issued and outstanding.

5. Stock Options

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

In the second quarter of 2004, CME granted additional stock options totaling 316,900 shares to various employees under the Omnibus Stock Plan. The options vest over a five-year period, with 20% vesting one year after the grant date and on that same date in each of the following four years. The options have a 10-year term with an exercise price of $127.00, the market price at the grant date. The fair value of the options granted to employees was $14.4 million, measured at the grant date using the Black-Scholes method of valuation. A risk-free rate of 4.30% was used over a period of six years with a 31.7% volatility factor and a 0.8% dividend yield. This compensation expense will be recognized on an accelerated basis over the vesting period.

In the first six months of 2004, CME also granted 15,800 shares of restricted stock that have the same vesting provisions as the stock options granted at that time. Compensation expense of $1.8 million relating to this restricted stock will be recognized over the vesting period.

The following table summarizes stock option activity for the six months ended June 30, 2004:

	Number of Shares	
	Class A	**Class B**
Balance at December 31, 2003	2,378,214	112
Granted	335,100	—
Exercised	(856,583)	(44)
Cancelled	(294,498)	(68)
Balance at June 30, 2004	1,562,233	—

In the second quarter of 2004, CME’s former CEO exercised the remaining portion of his stock option. Under the provisions of the option grant, CME was allowed to provide Class A shares for the value of the Class B portion of the option. The option was satisfied through the issuance of 823,140 shares to satisfy the Class A portion of the option from the Omnibus Stock Plan and the issuance of 111,736 shares to satisfy the Class B portion of the option pursuant to a registration statement on Form S-8. In addition, the former CEO elected to satisfy the exercise price through the surrender of a portion of the option resulting in the cancellation of 206,452 Class A shares and 68 Class B shares.

At June 30, 2004, there were 1,562,233 total options outstanding, of which 690,823 were exercisable.

6. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of all classes of common stock outstanding for each reporting period. Diluted earnings per share reflects the increase in shares using the treasury stock method to reflect the impact of an equivalent number of shares of common stock if stock options and restricted stock awards were exercised or converted into common stock. The dilutive effect of the option granted to CME’s former CEO has been calculated as if the entire option, including the Class A share and Class B share portions of the option, were satisfied through the issuance of Class A shares. The diluted weighted average number of common shares outstanding at June 30, 2004, excludes the incremental effect related to 316,900 outstanding stock options that would be anti-dilutive.

	Six Months Ended June 30		Three Months Ended June 30	
	2004	2003	2004	2003
Net income (in thousands)	$ 103,343	$ 61,134	$ 57,283	$ 35,013
Weighted Average Number of Common Shares:				
Basic	33,093,055	32,579,249	33,253,756	32,624,015
Effect of stock options	1,126,027	1,251,715	1,172,903	1,216,749
Effect of restricted stock grants	28,439	34,332	21,598	26,236
Diluted	34,247,521	33,865,296	34,448,257	33,867,000
Earnings per Share:				
Basic	$ 3.12	$ 1.88	$ 1.72	$ 1.07
Diluted	3.02	1.81	1.66	1.03

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

Results of Operations for the Six Months Ended June 30, 2004 Compared to the Six Months Ended June 30, 2003

Overview

Our operations for the six months ended June 30, 2004 resulted in net income of $103.3 million compared to net income of $61.1 million for the six months ended June 30, 2003. The increase in net income resulted primarily from a 31.7% increase in net revenues that was partially offset by an 8.7% increase in operating expenses. The increase in net revenues was driven by a 21.8% increase in clearing and transaction fees attributed to a 25.2% increase in total trading volume during the first six months of 2004 when compared to the first six months of 2003, as well as an incremental $26.3 million of revenues resulting from clearing and transaction processing services provided to the Chicago Board of Trade (CBOT). Contributing to the $14.4 million overall increase in expenses was $10.0 million related to compensation and benefits as well as increases in professional fees, outside services and licenses, and other expenses. This was partially offset by a $2.1 million reduction in marketing, advertising and public relations expenses in the first six months of 2004.

Trading volume for the six months ended June 30, 2004 totaled 394.4 million contracts, representing an average daily trading volume of 3.2 million contracts. This was a 25.2% increase in total trading volume over the 315.0 million contracts traded during the same period in 2003 and an increase of 24.2% in average daily trading volume over the 2.5 million contracts in the same period in 2003. Average daily volume for the month of May 2004 was 3.5 million contracts per day, the highest monthly average daily volume in our history. In addition, 55.7% of our trading volume in May 2004 was generated on GLOBEX, our electronic trading platform, the highest percentage of trading volume on GLOBEX in our history during any one-month period. For the six months ended June 30, 2004, 51.5% of our trading volume was generated on GLOBEX, which was also the highest percentage of trading volume on GLOBEX during any six-month period in our history.

Revenues

Total revenues increased $87.2 million, or 31.9%, from $272.9 million for the six months ended June 30, 2003 to $360.1 million for the six months ended June 30, 2004. Net revenues increased $85.0 million, or 31.7%, from $268.4 million for the six months ended June 30, 2003 to $353.4 million for the six months ended June 30, 2004. The increase in revenues was attributable primarily to a 24.2% increase in average daily trading volume for the six months ended June 30, 2004 when compared to the six months ended June 30, 2003. In the first six months of 2004, GLOBEX volume represented 51.5% of total trading volume, or 1.6 million contracts per day, a 51.2% increase over the same period in 2003. We earn a higher rate per contract for trades executed on GLOBEX. The increase in electronic trading volume was a result of interest rate and equity trading volume growth and, to a lesser extent, foreign currency trading volume growth. Increased trading volume levels resulted from: GLOBEX system enhancements improving speed and reliability in response to increased volume; interest rate volatility driven by anticipated and actual interest rate movement by the U.S. Federal Reserve Board; continued volatility in currencies; geopolitical and economic uncertainty; increased customer demand for the liquidity provided by our markets; and the introduction of incentive programs and our European hubs to enhance liquidity on GLOBEX and attract new customers. In addition, in March 2004, our Class B shareholders approved a proposal to transition the front two Eurodollar futures contracts onto GLOBEX if minimum volume thresholds are not maintained which led to increased electronic trading volume for these contracts. The additional clearing and transaction fees resulting from the increased trading volume and the increased percentage of trades executed electronically were augmented by fees for clearing and transaction processing services provided to the CBOT, increased revenue from quotation data fees, additional interest income, increased fees for managing our IEF programs and greater trading revenue from GFX, our wholly owned subsidiary that utilizes GLOBEX to provide liquidity in foreign exchange and Eurodollar futures contracts.

Clearing and Transaction Fees. Clearing and transaction fees, which include clearing fees, GLOBEX electronic trading fees and other volume-related charges, increased $47.6 million, or 21.8%, from $218.2 million for the six months ended June 30, 2003 to $265.8 million for the six months ended June 30, 2004. A significant portion of the increase was attributable to the 24.2% increase in average daily trading volume. In addition to the increase in trading volume, there was an increase in the percentage of trading volume executed through GLOBEX, for which additional fees are assessed. In the first six months of 2004, GLOBEX average daily trading volume was over 1.6 million contracts, or 51.5% of total trading volume compared to nearly 1.1 million, or 42.3% during the same period in 2003. All of our product areas, with the exception of commodity products, experienced growth in GLOBEX volume during the six months ended June 30, 2004 when compared to the six months ended June 30, 2003. The percentage increase in trading volume was higher than the increase in transaction fees due to a lower average rate, or revenue, per contract for the first six months of 2004 when compared to the same period in 2003. The average rate, or revenue, per contract decreased from $0.693 for the six months ended June 30, 2003 to $0.674 for the same period in 2004. The average rate per contract in the first six months of 2004 was reduced by $0.010 as a result of a decrease in the percentage of trades executed by non-member customers from 22% for the first six months of 2003 to 21% for the first six months of 2004. We believe our lower fee structure for members has resulted in the acquisition of trading rights by parties intending to trade significant volumes on our exchange, creating an increase in member volume. In addition, the average rate per contract was further reduced by $0.008 in the first six months of 2004 when compared to the same time period in 2003 as a result of a $2.5 million clearing fee assessment which increased revenues during the six months ended June 30, 2003. There was no similar assessment during the same period in 2004. The average rate per contract was also reduced by $0.006 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. Finally, the average rate per contract was reduced by $0.011 during the six months ended June 30, 2004 due to increased volume of our TRAKRS contracts which have a much lower rate per contract than our other contracts. If volume and fees for TRAKRS were excluded, our average rate per contract would have increased to $0.701 for the six months ended June 30, 2003 and to $0.693 for the same period in 2004. Partially offsetting these decreases to the average rate per contract was a $0.009 increase due to a product mix shift of trades on GLOBEX from equity products to interest rate products, which earn a higher rate per contract than equity products. Our average rate per contract was also positively impacted by $0.006 as a result of an increased percentage of our trades executed through GLOBEX, which has a higher rate per contract. Finally, although our Eurodollar back month incentive program, that began on March 1, 2003, ended on December 31, 2003, similar incentives were granted during 2004 through our Eurodollar market maker program. Therefore, the increase in the average rate per contract from the expiration of one program was offset by the impact of the new Eurodollar market maker program.

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

	Six Months Ended June 30,		
Product Area	**2004**	**2003**	**Percentage Increase**
Interest Rate	1,655,185	1,257,513	31.6%
Equity	1,278,897	1,116,995	14.5
Foreign Exchange	181,944	131,707	38.1
Commodity	39,107	34,332	13.9
Total Volume	3,155,133	2,540,547	24.2
GLOBEX Volume	1,625,801	1,075,068	51.2
GLOBEX Volume as a Percent of Total Volume	51.5%	42.3%	
Clearing and Transaction Fee Revenues (in thousands)	$ 265,826	$ 218,207	
Average Rate per Contract	$ 0.674	$ 0.693	

We experienced an increase in our interest rate volume in the first six months of 2004 when compared to the first six months of 2003. In 2004, there has been uncertainty related to interest rate levels that was not evident in the first six months of 2003, which contributed to higher volume levels. In addition, significant fee reductions for customers, market makers and increased usage of handheld trading units on our trading floor contributed to an increase in Eurodollar GLOBEX volume. In the first six months of 2004, 20.6% of our interest rate volume was completed on GLOBEX compared to 3.0% during the same period in 2003. This increase resulted in incremental trading volume in our interest rate products. Our equity product volume was influenced by increased distribution to customers through GLOBEX facilitated by incentive programs introduced during the second quarter of 2004 enabling additional market participants to obtain reduced fees on our products. The volatility in U.S. equity markets in the first six months of 2003 was not as evident during the first six months of 2004. Despite the lower volatility, our equity product volume grew 14.5% during the first six months of 2004 when compared to the first six months of 2003 and 9.4% during this period excluding TRAKRS products. Our foreign exchange volume has benefited from increased volatility as well as increased trading on GLOBEX. In the first six months of 2004, 61.9% of our foreign exchange volume was conducted through GLOBEX compared to 38.5% during the same period in 2003 as a result of incremental electronic trading volume. In addition, our central counterparty clearing makes our foreign exchange products attractive to hedge funds, commodity trading advisers and banks. Price levels and volatility patterns contributed to the increase in volume in our commodity products during the first six months of 2004 when compared to the first six months of 2003.

During the first six months of 2004, we introduced various pricing and incentive programs to expand our customer base to additional geographic locations. These programs included a new Electronic Corporate Membership Program to offer a flexible, cost-effective alternative for electronic proprietary trading groups and trading arcades that are not eligible for existing membership categories and incentives, a new 18-month Asian Incentive Program for hedge funds and banks located in the Pacific Rim, and a new incentive pricing program for electronic foreign exchange (eFX) trading for commercial banks that are not currently members.

To encourage trading of Eurodollar contracts on GLOBEX, we introduced several pricing changes and incentive programs during the six months ended June 30, 2004. These included fee reductions on GLOBEX for customers to $0.55 from $0.80 per side, expansion of our market maker program in our electronic Eurodollar futures market, and GLOBEX fee waivers for traders who trade more than 1,000 Eurodollar contracts per day using our handheld trading devices.

We also launched various programs related to our foreign currency products. These include a 12-month GLOBEX fee incentive program designed to encourage equity member firms to increase their proprietary non-automated trading volume, an incentive pricing program designed to attract increased electronic trading of foreign exchange contracts by certain members such as fund managers, and a non-member electronic automated market maker program.

During the second quarter of 2004, we announced two alliances which will provide additional access to our foreign exchange and Eurodollar products via GLOBEX. We announced an agreement with Reuters that will begin in the fourth quarter of 2004 to bring banks and investment banks direct futures trading by offering our eFX markets to Reuters' global interbank customer base in a spot equivalent format. On June 30, 2004, we launched our Eurodollar Futures Rate Agreements (FRA) Switch contract with Tullett Liberty. These contracts are designed to enable swap dealers to manage their positions and counterparty exposure more efficiently through weekly matching of daily Eurodollar contracts on GLOBEX.

A substantial portion of our clearing and transaction fees, as well as telecommunications fees and various service charges included in other revenues, are billed to the clearing firms of the exchange. The majority of clearing and transaction fees received from clearing firms represent charges for trades executed on behalf of the customers of the various clearing firms. We currently have approximately 80 clearing firms. For the six months ended June 30, 2004, one firm, with a significant portion of customer revenue, represented approximately 11% of our net revenues. Should a clearing firm withdraw from the exchange, we believe the customer portion of that firm's trading activity would likely transfer to another clearing firm of the exchange. Therefore, we do not believe we are exposed to significant risk from the loss of revenues received from any particular clearing firm.

Clearing and Transaction Services. Clearing and transaction services includes fees derived from providing clearing and settlement services to CBOT, listing futures products on GLOBEX for NYMEX and processing single stock futures trades for certain of our clearing firms that execute trades at OneChicago LLC. Clearing and transaction services increased $26.3 million from $0.4 million for the six months ended June 30, 2003 to $26.7 million for the six months ended June 30, 2004. The increase was a result of providing clearing and transaction processing services to CBOT. We began providing clearing services for some CBOT products on November 24, 2003 and, as of January 2, 2004, we began clearing all CBOT products. We cleared 295.1 million matched contracts for CBOT during the six months ended June 30, 2004. In addition, we earned $0.4 million related to NYMEX transaction processing.

Quotation Data Fees. Quotation data fees increased $4.9 million, or 19.4%, from $25.4 million for the six months ended June 30, 2003 to $30.3 million for the six months ended June 30, 2004. The increase resulted primarily from the change to our fee structure that was implemented on January 1, 2004. At that time, we modified our market data pricing to a flat fee structure. Users of the professional service are now charged $30 per month for each market data screen or device. During the first quarter of 2003, users of the professional service were charged $60 per month for the first screen at each location and $12 per month for each additional screen at the same location. During the second quarter of 2003, users of the professional service were charged $50 per month for the first screen at each location and $20 per month for each additional screen at the same location. At the end of the first six months of 2004, there were approximately 64,000 subscribers to our market data and the data was accessible from approximately 180,000 screens and included approximately 31,000 subscribers to our lower-priced non-professional service. This represented an increase from June 30, 2003 of approximately 4,000 screens displaying our data, when the total was approximately 176,000 screens. While the number of subscribers has increased from approximately 58,000 at June 30, 2003, the increase occurred in our lower-priced non-professional E-mini market data service.

For the six months ended June 30, 2004, the two largest resellers of our market data represented nearly 56% of our quotation data fees revenue. Should one of these vendors no longer subscribe to our market data, we believe the majority of that firm's customers would likely subscribe to our market data through another reseller. Therefore, we do not believe we are exposed to significant risk from the loss of revenue received from any particular market data reseller.

Access Fees. Access fees increased $0.4 million, or 4.8%, from $7.6 million for the six months ended June 30, 2003 to $8.0 million for the six months ended June 30, 2004. Despite the relatively consistent access fees, more customers are accessing GLOBEX from fewer connectivity points with greater capacity.

Communication Fees. Communication fees were relatively constant at $4.8 million for the six months ended June 30, 2003 and $5.1 million for the six months ended June 30, 2004. The number of individuals and firms utilizing our communications services and the associated rates have been relatively constant from the first six months of 2003 to the first six months of 2004.

Investment Income. Investment income increased $2.6 million, or 77.2%, from $3.3 million for the six months ended June 30, 2003 to $5.9 million for the six months ended June 30, 2004. Approximately $0.9 million of the increase to interest income resulted from increased balances in short-term investments of available funds and cash performance bonds and security deposits. Also, the average rate earned on all investments improved to approximately 1.5% in the first six months of 2004 compared to approximately 1.1% during the same time period in 2003, representing an increase in investment income of approximately $0.9 million. In addition, as a result of the issuance by the Financial Accounting Standards Board (FASB) of FASB Interpretation (FIN) No. 46 in January 2003, the first IEFs that we initiated in 1997 have been determined to be variable interest entities and have been included in our consolidated financial statements beginning with the third quarter of 2003. While this consolidation has no effect on our net income, investment income for the six months ended June 30, 2004 includes $1.1 million of interest income from the first IEFs with a corresponding increase in our expenses to reflect fees paid for managing these IEFs and the distribution of these IEF earnings to the participants. There was no similar investment income in the first six months of 2003. Partially offsetting these increases was a $0.3 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 $2.5 million, from $4.9 million for the six months ended June 30, 2003 to $7.4 million for the six months ended June 30, 2004. The average balance of proceeds from securities lending activity was $0.7 billion for the six months ended June 30, 2003 and $1.4 billion for the six months ended June 30, 2004. Securities lending interest expense increased $2.2 million, from $4.5 million for the six months ended June 30, 2003 to $6.7 million for the six months ended June 30, 2004. This expense is an integral part of our securities lending program and is required to engage in securities lending transactions. Therefore, this expense is presented in the consolidated statements of income as a reduction of total revenues. The net revenues from securities lending represented a return of 0.10% on the average daily balances in the first six months of 2004 compared to 0.11% in the first six months of 2003.

Other Revenue. Other revenue increased $2.7 million, or 32.4%, from $8.3 million for the six months ended June 30, 2003 to $11.0 million for the six months ended June 30, 2004. This increase resulted from a variety of factors. There was a $0.7 million increase in the trading revenue generated by GFX, a $0.6 million increase in fees associated with managing our IEF programs and a $0.5 million decrease in our share of the OneChicago net loss during the six months ended June 30, 2004 when compared to the six months ended June 30, 2003. Lastly, in the first six months of 2003, we experienced losses on the trade-in of certain technology equipment that totaled $0.9 million compared to $0.2 million during the same period in 2004.

Expenses

Total operating expenses increased $14.4 million, or 8.7%, from $165.3 million for the six months ended June 30, 2003 to $179.7 million for the six months ended June 30, 2004. This increase was attributed primarily to a $10.0 million increase in compensation and benefits, $2.6 million of additional other operating expenses, and smaller increases in professional fees, outside services and licenses, as well as communications and computer and software maintenance. These increases were partially offset by a reduction of $2.1 million in marketing, advertising and public relations expense.

Compensation and Benefits Expense. Compensation and benefits expense increased $10.0 million, or 14.0%, from $71.2 million for the six months ended June 30, 2003 to $81.2 million for the six months ended June 30, 2004. There were four significant components to this increase. First, compensation and benefits expense increased from the first six months of 2003 compared to the first six months of 2004 by approximately $3.8 million as a result of annual salary increases and related increases in employer taxes, pension and benefits. Second, the average number of employees increased approximately 6%, or by 68 employees, from the first six months of 2003 to the first six months of 2004. We had 1,246 employees at June 30, 2004. This increased headcount resulted in additional compensation and benefits expense of approximately $3.6 million. Third, the bonus expense for the six months of 2004, as accrued under the provisions of our annual incentive plan, increased $2.6 million when compared to the same period in 2003. Finally, stock-based compensation expense increased $1.2 million to $2.7 million for the six months ended June 30, 2004. This increase resulted primarily from a full six months of expense during 2004 for the options granted in June 2003 as well as the first month's recognition of expense related to the employee option grants in June 2004. These increases were partially offset by a $1.0 million increase in the capitalization of compensation and benefits relating to internally developed software. In addition, we experienced a decrease of $0.3 million in the investment results of our non-qualified deferred compensation plan that is included in compensation and benefits expense but does not affect income, as there is an equal decrease in our investment income.

We expect to incur an expense of approximately $2.6 million of stock-based compensation in each of the next two quarters, which reflects the full effect of the recent grant.

Occupancy Expense. Occupancy expense increased $0.9 million, or 7.6%, from $12.6 million for the six months ended June 30, 2003 to $13.5 million for the six months ended June 30, 2004. Rent expense increased primarily as a result of additional space we lease at our main location, an increase in operating expenses and rent that began in April 2004 for an additional remote data center.

Professional Fees, Outside Services and Licenses Expense. Professional fees, outside services and licenses expense increased $2.0 million, or 13.3%, from $14.9 million for the six months ended June 30, 2003 to $16.9 million for the six months ended June 30, 2004. The increase resulted primarily from license fees relating to our equity products. License fees increased by $0.9 million from the first six months of 2003 to the first six months of 2004 as a result of increased trading volume in these products. In addition, we incurred $0.8 million of expense related to a revenue sharing agreement with SGX, whereby we pay to SGX a portion of our Eurodollar revenue generated on GLOBEX when our relative market share reaches certain levels during SGX's floor trading hours. There was no similar expense in 2003 due to the relatively low percentage of Eurodollars trading on GLOBEX. We also experienced a $0.7 million increase in other professional fees relating to GFX trading, temporary employees and other services. Finally, legal fees decreased $0.3 million during the first six months of 2004. This decrease related to our secondary offering of stock that was completed in June 2003, for which there was no corresponding expense in 2004, that was partially offset by increases in general litigation and real estate matters.

Communications and Computer and Software Maintenance Expense. Communications and computer and software maintenance expense increased $1.6 million, or 6.9%, from $23.3 million for the six months ended June 30, 2003 to $24.9 million for the six months ended June 30, 2004. This expense is affected primarily by growth in electronic trading. During the first six months of 2004, we experienced greater communications expense that included a $0.8 million increase for connections to GLOBEX. This increase in GLOBEX communication expenses was offset by a $1.5 million decrease in other communication expenses as a result of network consolidation and cost reduction efforts. Also, during the first six months of 2003 we received a $1.5 million refund from our telecommunications provider as a result of a billing error that related to prior periods. We received a similar refund of $0.3 million in the first six months of 2004, resulting in a net increase in expenses of $1.2 million during the first six months of 2004 when compared to the first six months of 2003. Our computer and software maintenance costs are driven by the number of transactions processed, not the volume of contracts traded. During the six months ended June 30, 2004, the number of transactions we processed increased approximately 20%. Also, we processed nearly 85% of total transactions electronically in the first six months of 2004 compared to nearly 80% in the first six months of 2003, which represented approximately 52% and 42%, respectively, of total contracts traded. As a result, our expenses for software, software maintenance and hardware maintenance increased $1.1 million during the first six months of 2004 when compared to the same period in 2003.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased $0.6 million, or 2.3%, from $26.5 million for the six months ended June 30, 2003 to $25.9 million for the six months ended June 30, 2004. The decrease was primarily the result of certain leasehold improvements, software and technology assets that became fully depreciated or were retired since June 30, 2003. The depreciation on these assets exceeded the depreciation for assets acquired since June 30, 2003. Capital expenditures totaled $63.0 million for the twelve months ended December 31, 2003, with technology-related purchases representing approximately 76% of these purchases, and totaled $31.8 million for the first six months of 2004, with technology-related purchases representing approximately 71% of total purchases.

Marketing, Advertising and Public Relations Expense. Marketing, advertising and public relations expense decreased $2.1 million, from $7.1 million for the six months ended June 30, 2003 to $5.0 million for the six months ended June 30, 2004. In the first six months of 2003, we incurred $5.1 million of expense associated with our brand advertising campaign. There was no similar expense in the first six months of 2004. Partially offsetting this decreased brand advertising expense was an increase in product advertising and other marketing-related efforts in the first six months of 2004.

Other Expense. Other expense increased $2.6 million, or 27.4%, from $9.6 million for the six months ended June 30, 2003 to $12.2 million for the six months ended June 30, 2004. The primary factor in this increase was $0.9 million of expense related to the consolidation of the first IEF program that was effective in the third quarter of 2003. This 2004 expense represents the distribution of the net earnings of these IEFs to the participants in the program. There was no similar expense in the first six months of 2003. In addition, we experienced a $0.4 million increase in bank fees, $0.3 million in currency delivery fees resulting from increased currency delivery revenue and increases in other general administrative expenses.

Income Tax Provision

We recorded a tax provision of $70.3 million for the six months ended June 30, 2004 compared to $42.0 million for the same period in 2003. The effective tax rate was 40.5% for the first six months of 2004, compared to 40.7% for the first six months of 2003.

Results of Operations for the Three Months Ended June 30, 2004 Compared to the Three Months Ended June 30, 2003

Overview

Our operations for the three months ended June 30, 2004 resulted in net income of $57.3 million compared to net income of $35.0 million for the three months ended June 30, 2003. The increase in net income resulted primarily from a 31.3% increase in net revenues that was partially offset by a 9.3% increase in operating expenses. The increase in net revenues was driven by a 23.4% increase in clearing and transaction fees attributed primarily to a 25.6% increase in total trading volume during the second quarter of 2004 when compared to the second quarter of 2003, as well as an incremental $14.0 million of revenue resulting from clearing and transaction processing services provided to the CBOT. Contributing to the $7.7 million overall increase in expenses was $2.6 million related to compensation and benefits, as well as other increases related to communications and computer and software maintenance, professional fees, outside services and licenses, marketing and other operating expenses.

Trading volume for the three months ended June 30, 2004 totaled 211.7 million contracts, representing an average daily trading volume of 3.4 million contracts. This was a 25.6% increase in total trading volume over the 168.6 million contracts traded during the same period in 2003 that represented an average daily trading volume of 2.7 million contracts.

Revenues

Total revenues increased $46.2 million, or 32.0%, from $144.3 million for the three months ended June 30, 2003 to $190.5 million for the three months ended June 30, 2004. Net revenues increased $44.6 million, or 31.3%, from the second quarter of 2003 to the same time period in 2004. The increase in revenues was attributable primarily to a 25.6% increase in average daily trading volume in the three months ended June 30, 2004 when compared to the three months ended June 30, 2003. In the second quarter of 2004, GLOBEX volume represented 53.2% of total trading volume, or 1.8 million contracts per day, a 64.5% increase over the same period in 2003. The additional clearing and transaction fees resulting from the increased trading volume were augmented by fees for clearing and transaction processing services provided to the CBOT, increased revenue from quotation data fees, additional interest income, increased fees for managing our IEF programs and a reduction in losses on trade-in of certain technology equipment.

Clearing and Transaction Fees. Clearing and transaction fees increased $27.1 million, or 23.4%, from $115.8 million for the three months ended June 30, 2003 to $142.9 million for the three months ended June 30, 2004. A significant portion of the increase was attributable to the 25.6% increase in average daily trading volume. In addition to the increase in trading volume, there was an increase in the percentage of trading volume executed through GLOBEX, for which additional fees are assessed. In the second quarter of 2004, GLOBEX average daily trading volume was 1.8 million contracts, or 53.2% of total trading volume compared to 1.1 million contracts, or 40.6% during the same period in 2003. All of our product areas, with the exception of commodity products, experienced growth in GLOBEX volume during the three months ended June 30, 2004 when compared to the three months ended June 30, 2003. The total trading volume percentage increase was higher than the increase in transaction fees due to a lower average rate per contract for the second quarter 2004 when compared to the same period in 2003.

The average rate per contract decreased from $0.687 for the three months ended June 30, 2003 to $0.675 for the same period in 2004. The average rate per contract in the second quarter of 2003 was higher by $0.015 due to a $2.5 million clearing fee assessment. There was no similar assessment during 2004. The average rate per contract was also reduced by $0.008 due to the impact of reduced volume from our mutual offset agreement with SGX. As a greater percentage of Eurodollar contracts are traded electronically on GLOBEX, we experienced lower trading volume through the mutual offset agreement. Also, our tiered pricing structure for Eurodollars reduced the average rate per contract by $0.006 as additional incentives were provided during the three months ended June 30, 2004 and trading volume increased in our Eurodollar contracts. Finally, the average rate per contract was reduced by $0.001 as a result of a decrease in the percentage of trades executed by non-member customers. Partially offsetting these decreases to the average rate per contract was a $0.011 increase due to a product mix shift of trades on GLOBEX from equity products to interest rate products, which earn a higher rate per contract than equity products. Also, the average rate per contract was positively impacted by $0.010 as a result of an increased percentage of our trades executed through GLOBEX, which has a higher rate per contract. In addition, although our Eurodollar back month incentive program ended on December 31, 2003, offsetting incentives were granted during 2004 through our Eurodollar market maker program. Finally, the average rate per contract for both periods was impacted by our lower fee TRAKRS contracts. If volume and fees for TRAKRS were excluded, our average rate per contract would have increased to $0.699 for the three months ended June 30, 2003 and to $0.688 for the same period in 2004.

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

Product Area	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Percentage Increase
Interest Rate	1,888,639	1,389,457	35.9%
Equity	1,255,334	1,115,884	12.5
Foreign Exchange	175,759	136,722	28.6
Commodity	40,598	33,970	19.5
Total Volume	3,360,330	2,676,033	25.6
GLOBEX Volume	1,787,451	1,086,868	64.5
GLOBEX Volume as a Percent of Total Volume	53.2%	40.6%	
Clearing and Transaction Fee Revenues (in thousands)	$ 142,874	$ 115,808	
Average Rate per Contract	$ 0.675	$ 0.687	

We experienced an increase in our interest rate volume in the second quarter of 2004 when compared to the second quarter of 2003. In 2004, there has been uncertainty related to interest rate levels and actual Federal Reserve Board interest rate changes that was not evident in the second quarter of 2003, which contributed to higher volume levels in the three months ended June 30, 2004. In addition, significant fee reductions for customers, market makers and increased usage of handheld trading units on our trading floor contributed to an increase in Eurodollar GLOBEX volume. In the second quarter of 2004, 27.7% of our interest rate volume was completed on GLOBEX compared to 3.0% during the same period in 2003. Our equity product volume was influenced by increased distribution to customers through GLOBEX facilitated by incentive programs introduced during the second quarter that enabled additional market participants to be eligible for reduced fees on our products. The volatility in U.S. equity markets in the second quarter of 2003 was not as evident during the second quarter of 2004. Despite the lower volatility, our equity product volume grew 12.5% during the second quarter of 2004 when compared to the second quarter of 2003 and 11.0% during the same period when excluding TRAKRS products. Our foreign exchange volume has benefited from increased volatility and the introduction of various incentive plans. In the second quarter of 2004, 63.6% of our foreign exchange volume was conducted through GLOBEX compared to 41.1% during the same period in 2003. In addition, our central counterparty clearing makes our foreign exchange products attractive to hedge funds, commodity trading advisers and banks. Price levels, volatility patterns and continued interest in commodity products as a hedge against inflation contributed to the increase in volume in our commodity products during the second quarter of 2004 when compared to the second quarter of 2003.

Clearing and Transaction Services. Clearing and transaction services increased $14.0 million from $0.2 million for the three months ended June 30, 2003 to $14.2 million for the three months ended June 30, 2004. The increase was a result of providing clearing and transaction processing services to CBOT. We cleared 158.5 million matched contracts for CBOT during the three months ended June 30, 2004. For the three months ended June 30, 2003 and 2004, we earned $0.2 million related to NYMEX transaction processing.

Quotation Data Fees. Quotation data fees increased $1.2 million, or 9.0%, from $13.6 million for the three months ended June 30, 2003 to $14.8 million for the three months ended June 30, 2004. The increase resulted primarily from the change to our fee structure that was implemented on January 1, 2004.

Access Fees. Access fees increased $0.1 million, or 2.5%, from $3.9 million for the three months ended June 30, 2003 to $4.0 million for the three months ended June 30, 2004. Despite the relatively consistent access fees, more customers are accessing GLOBEX from fewer connectivity points with greater capacity.

Communication Fees. Communication fees were relatively constant at $2.4 million for the three months ended June 30, 2003 and $2.6 million for the three months ended June 30, 2004. The number of individuals and firms utilizing our communications services and the associated rates have been relatively constant from the three months ended June 30, 2003 to the same period in 2004.

Investment Income. Investment income increased $0.6 million, or 27.9%, from $2.2 million for the three months ended June 30, 2003 to $2.8 million for the three months ended June 30, 2004. This increase resulted primarily from an improvement in the average rate earned on all investments to approximately 1.5% in the second quarter of 2004 compared to approximately 1.1% during the same time period in 2003, representing an increase in investment income of approximately $0.6 million. In addition, we earned approximately $0.4 million of additional interest income due to increased balances in short-term investments of available funds and cash performance bonds and security deposits. Another component of the increase in investment income was a result of the consolidation of the first IEFs beginning with the third quarter of 2003. While this consolidation has no effect on our net income, investment income for the three months ended June 30, 2004 includes $0.5 million of interest income from the first IEFs with a corresponding increase in our expenses to reflect fees paid for managing these IEFs and the distribution of these IEF earnings to the participants. There was no similar investment income in the second quarter of 2003. Partially offsetting these increases was a $0.8 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 $1.9 million, from $2.0 million for the three months ended June 30, 2003 to $3.9 million for the three months ended June 30, 2004. The average balance of proceeds from securities lending activity was $0.6 billion for the three months ended June 30, 2003 and $1.4 billion for the three months ended June 30, 2004. Securities lending interest expense increased $1.6 million, from $1.9 million for the three months ended June 30, 2003 to $3.5 million for the three months ended June 30, 2004. This expense is an integral part of our securities lending program and is required to engage in securities lending transactions. Therefore, this expense is presented in the consolidated statements of income as a reduction of total revenues. The net revenues from securities lending represented a return of 0.12% on the average daily balance in the second quarter of 2004 compared to 0.08% in the second quarter of 2003. Interest rates earned have increased due to a shift of investment balances toward money market mutual funds which have had a higher yield.

Other Revenue. Other revenue increased $1.2 million, or 28.1%, from $4.2 million for the three months ended June 30, 2003 to $5.4 million for the three months ended June 30, 2004. In the second quarter of 2003, we experienced losses on trade-in of certain technology equipment that totaled $0.9 million compared to $0.2 million during the same period in 2004. In addition, fees associated with managing our IEF programs increased by $0.4 million during the second quarter of 2004.

Expenses

Total operating expenses increased $7.7 million, or 9.3%, from $83.0 million for the three months ended June 30, 2003 to $90.7 million for the three months ended June 30, 2004. This increase was attributed primarily to $2.6 million related to compensation and benefits, $1.5 million for communications and computer and software maintenance, $1.2 million for professional fees, outside services and licenses, $1.0 in other operating expenses and $1.0 million related to marketing, advertising and public relations.

Compensation and Benefits Expense. Compensation and benefits expense increased $2.6 million, or 7.0%, from $38.0 million for the three months ended June 30, 2004 to $40.6 million for the three months ended June 30, 2004. There were two significant components to this increase. First, the average number of employees increased approximately 6%, or by 67 employees, from the second quarter of 2003 to the second quarter of 2004. This increased headcount resulted in additional compensation and benefits expense of approximately $1.8 million. Second, compensation and benefits expense increased from the second quarter of 2003 to the second quarter of 2004 by approximately $1.7 million as a result of annual salary increases and related increases in employer taxes, pension and benefits. A less significant contributor to the expense increase included a $0.8 million increase in stock-based compensation expense primarily a result of a full three months of expense during the second quarter of 2004 for the options granted on June 6, 2003 as well as the first month's recognition of expense related to the June 2004 employee options grant. These increases were partially offset by a $0.8 million reduction in the earnings of the deferred compensation plan which has no impact on net income as there is an equal reduction in revenue, a $0.4 million increase in the capitalization of compensation and benefits relating to internally developed software and a decrease of $0.4 million in the bonus expense accrued under the provisions of our annual incentive plan.

Occupancy Expense. Occupancy expense increased $0.5 million, or 8.4%, from $6.3 million for the three months ended June 30, 2003 to $6.8 million for the three months ended June 30, 2004. Rent expense increased primarily as a result of additional space we lease at our main location and an increase in operating expenses, as well as rent that began in April 2004 related to an additional remote data center.

Professional Fees, Outside Services and Licenses Expense. Professional fees, outside services and licenses expense increased $1.2 million, or 17.0%, from $7.6 million for the three months ended June 30, 2003 to $8.8 million for the three months ended June 30, 2004. The increase resulted primarily from our revenue sharing agreement with SGX and license fees relating to our equity products. We experienced a $0.8 million expense related to a revenue sharing agreement with SGX, whereby we pay to SGX a portion of our Eurodollar revenue generated on GLOBEX when our relative market share reaches certain levels during SGX's floor trading hours. This revenue sharing has resulted from the growth in electronic trading of Eurodollars. There was no similar revenue share payment required in 2003. In addition, license fees increased by $0.5 million from the second quarter of 2003 to the second quarter of 2004 as a result of increased trading volume in these products. Finally, we incurred legal fees during the second quarter of 2003 related to our secondary offering of stock that was completed in June 2003, for which there was no corresponding expense in 2004. The decrease in legal fees was offset by increases in general litigation and real estate matters during the three months ended June 30, 2004.

Communications and Computer and Software Maintenance Expense. Communications and computer and software maintenance expense increased $1.5 million, or 13.3%, from $11.2 million for the three months ended June 30, 2003 to $12.7 million for the three months ended June 30, 2004. This expense is affected primarily by growth in electronic trading. In the second quarter of 2004, we experienced greater communications expense that included a $0.6 million increase for connections to GLOBEX. This increase in GLOBEX communication expenses was completely offset by a decrease in other communication expenses as a result of network consolidation and cost reduction efforts. In addition, during the second quarter of 2003 we received a $1.0 million refund from our telecommunications provider as a result of a billing error that related to prior periods. We received a similar refund of $0.2 million in the second quarter of 2004, resulting in a net increase in expenses of $0.8 million during the second quarter of 2004 compared to the second quarter of 2003. Our computer and software maintenance costs are driven by the number of transactions processed, not the volume of contracts traded. During the three months ended June 30, 2004, the number of transactions we processed increased approximately 25%. Also, we processed nearly 86% of total transactions electronically in the second quarter of 2004 compared to approximately 80% in the second quarter of 2003, which represented approximately 53% and 41%, respectively, of total contracts traded. As a result, our expenses for software, software maintenance and hardware maintenance increased $0.7 million from the second quarter of 2003 to the second quarter of 2004.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased $0.2 million, or 1.5%, from $13.3 million for the three months ended June 30, 2003 to $13.1 million for the three months ended June 30, 2004. The decrease was primarily the result of certain leasehold improvements, software and technology assets that became fully depreciated or were retired since June 30, 2003. The depreciation on these assets exceeded the depreciation for assets acquired since that date.

Marketing, Advertising and Public Relations Expense. Marketing, advertising and public relations expense increased $1.0 million, from $1.5 million for the three months ended June 30, 2003 to $2.5 million for the three months ended June 30, 2004. This increase resulted from additional product advertising and other marketing-related efforts during the three months ended June 30, 2004.

Other Expense. Other expense increased $1.0 million, or 19.8%, from $5.2 million for the three months ended June 30, 2003 to $6.2 million for the three months ended June 30, 2004. The primary factor in this increase was the $0.4 million expense related to the consolidation of the first IEF program. This expense represents the distribution of the net earnings of these IEFs to the participants in the program. There was no similar expense in the second quarter of 2003. In addition, we experienced a $0.2 million increase in bank fees and line of credit fees and increases in other general administrative expenses.

Income Tax Provision

We recorded a tax provision of $39.0 million for the three months ended June 30, 2004 compared to $24.4 million for the same period in 2003. The effective tax rate was 40.5% for the second quarter of 2004, compared to 41.0% for the second quarter of 2003. The decrease in effective tax rates resulted primarily from expenses incurred in connection with the June 2003 secondary offering that were not deductible for tax purposes. There was no similar expense in the second quarter of 2004.

Liquidity and Capital Resources

Liquidity and Cash Management. Cash and cash equivalents increased $37.2 million during the six months ended June 30, 2004, totaling $222.3 million at June 30, 2004 compared to $185.1 million at December 31, 2003. The increase resulted primarily from cash provided by operations of $107.9 million that was substantially offset by purchases of property, net of trade-in allowances, of $31.8 million; our regular quarterly dividends totaling $17.4 million; and the purchases of marketable securities, net of sales and maturities, of $16.0 million. The balance retained in cash and cash equivalents is a function of anticipated or possible short-term cash needs, prevailing interest rates, our investment policy, alternative investment choices and any dividends that we pay.

Current assets readily convertible into cash include accounts receivable and marketable securities. When combined with cash and cash equivalents, these assets represented 73.2% of our total assets at June 30, 2004, excluding cash performance bonds and security deposits, collateral from securities lending activities and IEF balances, compared to 74.4% at December 31, 2003. The decrease from year-end 2003 to June 30, 2004 resulted primarily from the increase to prepaid income taxes, included in other current assets, resulting from employee option exercises and vesting of restricted stock during the first six months of 2004. Prepaid income taxes increased $33.9 million from the balance at December 31, 2003. Cash performance bonds and security deposits, as well as collateral from securities lending activities and IEF balances, are excluded from total assets and total liabilities for purposes of this comparison as these balances may vary significantly over time and there are equal and offsetting current liabilities that correspond to these current assets.

Included in other assets are net deferred tax assets of $12.8 million and $14.0 million at June 30, 2004 and December 31, 2003, respectively. These net deferred tax assets result primarily from depreciation, stock-based compensation and deferred compensation. There is no valuation reserve for these assets as we expect to fully realize their value in the future based on our expectation of future taxable income.

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

Sources and Uses of Cash. Net cash provided by operating activities was $107.9 million for the six months ended June 30, 2004 and $90.5 million for the same period in 2003. While net income increased from period to period by $42.2 million, the cash provided by operations showed a more modest increase as a result of an increase in accounts receivable and decreases to accounts payable and current liabilities, offset by the tax benefit related to employee option exercises and vesting of restricted stock. Accounts receivable at the end of any period results from the clearing and transaction fees billed in the last month of the reporting period. Clearing and transaction fees were $6.9 million greater in June 2004 than in June 2003. Additional receivables also existed at June 30, 2004 as a result of the clearing and transaction processing services we provided to the CBOT that were fully implemented on January 2, 2004. There was no similar receivable at June 30, 2003. We experienced a decrease in accounts payable of $7.4 million during the six month period ended June 30, 2004 compared to an increase of $1.6 million for the same period in 2003. This change was driven primarily by the change in payables for membership sales in the respective periods as well as a decrease in trade accounts payable. Other current liabilities decreased by $5.6 million during the six month period ended June 30, 2004 compared to an increase of $15.6 million for the same period in 2003. This resulted primarily from the $4.5 million decrease in current taxes payable as a result of tax benefits we will receive from the exercise of employee stock awards. Other current assets increased by $30.2 million for the six month period ended June 30, 2004 compared to a decrease of $3.2 million for the same period in 2003. The increase in other current assets is primarily attributable to these same tax benefits we will receive as a result of employee stock transactions in the second quarter of 2004 that will reduce future income tax obligations for the remainder of the year.

Cash used in investing activities was $53.5 million for the six months ended June 30, 2004 compared to $28.4 million for the six months ended June 30, 2003. The increase of $25.1 million was primarily due to the $16.0 million of purchases of marketable securities in excess of the cash provided by the maturities of marketable securities in the first six months of 2004 as a result of the change in our investment policy that we began to implement in the third quarter of 2003. There were no similar purchases in the first six months of 2003. Cash used to acquire and develop capital assets increased $6.8 million, from $25.0 million for the first six months of 2003 to $31.8 million for the same period in 2004. The intellectual property and operating assets of Liquidity Direct Technology, LLC were acquired for $5.3 million, of which $4.8 million was intangible assets and $0.5 million was purchased software included within purchases of property. Partially offsetting these increased uses in 2004 was a reduction in capital contributed to OneChicago. A contribution to OneChicago of $0.9 million was made in the first six months of 2004 compared to contributions of $3.4 million during the same period in 2003.

Cash used in financing activities was $17.2 million for the six months ended June 30, 2004 compared to $8.5 million for the same period in 2003. The increase resulted primarily from the payment of regular quarterly dividends that totaled $17.4 million in the first six months of 2004 compared to $9.1 million for the same period in 2003. The increase resulted primarily from our improved cash earnings that is the basis used to determine the amount of the dividend and the increase in our annual dividend target from 20% of the prior year's cash earnings to 30% of the prior year's cash earnings. This increase in the target was effective with the dividend payment in the fourth quarter of 2003. In addition, cash used in financing activities for the regularly scheduled payments on long-term debt related to our capital lease obligations decreased $1.7 million from $2.6 million for the first six months of 2003 compared to $0.9 million for the same period in 2004. These capital lease obligations will be completely paid by year-end 2004. The proceeds from stock option exercises decreased $2.1 million from $3.2 million for the six months ended June 2003 to $1.1 million for the six months ended June 30, 2004. The majority of stock option exercises for the six months ended June 30, 2003 were for options exercised in our secondary offering of stock that was completed in June 2003, for which there was no corresponding activity in 2004.

Debt Instruments. As of June 30, 2004, we were contingently liable on irrevocable letters of credit totaling $66.0 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 temporary cash investments, cash performance bonds and security deposits, variable rate marketable securities and new purchases of marketable securities. Changes in market interest rates also would have an effect on the fair value of any marketable securities owned. In the third quarter of 2003 we implemented a change to our investment policy that expands our investment choices and extends the maturity of our investments relative to the investment policy that had been in effect since the third quarter of 2002. Investment choices have been expanded to include U.S. Treasury and agency securities and other securities escrowed by U.S. Treasury securities. Pursuant to this new policy, maturities may now extend to a maximum of 60 months and we plan to hold these investments to maturity.

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

Interest Rate Risk. Interest income from marketable securities, short-term cash investments and cash performance bonds and security deposits was $4.5 million in the first six months of 2004 and $2.7 million for the first six months of 2003. Our marketable securities experienced net unrealized losses of $4.1 million and no realized gains or losses during the six month period ended June 30, 2004. There were no realized or unrealized gains during the same period of 2003. At June 30, 2004, we owned $266.7 million of marketable securities.

Contractual maturities and interest coupon rates for fixed-rate marketable securities at June 30, 2004 were as follows (dollars in thousands):

Year	Principal Amount	Weighted Average Interest Rate
2004	$ 33,705	2.31%
2005	67,162	2.65
2006	65,271	3.90
2007	64,442	4.30
2008	36,112	1.38
Total	$ 266,692	3.15%
Fair Value	$ 266,706	

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

Derivatives Trading Risk. GFX engages in the purchase and sale of our foreign exchange contracts on GLOBEX to provide liquidity in our products and subsequently enters into offsetting transactions using futures contracts or spot foreign exchange transactions with approved counterparties in the interbank market to limit market risk. GFX engaged in similar purchases and sales of our Eurodollar futures contracts on GLOBEX during the six months ended June 30, 2004. Subsequent to this time, it was determined that GFX's participation in our Eurodollars on GLOBEX was no longer necessary for liquidity purposes. Any potential impact on earnings from a change in foreign exchange rates would not be significant. Net position limits are established for each trader and currently total $12.0 million in aggregate notional value.

At June 30, 2004, GFX held futures positions with a notional value of $56.5 million, offset by a similar amount of spot foreign exchange positions. The notional value of futures positions at June 30, 2003 totaled $206.2 million. All positions are marked to market through a charge or credit to other revenue on a daily basis. Net trading gains were $4.1 million for the six months ended June 30, 2004 and $3.4 million for the six months ended June 30, 2003.

Item 4. Controls and Procedures

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

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

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PART II. OTHER INFORMATION

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

(c) The Annual Meeting of Shareholders of Chicago Mercantile Exchange Holdings Inc. (the "Annual Meeting") was held on April 21, 2004. The matters voted on at the meeting, and the results of the voting, were as follows:

1. Election of Directors

a. The election of seven Equity Directors (elected by Class A and Class B shareholders voting together as a single class) to serve on the Board until 2006. The results were as follows:

Equity Director Nominee	Votes For	Votes Withheld
Dennis H. Chookaszian	21,975,607	613,028
Martin J. Gepsman	21,324,130	1,264,505
Elizabeth Harrington	22,092,516	496,119
Leo Melamed	20,872,287	1,716,348
Alex J. Pollock	21,984,749	603,886
Myron S. Scholes	19,853,025	2,735,610
William R. Shepard	21,260,517	1,328,118

b. The election of two Class B-1 directors from a slate of four candidates (elected by Class B-1 shareholders only) to serve on the Board until 2006. The results were as follows:

Class B-1 Director Nominee	Votes For	Abstentions
Timothy R. Brennan	206	193
Bruce F. Johnson (elected)	224	175
Howard J. Siegel (elected)	234	165
Scott Slutsky	81	318

c. The election of one Class B-2 director from a slate of two candidates (elected by Class B-2 shareholders only) to serve on the Board until 2006. The results were as follows:

Class B - 2 Director Nominee	Votes For	Abstentions
Patrick B. Lynch (elected)	260	190
Ronald A. Pankau	154	296

2. Election of Class B Nominating Committees

a. The election of five members of the Class B-1 Nominating Committee (elected by Class B-1 shareholders only). The results were as follows:

Nominee	Votes For	Abstentions
Jeffrey R. Carter	167	232
Michael J. Downs (elected)	214	185
Larry S. Fields (elected)	230	169
John C. Garrity (elected)	225	174
Lonnie Klein (elected)	217	182
William F. Kulp (elected)	202	197
Edward A. McCarthy	149	250
Brian J. Muno	132	267
G. Barry Reece	33	366
James B. Simmons	111	288

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b. The election of five members of the Class B-2 Nominating Committee (elected by Class B-2 shareholders only). The results were as follows:

Nominee	Votes For	Abstentions
Richard J. Appel (elected)	214	236
Samuel T. Bailey	145	305
Richard J. Duran (elected)	231	219
William J. Higgins	131	319
Donald J. Lanphere, Jr. (elected)	271	179
Steven D. Peake	100	350
James P. Shannon	136	314
Stuart A. Unger (elected)	206	244
Michael J. Walsh (elected)	231	219
Barry D. Ward	184	266

c. The election of five members of the Class B-3 Nominating Committee (elected by Class B-3 shareholders only). The results were as follows:

Nominee	Votes For	Abstentions
J. Kenny Carlin (elected)	317	361
Stephen T. Divito (elected)	308	370
David M. Duckler (elected)	277	401
Christopher P. Gaffney (elected)	283	395
Joel P. Glickman (elected)	332	346
Mark O. Hinken	224	454
Brian M. Konlon	225	453
George J. Malfas	130	548
Brian M. Young	223	455
Douglas A. Young	255	423

3. Ratification of Appointment of Independent Auditors

A proposal to ratify the appointment of Ernst & Young LLP to serve as the independent auditors for Chicago Mercantile Exchange Holdings Inc. for the fiscal year ending December 31, 2004 (elected by Class A and Class B shareholders voting together as a single class). The results were as follows:

Votes For	Votes Against	Abstentions
22,123,098	215,281	250,256

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10.1**	Amended and Restated Employment Agreement, effective as of May 25, 2004, by and between Chicago Mercantile Exchange Inc. and David G. Gomach.
10.2**	Separation Agreement, dated as of May 20, 2004, by and between Scott Johnston and Chicago Mercantile Exchange Inc. and Chicago Mercantile Exchange Holdings Inc.
31.1	Section 302 Certification—Craig S. Donohue, Chief Executive Officer.
31.2	Section 302 Certification—David G. Gomach, Managing Director and Chief Financial Officer.
32.1	Section 906 Certification.
99.1	Certain Factors That May Affect Our Business.

** Management contract.

(b) Reports on Form 8-K:

On April 27, 2004, Chicago Mercantile Exchange Holdings Inc. furnished a Current Report on Form 8-K reporting under Item 12 that it had issued a press release reporting its financial results for the first quarter of 2004.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.
(Registrant)

Dated: August 5, 2004

By: /s/ David G. Gomach

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

EXHIBIT 10.1

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this "Agreement"), effective as of the 25th day of May 2004, by and between CHICAGO MERCANTILE EXCHANGE INC. ("Employer" or "CME"), a Delaware Business Corporation, having its principal place of business at 20 South Wacker Drive, Chicago, Illinois, and David G. Gomach ("Employee").

R E C I T A L S:

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

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

1. **Employment.** Subject to the terms of the Agreement, Employer hereby agrees to employ Employee during the Agreement Term (as defined in Section 2 below) as Managing Director, Chief Financial Officer, and Employee hereby accepts such employment. Employee shall report to Employer's Chief Executive Officer. The duties of Employee shall include, but not be limited to, the performance of all duties associated with executive oversight and management of Employer's Finance Division.

On Tuesdays, Wednesdays and Thursdays of each work week during the Agreement Term, Employee shall perform his duties hereunder at Employer's principal place of business in Chicago, Illinois or at such other place as business travel dictates; provided, however, that Employee may work from his home (or other suitable locations) on such days in the event he cannot travel to Chicago due to inclement weather or personal issues that make travel impracticable. On Mondays and Fridays of each work week during the Agreement Term, Employee shall perform his duties hereunder at mutually convenient times from his home (or other suitable locations) as necessary to fulfill his duties as Chief Financial Officer. Subject to the foregoing, Employee shall devote his business time, ability and attention to the business of Employer during the Agreement Term, as directed by the Chief Executive Officer.

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

2. **Agreement Term.** Employee shall be employed hereunder for a term commencing on May 24, 2004 and ending on December 31, 2005, unless sooner terminated in accordance with Section 6 below ("Agreement Term").

3. **Compensation.**

(a) *Base Salary*. During the Agreement Term, Employer shall pay to Employee a base salary at a rate of not less than $320,000 per annum ("Base Salary") payable in accordance with Employer's normal payment schedule.

(b) *Bonuses*. Subject to this Section 3(b) and Section 6, Employee shall be entitled to receive an annual bonus for 2004 (the "2004 Annual Bonus"). Employee shall be paid the 2004 Annual Bonus so long as he is employed by Employer on November 1, 2004; provided, however, that Employee shall nonetheless be entitled to receive the 2004 Annual Bonus if at anytime (x) Employee's employment is terminated by Employer without Cause or (y) Employee terminates his employment for Good Reason (each as defined in Section 6 below). If Employee is employed on the date Employer customarily pays 2004 bonuses, he shall receive the 2004 Annual Bonus at such time. The amount of the 2004 Annual Bonus for which the Employee is eligible shall be determined by multiplying $370,673 by a fraction, where the numerator is the number of days elapsed from January 1, 2004 to the last day of the Employee's employment with Employer (the "Termination Date") and the denominator is 365 (in no case shall the fraction exceed 1). The 2004 Annual Bonus shall in no case be paid to Employee later than 30 days following the Termination Date and shall in all cases be paid in a single lump sum in cash. For 2005 and years thereafter, Employee shall be eligible to receive bonuses at the sole discretion of Employer.

(c) *Equity Awards*. Subject to this Section 3(c) and Section 6, Employee shall be entitled, with respect to each equity award which has been granted to Employee prior to the date hereof which is not fully vested upon the Termination Date, to receive pro rata vesting on the Termination Date of a portion of the shares subject to such award that is subject to vesting during the vesting period in which the Termination Date occurs (the "Current Tranche") so long as he is employed by Employer on November 1, 2004; provided, however, that Employee shall nonetheless be entitled to receive the pro rata vesting of each Current Tranche if Employee's employment is terminated at anytime (x) by Employer without Cause or (y) Employee terminates his employment for Good Reason (each as defined in Section 6 below). Subject to this Section 3(c), Employee shall be entitled to a number of shares of each Current Tranche (and no other tranche) that would have vested following the Termination Date on the next vesting date for such tranche equal to the number of shares subject to the Current Tranche multiplied by a fraction, the numerator of which shall be the number of days elapsed to the Termination Date since the date the previous tranche of the award vested and the denominator of which shall be 365 (e.g., certain stock options vested on May 7, 2004 and the next tranche of such award shall vest on May 7, 2005. If Employee's Termination Date was January 1, 2005, the numerator would be the number of days elapsed from May 7, 2004 to January 1, 2005 and the denominator would be 365). The terms and conditions of any additional equity grants made to Employee after the date hereof shall be detailed in the applicable award agreement. For the avoidance of doubt, Exhibit A hereto lists each equity grant held by Employee which is not fully vested as of the date hereof, the vesting dates for such grants and the applicable tranches.

(d) *Stock Option Exercise Period and Exercise Methods*. Notwithstanding anything to the contrary in any Employer plan or any underlying stock option agreement, Employee shall have 2 years from the Termination Date to exercise any vested CME stock options he then holds (including stock options that vest pursuant to Section 3(c)); provided, however, that in no case shall such extension extend the maximum term of any CME stock option. Employer shall permit Employee to exercise vested CME stock options by tendering previously acquired CME shares (so long as such shares have been held by Employee for at least six months if such shares were acquired from CME) or by having Employer withhold CME shares otherwise issuable in respect of such awards. Similarly, the Employee shall be permitted to satisfy the minimum statutorily required tax withholding obligations in respect of CME stock options and CME restricted stock by tendering previously acquired CME shares (so long as such shares have been held by Employee for at least six months if such shares were acquired from CME) or by having Employer withhold CME shares otherwise issuable in respect of such awards.

4. **Benefits.**

(a) Employee shall be entitled to insurance, vacation and other employee benefits commensurate with his position in accordance with Employer's policies for executives in effect from time to time.

(b) Between May 24, 2004 and December 31, 2004, Employee shall be entitled to four (4) work weeks (i.e., 12 days) of vacation time in addition to any otherwise accrued but unused vacation time, three (3) weeks of which may be used during the period from June 21, 2004 to July 16, 2004; provided that Employee shall be reasonably available during those three (3) weeks to assist Employer with closing the books for the fiscal quarter ending June 30, 2004, releasing its earnings report, meeting with Employer’s audit committee and preparing for Employer’s earnings conference call.

5. **Expense Reimbursement.**

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

(b) During the Agreement Term, Employer will pay directly or reimburse Employee for (i) round trip airfare between Appleton, Wisconsin and Chicago, Illinois in connection with Employee’s weekly commute (which currently costs approximately $260.00 per roundtrip) and ground transportation costs between the airport and Employer’s Chicago office; or (ii) use of his personal car in connection with his weekly commute from Appleton, Wisconsin to Chicago, Illinois at the Internal Revenue Service allowable rate, which is currently 37.5 cents per mile, and costs for parking at Employer’s headquarters.

(c) Commencing as of July 1, 2004 and continuing until the end of the Agreement Term, Employer will pay directly or reimburse Employee, up to a total of $3000.00 per month, for the rental of a furnished one bedroom apartment in the Chicago metropolitan area, including parking (or other similar accommodations). Prior to executing a lease for any such apartment, Employee shall provide a copy of the lease to Employer for its consent which will not be unreasonably withheld.

(d) Employer shall provide Employee with a full tax gross-up to make him whole to the extent that expenses paid to Employee pursuant to this Section 5 are taxable to him.

6. Termination.

(a) *Death*. Upon the death of Employee, this Agreement shall automatically terminate and all rights of Employee and his heirs, executors and administrators to compensation and other benefits under this Agreement shall cease, except for compensation which shall have accrued to the date of death, including accrued Base Salary, and other employee benefits to which Employee is entitled upon his death, in accordance with the terms of the plans and programs of CME. In the event Employee’s employment terminates pursuant to this Section 6(a) after September 1, 2004, his estate or beneficiary shall also be entitled to the bonus and award vesting specified in Section 3(b) and 3(c) of this Agreement.

(b) *Disability*. Employer may, at its option, terminate this Agreement upon written notice to Employee if Employee, because of physical or mental incapacity or disability, fails to perform the essential functions of his position required of him hereunder for a continuous period of 90 days or any 120 days within any 12-month period. The date of such notice shall be the Termination Date. Upon such termination, all obligations of Employer hereunder shall cease, except for payment of accrued Base Salary, and other employee benefits to which Employee is entitled upon his termination hereunder, in accordance with the terms of the plans and programs of CME. In the event of any dispute regarding the existence of Employee's disability hereunder, the matter shall be resolved as follows: (i) by the determination of a physician selected by the Chief Executive Officer of Employer; (ii) Employee shall have the right to challenge that determination by presenting a contrary determination from a physician of his choice; (iii) in such event, a physician selected by agreement of the Employee and the Chief Executive Officer of Employer will make the final determination. The Employee shall submit to appropriate medical examinations for purposes of making the medical determinations hereunder. In the event Employee's employment terminates pursuant to this Section 6(b) after September 1, 2004, he shall also be entitled to the bonus and award vesting specified in Section 3(b) and 3(c) of this Agreement.

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

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

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

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

(iv) any breach by Employee of any one or more of the covenants contained in Section 7 (including Exhibit C hereto) and 8 hereof;

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

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

If Employer terminates Employee’s employment for Cause, Employee shall be entitled to accrued Base Salary through the Termination Date and other employee benefits to which Employee is then entitled, in accordance with the terms of the plans and programs of CME. The Termination Date shall be the date of the written notice to Employee given pursuant to the preceding paragraph. Upon termination for Cause, Employee will forfeit any unvested or unearned compensation or long-term incentives, unless otherwise provided herein or specified in the terms of the plans and programs of CME.

(d) *Termination Without Cause*. Upon 30 days prior written notice to Employee, Employer may terminate this Agreement for any reason other than a reason set forth in sections (a), (b) or (c) of this Section 6. If, prior to September 1, 2004, Employer terminates the employment of Employee hereunder for any reason other than a reason set forth in subsections (a), (b) or (c) of this Section 6 and provided that, subject to subsection (g) below, Employee and Employer both execute the release agreement in the form attached hereto as Exhibit B (the “Release Agreement”):

(i) Employee shall be entitled to receive (i) accrued Base Salary through the Termination Date, (ii) other employee benefits to which Employee is then entitled, in accordance with the terms of the plans and programs of Employer; and (iii) the bonus and award vesting specified in Section 3(b) and Section 3(c) of this Agreement; and

(ii) a one time cash lump sum severance payment equal to 24 months of his Base Salary, as defined herein, as of Termination Date.

If, on or after September 1, 2004, Employer terminates the employment of Employee hereunder for any reason other than a reason set forth in subsections (a), (b) or (c) of this Section 6, and provided that, subject to subsection (g) below, Employee and Employer both execute the Release Agreement, then Employee shall be entitled to receive (i) accrued Base Salary through the Termination Date, and (ii) other employee benefits to which Employee is then entitled, in accordance with the terms of the plans and programs of Employer. If Employer terminates the employment of Employee pursuant to this Section 6(d), Employee shall also be entitled to the bonus and award vesting specified in Section 3(b) and Section 3(c) of this Agreement.

(e) *Voluntary Termination*. Upon 60 days prior written notice to CME (or such shorter period as may be permitted by CME) (the end of such 60-day period or such shorter period shall be the Termination Date), Employee may voluntarily terminate his employment with CME prior to the end of the Agreement Term for any reason. If Employee voluntarily terminates his employment pursuant to this Section 6(e), and provided that, subject to subsection (g) below, Employee and Employer both execute the Release Agreement, he shall be entitled to receive (i) accrued Base Salary through the Termination Date; (ii) other employee benefits to which Employee is then entitled, in accordance with the terms of the plans and programs of CME and as otherwise set forth herein; and (iii) the bonus and award vesting specified in Section 3(b) and Section 3(c) of this Agreement to the extent he has satisfied the requirements thereunder.

(f) *Resignation with Good Reason*. Employee may, at his option, resign from his employment under this Agreement for Good Reason by written notice to the Company without providing the 60 days prior written notice as required by Section 6(e) at the end of the cure period referred to herein. The Termination Date shall be the date of such notice. As used in this Agreement, the term "Good Reason" shall mean a breach of this Agreement by Employer or a material and adverse change in Employee's duties and responsibilities, in either case that is not cured by Employer within fifteen (15) days after receipt of written notice from Employee specifying the alleged breach or change. If Employee resigns with Good Reason and provided that, subject to subsection (g) below, Employee and Employer both execute the Release Agreement, then Employee shall be entitled to receive (i) accrued Base Salary through the Termination Date; (ii) other employee benefits to which Employee is then entitled, in accordance with the terms of the plans and programs of Employer and (iii) the bonus and award vesting specified in Section 3(b) and Section 3(c) of this Agreement.

(g) *Release Agreement*. Employer shall execute the Release Agreement unless Employer reasonably believes that executing such Release Agreement would be inconsistent with its fiduciary duties to its stockholders under applicable law. In the event Employer executes the Release Agreement, Employee must also execute the Release Agreement as a condition to the receipt of the bonus and award vesting specified in Section 3(b) and Section 3(c) of this Agreement and the amount set forth in Section 6(d)(ii) of this Agreement. In the event Employer elects to not execute the Release Agreement, Employee shall not be required to execute the Release Agreement and shall nonetheless be entitled, subject to the other terms and conditions of this Agreement, to the receipt of the bonus and award vesting specified in Section 3(b) and Section 3(c) of this Agreement and the amount set forth in Section 6(d)(ii) of this Agreement.

7. **Confidentiality, Non-Competition and Non-Solicitation.** Upon execution of this Agreement, Employee shall also execute the Confidentiality, Non-Competition and Non-Solicitation Agreement, in the form attached hereto as Exhibit C, which shall be incorporated by reference herein and be made a part hereof.

8. **Non-Disparagement**. Employee will not make any comments to any third parties relating to Employer, or any of its officers or directors, that are critical, derogatory or which may tend to injure the reputation or business of Employer or any of its officers or directors. Employer will instruct its officers and directors not to make any comments to any third parties relating to Employee that are critical, derogatory or which may tend to injure the reputation or business of Employee. Nothing in this Agreement shall limit in any manner whatsoever the ability of Employer or Employee to provide truthful and complete information as may be required by any court or requested by any governmental agency.

9. **Survival.** To the extent necessary to effectuate the terms of this Agreement (including Exhibits hereto), terms of this Agreement which must survive the termination of the Executive's employment or the termination of this Agreement shall so survive.

10. **Restriction on Sale of CME Securities.** Until the later of December 4, 2004 or three months following his Termination Date, Employee shall not sell, transfer, encumber, assign or otherwise dispose of, or agree to sell, transfer, encumber, assign or otherwise dispose of, any CME equity securities or any derivative CME equity securities. Notwithstanding the foregoing, Employee shall be permitted to sell shares of CME common stock solely to the extent necessary to enable him to (i) exercise CME stock options he holds and (ii) satisfy the statutorily required minimum withholding taxes that arise in connection with any such stock option exercise. Notwithstanding the foregoing, after December 31, 2005, Employee shall not be subject to the restrictions imposed by the first sentence of this Section 10.

11. **Claw Back for Violation of Restrictive Covenants.** If Employee breaches Section 7 (including Exhibit C hereto, but excluding the provisions thereof relating to confidentiality) and 8 of this Agreement, Employee (or, if applicable, his beneficiaries or estate) shall promptly, at Employer's request (i) sell back to Employer all Acquired Shares (as defined below) held by Employee (or, if applicable, his beneficiaries or estate) as of the date of such breach, for a per share price equal to the price paid by Employee to acquire such shares, and (ii) to the extent such Acquired Shares have previously been sold or otherwise disposed of by Employee, other than by reason of death (or, if applicable, by his beneficiaries or estate), repay to Employer the excess of (x) the aggregate fair market value of such Acquired Shares calculated based on the applicable closing share price of the

Company's common stock on the date of such sale or disposition over (y) the aggregate exercise price of such Acquired Shares. For purposes of this Section 11, (A) the amount of the repayment described herein shall not be affected by whether Employee (or, if applicable, his beneficiaries or estate) actually received such fair market value with respect to such sale or other disposition, and (B) repayment may, without limitation, be effected, at the discretion of Employer, by means of offset against any amount owed by Employer to Employee (or, if applicable, his beneficiaries or estate). For purposes of this Agreement, "Acquired Shares" shall mean shares of Company common stock that were acquired upon exercise of any stock options granted to Employee by Employer that became vested as a result of Section 3(c) hereof. In addition, if Employee breaches Section 7 (including Exhibit C hereto, but excluding the provisions thereof relating to confidentiality) and 8 of this Agreement he shall, at Employer's request, promptly repay the 2004 Annual Bonus.

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

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

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

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

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

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

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

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

If to CME, to:

Craig S. Donohue
President and Chief Executive Officer
Chicago Mercantile Exchange
30 S. Wacker
Chicago, IL 60606
(312) 930-8275

If to Employee, to:

David G. Gomach
600 East Carrington Lane
Appleton, WI 54913

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

15. **Withholding.** Notwithstanding any other provision of this Agreement, the Employer may withhold from amounts payable under this Agreement all amounts authorized or required to be withheld, including, without limitation, federal, state, local and foreign taxes.

16. **Entire Agreement.** This Agreement constitutes the entire Agreement and understanding between the parties with respect to the subject matter hereof and supersedes and preempts any prior understandings, agreements or representations by or between the parties, written or oral, which may have related in any manner to the subject matter hereof, including, but not limited to, the Employment Agreement between Employee and Employer dated as of July 10, 2003. No other agreement or amendment to this Agreement shall be binding upon either party including, without limitation, any agreement or amendment made hereafter unless in writing, signed by both parties. Employee acknowledges that each of the parties has participated in the preparation of this Agreement and for purposes of principles of law governing the construction of the terms of this Agreement, no party shall be deemed to be the drafter of the same.

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

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

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

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

Chicago Mercantile Exchange Inc.		David G. Gomach
By:	/s/ Craig S. Donohue	/s/ David G. Gomach
Date:	July 14, 2004	Date: July 14, 2004

EXHIBIT A

UNVESTED EQUITY GRANTS

Stock Options

- Stock Options covering 100,000 shares were granted to Employee on May 7, 2001 with a per share exercise price of $22. This stock option is fully vested except with respect to 20,000 shares which are scheduled to vest May 7, 2005.
- Stock Options covering 8,900 shares were granted to Employee on June 6, 2003 with a per share exercise price of $63.01. 1,780 shares underlying the stock option are scheduled to vest on June 6, 2004 and on each of the next four anniversaries of such date.

Restricted Stock

- 1,300 shares of restricted stock were granted to Employee on June 6, 2003. 260 restricted shares are scheduled to vest on June 6, 2004 and on each of the next four anniversaries of such date.

EXHIBIT B

RELEASE AGREEMENT

For good and valuable consideration, CHICAGO MERCANTILE EXCHANGE INC. ("CME" or the "Company"), a Delaware Business Corporation, having its principal place of business at 20 South Wacker Drive, Chicago, Illinois, and David G. Gomach (the "Employee") hereby agrees to the terms of this agreement (this "Release Agreement") on the date indicated below:

1. **Consideration**. Subject to the Restated Employment Agreement between the Company and the Employee, effective as of May 25, 2004 (the "Amended and Restated Employment Agreement") becoming effective and subject to this Release Agreement becoming effective as set forth in Paragraph 4 below, the Employee shall become entitled to receive the payments and benefits set forth in Sections 3(b), 3(c), 6(d) or 6(f) of the Amended and Restated Employment Agreement.

2. **Release**.

(a) The Employee, on behalf of himself, his heirs, executors, administrators, successors and assigns, hereby irrevocably and unconditionally releases CME and its parents, subsidiaries, divisions and affiliates, together with their respective benefit plans (and their sponsors, fiduciaries and administrators), owners, assigns, agents, directors, partners, officers, employees, attorneys and representatives and any of their predecessors and successors and each of their estates, heirs and assigns (collectively, the "CME Releasees") from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, causes of action, rights, costs, losses, debts and expenses of any nature whatsoever, known or unknown, which the Employee or his heirs, executors, administrators, successors or assigns ever had, now have or hereafter can, will or may have (either directly, indirectly, derivatively or in any other representative capacity) by reason of any matter, fact or cause whatsoever (i) from the beginning of time to the date of this Agreement or (ii) relating to his employment with CME or termination thereof. This release includes, without limitation, all claims arising under any federal, state and local labor, employment and/or anti-discrimination laws including, without limitation, the federal Age Discrimination in Employment Act, Employee Retirement Income Security Act, the Americans with Disabilities Act, Title VII of the Federal Civil Rights Act, the Family and Medical Leave Act, the Illinois Human Rights Act, the City of Chicago Human Rights Ordinance or the Cook County Human Rights Ordinance. Nothing in this Paragraph 1(a) shall be deemed to release the Employee's rights to: (i) any vested benefits under any plans maintained by the CME Releasees, (ii) indemnification as set forth in the Company's by-laws, (iii) enforce the terms of Sections 6(d), 6(e), 6(f) or 8 of the Amended and Restated Employment Agreement, or (iv) enforce the terms of this Release Agreement.

(b) The Employee acknowledges and agrees that CME has fully satisfied any and all obligations owed to the Employee arising out of the Employee's employment with CME, and no further sums are owed to the Employee by CME or by any of the other CME Releasees, except as expressly provided in Sections 6(d), 6(e) and 6(f) of the Amended and Restated Employment Agreement, to the extent applicable, and this Release Agreement.

(c) The Employee represents that he currently has no complaints, charges or lawsuits pending against CME or any of the other CME Releasees. The Employee further covenants and agrees that neither he nor his heirs, executors, administrators, successors or assigns will be entitled to any personal recovery in any proceeding of any nature whatsoever against CME or any of the other CME Releasees arising out of any of the matters released in this Paragraph 2.

(d) CME on behalf of itself and its parents, subsidiaries, divisions and affiliates hereby irrevocably and unconditionally release the Employee, his heirs, executors, administrators, successors and assigns (collectively, the "Employee Releasees") from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, causes of action, rights, costs, losses, debts and expenses of any nature whatsoever, known or unknown, which CME and the other CME Releasees ever had, now have or hereafter can, will or may have (either directly or indirectly) by reason of any matter, fact or cause whatsoever (i) from the beginning of time to the date of this Agreement or (ii) arising out of, or relating to, the Employee's employment and/or the end of his employment with CME; provided, however, CME expressly does not release or discharge the Employee from any claims, rights, demands, debts, dues, sums of money, accounts, complaints, actions and causes of action which are based upon acts or omissions that involve fraud or violation of applicable law. Notwithstanding the foregoing, nothing in this Paragraph 1(d) shall impair CME's right to seek enforcement of this Release Agreement or the covenants set forth in the Confidentiality, Non-Complete and Non-Solicitation Agreement attached to the Amended and Restated Employment Agreement or Section 8, 10 or 11 of the Amended and Restated Employment Agreement.

3. **Consultation with Attorney/Voluntary Agreement**. The Employee acknowledges that (a) CME has advised the Employee of his right to consult with an attorney prior to executing this Release Agreement, (b) the Employee has carefully read and fully understands all of the provisions of this Release Agreement, and (c) the Employee is entering into this Release Agreement, including the releases set forth in Paragraph 1 above, knowingly, freely and voluntarily in exchange for good and valuable consideration, including the obligations of CME under the Agreement.

4. **Consideration & Review & Revocation Period**.

(a) The Employee acknowledges and agrees that he is receiving consideration, in addition to those payments and benefits to which he is otherwise entitled, in exchange for his consent to this Release Agreement.

(b) The Employee acknowledges that he has at least twenty-one (21) calendar days to consider the terms of this Release Agreement, although he may sign it sooner.

(c) The Employee will have seven (7) calendar days from the date on which he signs this Release Agreement to revoke his consent to the terms of this Release Agreement. Such revocation must be in writing and must be addressed as follows: Kathleen M. Cronin, Managing Director, General Counsel and Corporate Secretary, Chicago Mercantile Exchange Inc., 20 South Wacker Drive, Chicago, Illinois 60606. Notice of such revocation must be received within the seven (7) calendar days referenced above. In the event of such revocation by the Employee, this Release Agreement shall not become effective and the Employee shall not have any rights under Sections 3(b), 3(c), 6(d) or 6(f) of the Amended and Restated Employment Agreement.

(d) Provided that the Employee does not revoke this Release Agreement, this Release Agreement shall become effective on the eighth calendar day after the date on which the Employee signs this Release Agreement.

5. **No Admission of Wrongdoing**. Nothing herein is to be deemed to constitute an admission of wrongdoing by CME, any of the other CME Releasees, Employee or any of the other Employee Releasees.

6. **Assignment**. This Release Agreement is personal to the Employee and may not be assigned by the Employee. This Release Agreement is binding on, and will inure to the benefit of, CME and the other CME Releasees, together with their successor and assigns.

7. **Enforceability**. In the event that any one or more of the provisions of this Release Agreement is held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remainder hereof will not in any way be affected or impaired thereby and any such provision or provisions will be enforced to the fullest extent permitted by law.

8. **Governing Law; Jurisdiction**. This Release Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Illinois without regard to principles of conflict of laws. The state courts of Cook County, Illinois and the United States District Court for the Northern District of Illinois shall have the exclusive jurisdiction over any and all claims, lawsuits and litigation relating to or arising out of this Release Agreement.

9. **Entire Agreement**. This Release Agreement and the Amended and Restated Employment Agreement set forth the entire understanding between the Employee and CME and supersede all prior agreements, representations, discussions, and understandings concerning their subject matter. The Employee represents that, in executing this Release Agreement, the Employee has not relied upon any representation or statement made by CME or any other CME Releasees, other than those set forth herein, with regard to the subject matter, basis or effect of this Release Agreement or otherwise.

IN WITNESS WHEREOF, the Employee has executed this Release Agreement on the date indicated below.

Chicago Mercantile Exchange Inc.	David G. Gomach
By: ____________________	____________________
Date: ____________________	Date: ____________________

EXHIBIT C

CONFIDENTIALITY, NON-COMPETITION AND NON-SOLICITATION AGREEMENT

This Confidentiality, Non-Competition and Non-Solicitation Agreement (the “Agreement”), is made and entered into this 25th day of May 2004, by and between David G. Gomach (“Employee”) and CHICAGO MERCANTILE EXCHANGE INC. (“Employer” or “CME”), a Delaware Corporation, having its principal place of business at 20 South Wacker Drive, Chicago, Illinois.

R E C I T A L S:

WHEREAS, Employee is employed by CME in the capacity of Chief Financial Officer;

WHEREAS, in performing the job functions of Chief Financial Officer, and any subsequent executive or managerial position, Employee has had, and will continue to have, personal contact with CME customers, business partners, and employees, and Employee has had, and will continue to have, access to CME confidential, proprietary and trade secret information;

WHEREAS, CME has a legitimate business interest in maintaining its customer and employee relationships and protecting its confidential, proprietary and trade secret information from disclosure, and Employee acknowledges CME’s legitimate interests in protecting these relationships and this information;

WHEREAS, Employee is eligible to receive equity in CME pursuant to the Amended and Restated Omnibus Stock Plan and, as a condition to Employee’s continued eligibility to receive such equity and Employee’s continued employment with CME, Employee agrees to accept certain restrictions on Employee’s activities both during and after employment with CME which protect CME’s legitimate interests in its customer and employee relationships and confidential, proprietary and trade secret information;

NOW, THEREFORE, in consideration of such employment, the benefits pertaining thereto, and other mutual promises, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged.

1. Confidential Information.

a. Employee acknowledges that the successful development and marketing of CME’s services and products, including CME’s trading programs and systems, current and potential customer and business relationships, and business strategies and growth and development plans requires substantial effort and expense. Such efforts generate for CME valuable and proprietary information (“Confidential Information”), which gives CME a business advantage over others who do not have such information. Confidential Information includes, but is not limited to, trade secrets; business plans and proposals; prospect and customer lists; trading methodologies; marketing plans, systems and programs; training materials; research data bases; computer software; and other technical, business, and financial information of CME not generally known to the public. Employee further acknowledges that during Employee’s employment by the Company, Employee's duties will expose Employee to Confidential Information, and Employee understands and acknowledges that each and every component of the Confidential Information constitutes a protectible business interest of the Company.

b. Throughout Employee's employment with the Company and at all times thereafter: (i) Employee will hold all Confidential Information in the strictest confidence, take all reasonable precautions to prevent its inadvertent disclosure to any unauthorized person, and follow all CME policies protecting the Confidential Information; (ii) Employee will not, directly or indirectly, utilize, disclose, or make available to any other person or entity, any of the Confidential Information, other than in the proper performance of Employee's duties during Employee's employment with CME; and (iii) if Employee learns that any person or entity is taking or threatening to take any action which would compromise any Confidential Information, Employee will promptly advise CME of all facts concerning such action or threatened action.

c. If Employee receives any subpoena or becomes subject to any legal obligation that might require Employee to disclose Confidential Information, Employee will provide prompt written notice of that fact to CME, enclosing a copy of the subpoena and any other documents describing the legal obligation. In the event that CME objects to the disclosure of Confidential Information, by way of a motion to quash or otherwise, Employee agrees to not disclose any Confidential Information while any such objection is pending. If, in the absence of a protective order or other remedy or the receipt of a waiver of compliance with this agreement by CME, Employee is nonetheless, in the written opinion of his counsel, legally compelled to disclose Confidential Information to any tribunal or else stand liable for contempt or suffer other censure or penalty, Employee may disclose to such tribunal only that portion of the Confidential Information which such counsel advises Employee is legally required to be disclosed, provided that Employee exercises all reasonable efforts to preserve the confidentiality of the Confidential Information, including, without limitation, by cooperating with CME to obtain an appropriate protective order or other reliable assurance that confidential treatment will be afforded the Confidential Information by such tribunal.

d. At the request of CME (or, without any request, upon termination of Employee's employment with the Company for any reason), Employee will immediately deliver to CME (i) all property of the Employer that is then in Employee's possession, custody or control, including, without limitation, all keys, access cards, credit cards, computer hardware (including but not limited to any hard drives, diskettes, laptop computers and personal data assistants and the contents thereof, as well as any passwords or codes needed to operate any such hardware), computer software and programs, data, materials, papers, books, files, documents, records, policies, client and customer information and lists, marketing information, design information, specifications and plans, data base information and lists, mailing lists, notes, and any other property or information that Employee has relating to the Company (whether those materials are in paper or computer-stored form), and (ii) any and all documents or other items containing, summarizing, or describing any Confidential Information, including all originals and copies.

2. Non-Competition. For a period of one (1) year following the termination of Employee's employment with CME for any reason, the Employee will not (i) be employed in an executive or managerial capacity by, or (ii) provide, whether as an employee, independent contractor, consultant, or otherwise, any services of an executive or managerial nature or any services similar to those provided by the Employee to CME during Employee's employment with CME to, any derivatives exchange or clearing house. Employee acknowledges that the restrictions contained in this Paragraph 2 are necessary to protect CME's legitimate interests in its Confidential Information and customer relationships.

3. Non-Solicitation of Employees. Employee agrees that during the term of this Agreement and for a period of one (1) year following the termination of his employment with CME for any reason, Employee shall not employ, retain, solicit, for employment or retention, knowingly assist in the employment or retention of, or seek to influence or induce to leave CME's employment or service, any person who is employed or otherwise engaged by CME at any time during the one-year period ending on Employee's last day of employment with CME. Employee acknowledges that Employer invests a substantial amount of time and money in recruiting and training, and shares Confidential Information with, its employees. Employee further acknowledges that the restrictions contained in this Paragraph 3 are necessary to protect CME's legitimate interests in its Confidential Information and employee relationships.

4. <u>Assignment of Inventions</u>.

a. During and after Employee's employment with CME, Employee will promptly disclose, assign and transfer to CME any right, title or interest in any inventions, designs, discoveries, works of authorship, creations, developments, improvements or software (collectively, "Inventions"), that Employee may have or acquire, in whole or in part, as a result of Employee's employment by CME. This obligation applies to any Inventions that relate to CME's business, whether or not the Inventions are created, originated, developed or conceived of by Employee solely or jointly with others, or during business hours or on personal time, and whether or not the Inventions are protected or protectible under applicable patent, trademark, service mark, copyright or trade secret laws. Employee will transfer such Inventions free of all encumbrances and restrictions, and promptly take any action, including executing and delivering any documentation, deemed necessary by CME to effectuate the transfer or prosecution of ownership rights in the United States and any other country as CME may request.

b. Notwithstanding anything else in this Agreement, Employee understands that Paragraph 4.a. shall not apply to general know how or to an invention for which no equipment, supplies, facility or trade secret information of CME was used and which was developed entirely on Employee's own time, unless the invention (i) relates to the business of CME or CME's actual or demonstrably anticipated research or development or (ii) results from any work Employee performs or has performed for CME.

c. Employee acknowledges that any computer programs, documentation, works of authorship or other copyrightable works that Employee creates in whole or in part during Employee's employment with CME shall: (i) be considered "works made for hire" under Section 101 of the U.S. Copyright Act, 17 U.S.C. § 101; (ii) be considered part of the Confidential Information; and (iii) be covered by Paragraph 1 above.

5. <u>Enforcement</u>.

a. Employee agrees that given the nature of CME's business, the scope and duration of the restrictions contained Paragraphs 1 through 5 of this Agreement are reasonable and necessary to protect the legitimate business interests of CME and do not unduly interfere with Employee's career or economic pursuits. Employee recognizes and agrees that any breach or threatened or anticipated breach of any part of Paragraphs 1 through 4 of this Agreement will result in irreparable harm and continuing damage to CME, and that the remedy at law for any such breach or threatened or anticipated breach will be inadequate. Accordingly, in addition to any other legal or equitable remedies that may be available to CME, Employee agrees that CME shall be entitled to seek and obtain an injunction or injunctions, without bond or other security, to prevent any breach or threatened or anticipated breach of any such section. Employee agrees to reimburse CME for all costs and expenses, including reasonable attorney's fees and costs, incurred by CME in connection with the enforcement of its rights under this Agreement.

b. If any part of this Agreement is held void, illegal, or unenforceable, or in conflict with any applicable law, every other term of this Agreement shall remain valid and fully enforceable. If any court refuses to enforce any part of this Agreement as written, the court shall modify that part to the minimum extent necessary to make it enforceable under applicable law, and shall enforce it as so modified. CME and

Employee recognize and agree that this Agreement is not intended to restrict Employee's activities in violation of Rule 5.6 of the Illinois Rules of Professional Conduct or any similar rule of another state or court, and if any court refuses to enforce any part of this Agreement as written because that part is deemed to violate Rule 5.6 or any such similar rule, the court shall modify that part to the minimum extent necessary to make it fully enforceable as to any and all activities not covered by such rule.

6. Notices. All notices and other communications required or permitted hereunder shall be in writing and shall be deemed given when (i) delivered personally or by overnight courier to the following address of the other party hereto (or such other address for such party as shall be specified by notice given pursuant to this Paragraph 6) or (ii) sent by facsimile to the following facsimile number of the other party hereto (or such other facsimile number for such party as shall be specified by notice given pursuant to this Paragraph 6), with the confirmatory copy delivered by overnight courier to the address of such party pursuant to this Paragraph 6:

If to CME, to:

Craig S. Donohue
Chief Executive Officer
Chicago Mercantile Exchange Inc.
20 South Wacker Drive
Chicago, IL 60606
(312) 930-8275

With a copy to:

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

If to Employee, to:

David G. Gomach
600 East Carrington Lane
Appleton, WI 54913
(920) 731-0537

7. Entire Agreement. This Agreement, together with Section 11 of the Amended and Rested Employment Agreement between Employee and Employer, dated as of May 25, 2004, constitutes the entire Agreement and understanding between the parties with respect to the subject matter hereof and supersedes and preempts any prior understandings, agreements or representations by or between the parties, written or oral, which may have related in any manner to the subject matter hereof. No other agreement or amendment to this Agreement shall be binding upon either party including, without limitation, any agreement or amendment made hereafter unless in writing, signed by both parties.

8. Successors and Assigns. This Agreement shall be enforceable by CME and its successors and assigns.

9. Governing Law and Jurisdiction. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Illinois without regard to principles of conflict of laws. The state courts of Cook County, Illinois and the United States District Court for the Northern District of Illinois shall have the exclusive jurisdiction over any and all claims, lawsuits and litigation relating to or arising out of this Agreement.

10. Waivers. The failure of Employer at any time or times to enforce this Agreement shall in no manner affect its right at a later time to enforce the same. No waiver by Employer of any provision or of any breach of any covenant in this Agreement shall be effective unless in writing signed by the Chief Executive Officer of CME, and no waiver in any one or more instances shall be deemed to be a further or continuing waiver of any such provision or breach in other instances or a waiver of any other provision or breach of any other provision or covenant.

11. Waiver of Jury Trial. EACH PARTY HERETO WAIVES THE RIGHT TO A TRIAL BY JURY IN ANY DISPUTE RELATING TO OR ARISING OUT OF THIS AGREEMENT, AND AGREES TO TAKE ANY AND ALL ACTION NECESSARY OR APPROPRIATE TO EFFECT SUCH WAIVER.

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

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

Chicago Mercantile Exchange Inc.		**David G. Gomach**	
By:	______________________	______________________	
Its:	______________________		
Date:	______________________	**Date:**	______________________

EXHIBIT 10.2

SEPARATION AGREEMENT

This Separation Agreement ("Agreement") is entered into by and between Scott Johnston ("Johnston" or the "Executive") and Chicago Mercantile Exchange Inc., a Delaware corporation and Chicago Mercantile Exchange Holdings Inc. (collectively, "CME" or the "Company"), as of May 20, 2004.

W I T N E S S E T H

WHEREAS, the Executive is currently employed by CME as the Managing Director and Chief Information Officer of CME;

WHEREAS, CME and the Executive mutually agree that the Executive will resign from his position as Managing Director, Chief Information Officer of CME effective as of May 21, 2004 (the "Resignation Date"); and

WHEREAS, the Executive and CME wish to set forth the terms and conditions for ending the Executive's employment relationship with CME on the Resignation Date, and to provide for the full and final resolution of all matters between them.

NOW THEREFORE, the Executive and CME, intending to be legally bound, hereby agree as follows:

1. **Resignation**.

(a) Effective as of the Resignation Date, the Executive shall resign from his position as Managing Director and Chief Information Officer of CME and from any boards and officer or director positions, if any, with CME or any of its affiliates. The Executive agrees to execute any documents necessary to effectuate all such resignations. CME acknowledges that on and after the Resignation Date, Executive shall not be an employee, officer, or identified insider following the Resignation Date CME will not take the position that Executive should be considered an affiliate pursuant to Rule 144 of the Securities Act of 1933, as amended.

(b) On the first regularly scheduled payday following the Resignation Date, CME shall pay, or cause to be paid, to the Executive (or the Executive's estate, if applicable) the following, subject to applicable withholding: (i) any earned but unpaid portion of the Executive's current base salary, (ii) any unpaid business expenses incurred prior to the Resignation Date in accordance with applicable policies of CME, and (iii) an amount equal to the payment due to the Executive for all accrued unused vacation days, if any, as of the Resignation Date.

2. **Separation; Exercise of Options; Sale of Stock** .

(a) Provided that the Executive is and remains in compliance with the terms of this Agreement, including but not limited to the covenants sets forth in

Paragraphs 5 through 7 of this Agreement, and that the Release Agreement attached hereto as Exhibit A (the "Release Agreement") becomes effective pursuant to its terms, the Company shall, effective as of the Resignation Date, accelerate the vesting of stock options granted to the Executive by the Company which cover an aggregate of 5,000 shares of Company common stock (the "Accelerated Options"), which options shall not become exercisable until expiration of the non-competition period described in paragraph 6 below. The Executive shall be permitted to chose which stock options shall be accelerated and, on or prior to the Effective Date of the Release Agreement, shall notify the Company in writing of the options so chosen. CME acknowledges that Executive also currently has 80,000 vested options at an exercise price of $22.00 per share (the "Pre-Resignation Vested Options")

(b) The Executive agrees that he shall not exercise any stock option granted to him by the Company until September 30, 2004. CME acknowledges and agrees that the Pre-Resignation Vested Options are not subject to termination, cancellation, forfeiture or set-off for any reason whatsoever, including, but not limited to any breach of this Agreement. The Company agrees that effective May 22, 2004, the Pre-Resignation Vested Options and the Accelerated Options ("Vested Options") shall, notwithstanding anything to the contrary in Company plan or the underlying agreement pursuant to which such stock option was granted, continue to be exercisable during the period from the Resignation Date (or from the Effective Date with respect to the Accelerated Options) until December 31, 2004. At the end of such period, each Vested Option shall immediately terminate. Each stock option granted to the Executive by the Company that is not vested as of the Resignation Date (or will not become vested pursuant to the preceding Paragraph) shall immediately terminate on the Resignation Date.

(c) The Company represents and warrants that it has due authority and has taken all steps necessary to accelerate the Accelerated Options and extend the exercisability of the Vested Options as provided herein and Company indemnifies the Executive for any breach of such representation and warranty.

3. **Assignment of Works**.

(a) Employee acknowledges that any computer programs, documentation, works of authorship or other copyrightable works that Employee created in whole or in part during Employee's employment with CME shall: (i) be considered "works made for hire" under Section 101 of the U.S. Copyright Act, 17 U.S.C. § 101; (ii) be considered part of the Confidential Information defined herein.

(b) The absence of a specific assignment of inventions in this Agreement shall not modify any rights that CME may otherwise have under the law, including but not limited to the principles of hired-to-invent and "set to" invent, and the shop-right doctrine.

4. **Release**.

(a) The Executive, on behalf of himself, his heirs, executors, administrators, successors and assigns, hereby irrevocably and unconditionally releases CME and its parents, subsidiaries, divisions and affiliates, together with their respective benefit plans (and their sponsors, fiduciaries and administrators), owners, assigns, agents, directors, partners, officers, employees, attorneys and representatives and any of their predecessors and successors and each of their estates, heirs and assigns (collectively, the "CME Releasees") from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, causes of action, rights, costs, losses, debts and expenses of any nature whatsoever, known or unknown, which the Executive or his heirs, executors, administrators, successors or assigns ever had, now have or hereafter can, will or may have (either directly, indirectly, derivatively or in any other representative capacity) by reason of any matter, fact or cause whatsoever (i) from the beginning of time to the date of this Agreement, or (ii) relating to his employment with CME or termination thereof. This release includes, without limitation, all claims arising under any federal, state and local labor, employment and/or anti-discrimination laws including, without limitation, the federal Employee Retirement Income Security Act, the Americans with Disabilities Act, Title VII of the Federal Civil Rights Act, the Family and Medical Leave Act, the Illinois Human Rights Act, the City of Chicago Human Rights Ordinance or the Cook County Human Rights Ordinance. Nothing in this Paragraph 4(a) shall be deemed to release the Executive's rights (A) to any accelerated or vested benefits under any plans maintained by the CME Releasees (including the Vested Options), (B) under the federal Age Discrimination in Employment Act, (C) to indemnification as set forth in the Company's by-laws, or (D) to enforce the terms of this Agreement. Executive expressly does not release or discharge CME from any claims, rights, demands, debts, dues, sums of money, accounts, complaints, actions and causes of action which are based upon acts or omissions that involve fraud, bad faith or violation of applicable law. Notwithstanding the foregoing, nothing in this Paragraph 4(c) shall impair Executive's right to seek enforcement of this Agreement.

(b) The Executive shall execute the Release Agreement on a date which is no sooner than the Resignation Date.

(c) CME on behalf of itself and its parents, subsidiaries, divisions and affiliates hereby irrevocably and unconditionally release the Executive, his heirs, executors, administrators, successors and assigns (collectively, the "Executive Releasees") from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, causes of action, rights, costs, losses, debts and expenses of any nature whatsoever, known or unknown, which CME and the other CME Releasees ever had, now have or hereafter can, will or may have (either directly or indirectly) by reason of any matter, fact or cause whatsoever (i) from the beginning of time to the date of this Agreement or (ii) arising out of, or relating to, the Executive's employment and/or the end of his employment with CME; provided, however, CME expressly does not release or discharge the Executive from any claims, rights, demands, debts, dues, sums of money, accounts, complaints, actions and causes of action which are based upon acts or omissions that involve breach of the Executive's fiduciary duty to CME, its members or the CME Releasees, intentional misconduct, fraud, bad faith or violation of applicable law. Notwithstanding the foregoing, nothing in this Paragraph 4(c) shall impair CME's right to seek enforcement of this Agreement.

(d) The Executive acknowledges and agrees that CME has fully satisfied any and all obligations owed to the Executive arising out of the Executive's employment with CME, and no further sums are owed to the Executive by CME or by any of the other CME Releasees, except as expressly provided in this Agreement and under the Company's benefit plans.

(e) The Executive acknowledges and agrees that any right to continue to contribute to CME's 401(k) plans for employees will end on the Resignation Date. Furthermore, the Executive acknowledges and agrees that any payments made pursuant to Paragraph 2 of this Agreement shall not be included in any computation of earnings under CME's 401(k) plans or any other plan.

(f) The Executive represents that he has no complaints, charges or lawsuits pending against CME or any of the other CME Releasees. The Executive further covenants and agrees that neither he nor his heirs, executors, administrators, successors or assigns will be entitled to any personal recovery in any proceeding of any nature whatsoever against CME or any of the other CME Releasees arising out of any of the matters released in this Paragraph 4.

5. **Confidentiality; Return of CME Property**.

(a) The Executive agrees that he will keep the negotiations and the terms and existence of this Agreement completely confidential.

(b) The Executive agrees and acknowledges that he will not at any time disclose any of CME's Confidential Information. As used herein, "Confidential Information" refers to any information about CME which is not generally known by or available to the public, including but not limited to, any valuable and proprietary information that gives CME a business advantage over others who do not have such information, including but not limited to, trade secrets; business plans and proposals; prospect and customer lists; trading methodologies; marketing plans, systems and programs; training materials; research data bases; computer software; and other technical, business, and financial information of CME not generally known to the public.

(c) Notwithstanding the provisions of this Paragraph 5, the Executive may disclose any information (i) as may be required in the course of obtaining legal advice with respect to the rights and obligations created hereby, (ii) as may be required in the preparation of federal, state or local tax returns or otherwise required under applicable law; (iii) as may be required to respond to a subpoena, court order or similar legal process; provided, however, that prior to making any such disclosure, the Executive shall provide CME with written notice of the subpoena, court order or similar legal process sufficiently in advance of such disclosure to afford CME a reasonable opportunity to challenge the subpoena, court order or similar legal process, or (iv) to an immediate family member.

6. **Non-Competition**. For a period of six (6) months following the Resignation Date, the Executive will not (a) be employed in an executive or managerial capacity by, or (b) provide, whether as an employee, independent contractor, consultant, or otherwise, any services of an executive or managerial nature or any services similar to those provided by the Employee to CME during Employee's employment with CME to, any derivatives exchange or clearing house. The Executive acknowledges that (i) CME is engaged in an intensely competitive business in which the development of proprietary information and customer relationships is crucial to success, (ii) the Executive has had access to CME's Confidential Information and customer relationships which CME has developed though significant investments of time and money, (iii) CME has clients located throughout the world, and (iv) the restrictions contained in this Paragraph 6 are necessary to protect CME's legitimate interests in its Confidential Information and existing customer relationships.

7. **Non-Solicitation of Employees**. For a period of one (1) year following the Resignation Date, the Executive agrees that he shall not employ, retain, solicit, for employment or retention, knowingly assist in the employment or retention of, or seek to influence or induce to leave CME's employment or service, any person who is employed or otherwise engaged by CME at any time during the one-year period following the Resignation Date. The Executive acknowledges that Employer invests a substantial amount of time and money in recruiting and training, and shares Confidential Information with, its employees. The Executive further acknowledges that the restrictions contained in this Paragraph 7 are necessary to protect CME's legitimate interests in its Confidential Information and employee relationships.

8. **Enforcement**

(a) The Executive agrees that given the nature of CME's business, the scope and duration of the restrictions contained Paragraphs 5 through 7 of this Agreement are reasonable and necessary to protect the legitimate business interests of CME and do not unduly interfere with the Executive's career or economic pursuits. The Executive recognizes and agrees that any breach or threatened or anticipated breach of any part of Paragraphs 5 through 7 of this Agreement will result in irreparable harm and continuing damage to CME, and that the remedy at law for any such breach or threatened or anticipated breach will be inadequate. Accordingly, in addition to any other legal or equitable remedies that may be available to CME, the Executive agrees that CME shall be entitled to seek and obtain an injunction or injunctions, without bond or other security, to prevent any breach or threatened or anticipated breach of any such section.

(b) If any part of this Agreement is held void, illegal, or unenforceable, or in conflict with any applicable law, every other term of this Agreement shall remain valid and fully enforceable. If any court refuses to enforce any part of this Agreement as written, the court shall modify that part to the minimum extent necessary to make it enforceable under applicable law, and shall enforce it as so modified.

9. **Waiver of Future Employment**. The Executive acknowledges that he forever waives any interest in, or claim to, any future employment with CME or any of its subsidiaries, divisions or affiliates.

10. **No Admission of Wrongdoing**. Nothing herein is to be deemed to constitute an admission of wrongdoing by CME or any of the other CME Releasees or by Executive.

11. **Consultation with Attorney/Voluntary Agreement**. The Executive acknowledges that (i) he has carefully read and fully understands all of the provisions of this Agreement (ii) CME has advised the Executive of his right to consult with an attorney prior to executing this Agreement, and (iii) the Executive is entering into this Agreement, including the releases set forth in Paragraph 4 above, knowingly, freely and voluntarily in exchange for good and valuable consideration.

12. **Mutual Nondisparagement**.

(a) For a period of two years following the Resignation Date, the Executive will not make, or cause to be made, any statement, observation or opinion disparaging the business or reputation of CME or any of its officers, directors or employees.

(b) CME will not and will advise its officers and directors that they should not intentionally make, or cause to be made, any statement, observation or opinion disparaging the reputation of the Executive for a period of two years following the Resignation Date,

(c) Nothing contained in this Paragraph 12 shall preclude the parties from providing truthful testimony in response to a valid subpoena, court order, regulatory request or as may be required by law or from any conversations with advisors bound by confidentiality, attorneys, or immediate family members.

13. **Assignment**. This Agreement is personal to the Executive and may not be assigned by the Executive. This Agreement is binding on, and will inure to the benefit of, CME and the other CME Releasees and to Executive and the other Executive Releasees.

14. **No Oral Modification; No Waivers**. This Agreement may not be changed orally, but may be changed only in a writing signed by the Executive and a duly authorized representative of CME. The failure of the Executive or CME to enforce any of the terms, provisions or covenants of this Agreement will not be construed as a waiver of the same or of the right of such party to enforce the same. Waiver by either the Executive or CME of any breach or default by the other party of any term or provision of this Agreement will not operate as a waiver of any other breach or default.

15. **Descriptive Headings**. The paragraph headings contained herein are for reference purposes only and will not in any way affect the meaning or interpretation of this Agreement.

16. **Counterparts**. This Agreement may be executed in one or more counterparts, which together shall constitute one and the same agreement.

17. **Notices**. All notices and other communications required or permitted hereunder shall be in writing and shall be deemed given when (i) delivered personally or by overnight courier to the following address of the other party hereto (or such other address for such party as shall be specified by notice given pursuant to this Paragraph 6) or (ii) sent by facsimile to the following facsimile number of the other party hereto (or such other facsimile number for such party as shall be specified by notice given pursuant to this Paragraph 6), with the confirmatory copy delivered by overnight courier to the address of such party pursuant to this Paragraph 17.

If to CME, to:

Craig S. Donohue
Chief Executive Officer
Chicago Mercantile Exchange Inc.
20 South Wacker Drive
Chicago, IL 60606
(312) 930-8275

With a copy to:

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

If to the Executive, to:

Scott L. Johnston
1301 Woodbine
Oak Park, IL
(708) 386-4463

With a copy to:

Erik Dyhrkopp, Esq.
Bell Boyd & Lloyd
Three First National Plaza
70 W. Madison St., Suite 3300
Chicago, Illinois 60602
(312) 372-1121

18. **Governing Law; Jurisdiction**. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Illinois without regard to principles of conflict of laws. The state courts of Cook County, Illinois and the United States District Court for the Northern District of Illinois shall have the exclusive jurisdiction over any and all claims, lawsuits and litigation relating to or arising out of this Agreement.

19. **Entire Agreement**. This Agreement sets forth the entire understanding between the Executive and CME and supersedes all prior agreements, representations, discussions, and understandings concerning the subject matter hereof. The Executive represents that, in executing this Agreement, the Executive has not relied upon any representation or statement made by CME or any other CME Releasees, other than those set forth herein, with regard to the subject matter, basis or effect of this Agreement or otherwise.

IN WITNESS WHEREOF, the Executive and a duly authorized representative of CME have executed this Agreement as of the first date indicated above with regard to all terms.

EXECUTIVE	Chicago Mercantile Exchange Inc.	
/s/ Scott Johnston	By:	**/s/ Kathleen M. Cronin**
Scott Johnston	Title:	Managing Director, General Counsel and Corporate Secretary

EXHIBIT A
RELEASE AGREEMENT

For good and valuable consideration, Scott Johnston (the "Executive") hereby agrees to the terms of this agreement (this "Release Agreement") on the date indicated below.

1. **Release**.

(a) The Executive, on behalf of himself, his heirs, executors, administrators, successors and assigns, hereby irrevocably and unconditionally releases Chicago Mercantile Exchange Inc. ("CME" or the "Company") and its parents, subsidiaries, divisions and affiliates, together with their respective owners, assigns, agents, directors, partners, officers, employees, attorneys and representatives and any of their predecessors and successors and each of their estates, heirs and assigns (collectively, the "CME Releasees") from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, causes of action, rights, costs, losses, debts and expenses of any nature whatsoever, known or unknown, which the Executive or his heirs, executors, administrators, successors or assigns ever had, now have or hereafter can, will or may have (either directly, indirectly, derivatively or in any other representative capacity) by reason of any matter, fact or cause whatsoever against CME or any of the other CME Releasees from the beginning of time to the date of this Agreement. This release includes, without limitation, all claims arising out of, or relating to, the Executive's employment and/or end of his employment with CME and all claims arising under any federal, state and local labor, employment and/or anti-discrimination laws including, without limitation, the federal Age Discrimination in Employment Act, the Employee Retirement Income Security Act, the Americans with Disabilities Act, Title VII of the Federal Civil Rights Act, the Family and Medical Leave Act, the Illinois Human Rights Act, the City of Chicago Human Rights Ordinance or the Cook County Human Rights Ordinance. Nothing in this Paragraph 1(a) shall be deemed to release the Executive's rights (A) to any accelerated or vested benefits under any plans maintained by the CME Releasees (including the Vested Options), (B) to indemnification as set forth in the Company's by-laws, (C) to enforce the terms of this Release Agreement, or (D) to enforce the Separation Agreement, dated May 20, 2004, between CME and the Executive (the "Separation Agreement").

(b) The Executive acknowledges and agrees that CME has fully satisfied any and all obligations owed to the Executive arising out of the Executive's employment with CME, and no further sums are owed to the Executive by CME or by any of the other CME Releasees, except as expressly provided in the Separation Agreement and under the Company's 401(k) plans.

(c) The Executive represents that he has no complaints, charges or lawsuits pending against CME or any of the other CME Releasees. The Executive further covenants and agrees that neither he nor his heirs, executors, administrators, successors or assigns will be entitled to any personal recovery in any proceeding of any nature whatsoever against CME or any of the other CME Releasees arising out of any of the matters released in this Paragraph 1.

2. **Consultation with Attorney/Voluntary Agreement**. The Executive acknowledges that (i) CME has advised the Executive of his right to consult with an attorney prior to executing this Release Agreement, (ii) the Executive has consulted with an attorney regarding the terms of this Release Agreement prior to executing it, (iii) the Executive has carefully read and fully understands all of the provisions of this Release Agreement, and (iv) the Executive is entering into this Release Agreement, including the releases set forth in Paragraph 1 above, knowingly, freely and voluntarily in exchange for good and valuable consideration, including the obligations of CME under the Agreement.

3. **Consideration & Review & Revocation Period**.

(a) The Executive acknowledges and agrees that he is receiving consideration, in addition to those payments and benefits to which he is otherwise entitled, in exchange for his consent to this Release Agreement.

(b) The Executive acknowledges that he has at least twenty-one (21) calendar days to consider the terms of this Release Agreement, although he may sign it sooner.

(c) The Executive will have seven (7) calendar days from the date on which he signs this Release Agreement to revoke his consent to the terms of this Release Agreement. Such revocation must be in writing and must be addressed as follows: Kathleen Cronin, Managing Director and General Counsel, Chicago Mercantile Exchange Inc., 20 South Wacker Drive, Chicago, IL 60606. Notice of such revocation must be received within the seven (7) calendar days referenced above. In the event of such revocation by the Executive, this Release Agreement shall not become effective and the Executive shall not have any rights under Paragraph 2 of the Separation Agreement.

(d) Provided that the Executive does not revoke this Release Agreement, this Release Agreement shall become effective on the eighth calendar day after the date on which the Executive signs this Release Agreement.

4. **No Admission of Wrongdoing**. Nothing herein is to be deemed to constitute an admission of wrongdoing by CME or any of the other CME Releasees.

5. **Assignment**. This Release Agreement is personal to the Executive and may not be assigned by the Executive. This Release Agreement is binding on, and will inure to the benefit of, CME and the other CME Releasees, together with their successor and assigns.

6. **Enforceability**. In the event that any one or more of the provisions of this Release Agreement is held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remainder hereof will not in any way be affected or impaired thereby and any such provision or provisions will be enforced to the fullest extent permitted by law.

7. **Governing Law; Jurisdiction**. This Release Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Illinois without regard to principles of conflict of laws. The state courts of Cook County, Illinois and the United States District Court for the Northern District of Illinois shall have the exclusive jurisdiction over any and all claims, lawsuits and litigation relating to or arising out of this Release Agreement.

8. **Entire Agreement**. This Release Agreement and the Separation Agreement set forth the entire understanding between the Executive and CME and supersede all prior agreements, representations, discussions, and understandings concerning their subject matter. The Executive represents that, in executing this Release Agreement, the Executive has not relied upon any representation or statement made by CME or any other CME Releasees, other than those set forth herein, with regard to the subject matter, basis or effect of this Release Agreement or otherwise.

IN WITNESS WHEREOF, the Executive has executed this Release Agreement on the date indicated below.

EXECUTIVE

______________________________	______________________________
Scott Johnston	Date

SECTION 302 CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of Chicago Mercantile Exchange Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

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

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

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

August 5, 2004	By:	/s/ Craig S. Donohue
	Name:	Craig S. Donohue
	Title:	Chief Executive Officer

EXHIBIT 31.2

SECTION 302 CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of Chicago Mercantile Exchange Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

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

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

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

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

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

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

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

EXHIBIT 32.1

SECTION 906 CERTIFICATION

Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Chicago Mercantile Exchange Holdings Inc. (the “Company”) for the quarter ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Craig S. Donohue, as Chief Executive Officer of the Company, and David G. Gomach, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

By: /s/ Craig S. Donohue

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

By: /s/ David G. Gomach

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

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

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

Certain Factors that May Affect Our Business

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

Shareholders who own trading rights on our exchange account for 12 of the 20 directors on our Board. In addition, our shareholders who are members and own trading rights on our exchange, and who may have interests that differ from or conflict with those of shareholders who are not also members, own a substantial percentage 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.

As of June 3, 2004, the day before the transfer restrictions on our shares of Class A-1, A-2, A-3 and A-4 expired, our shareholders who own trading rights on our exchange together owned, of record, shares representing approximately 69% of our outstanding Class A common stock. Although the Class A-1, A-2, A-3 and A-4 shares are freely transferable, we believe that these shareholders continue to own a substantial percentage of our outstanding Class A common stock. In addition, as of April 21, 2004, the date of our most recent Annual Meeting of Shareholders, 12 of the 20 directors on our Board owned or were officers or directors of others who owned memberships on our exchange. We are dependent on the revenues from the trading and clearing activities of our members. This dependence also gives them substantial influence over how we operate our business.

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

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

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

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

- the trading floor rights;
- access rights and privileges that a member has;

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

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

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

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

We generate revenues primarily from our clearing and transaction fees, our clearing and transaction processing services provided to the CBOT 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, foreign exchange and commodity markets;
- legislative and regulatory changes;
- competition;
- changes in government monetary policies and foreign exchange rates;
- consolidation in our customer base and within our industry; and
- inflation.

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

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

A number of factors beyond our control may contribute to substantial fluctuations in our operating results—particularly in our quarterly results. In the three years prior to 2001 and in 2003, we experienced relatively higher volume during the first and second quarters and lower trading volume in the third and fourth quarters. This trend was not evident in 2001 or 2002, except for the fourth quarter of 2002, in part because of the volatility of interest rates and U.S. equities in the third quarter in each of those years. As a result of seasonality and the factors described in the preceding risk factors, you will not be able to rely on our operating results in any particular period as an indication of our future performance. If we fail to meet securities analysts' expectations regarding our operating performance, the price of our Class A common stock could decline substantially.

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

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

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

Both newly formed organizations and established exchanges are increasingly employing trading systems that provide fast, low-cost execution of trades by matching buyers and sellers electronically. These organizations are attracting order flow away from some traditional open outcry trading markets. Many market participants believe that these electronic trading systems represent a threat to the continued viability of the open outcry method of trading. Some major European and Asian futures exchanges have closed their traditional open outcry trading facilities and replaced them entirely with electronic systems. Although we offer an electronic trading system, in the first six months of 2004 approximately 37% of our revenues from clearing and transaction fees were generated by open outcry trading. Reductions in our open outcry trading volume that are not offset by increases in our electronic trading volume would have a material adverse effect on our revenue, earnings and stock price.

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

The future success of our business depends in large part on our ability to create interactive electronic marketplaces in a wide range of derivatives products that have the required functionality, performance, reliability, speed and liquidity to attract and retain customers. A significant portion of our current overall volume is generated through electronic trading of our E-mini S&P 500 and E-mini NASDAQ-100 products. However, during the six months ended June 30, 2004 approximately 47% of our volume and approximately 37% of our clearing and transaction fee revenues were generated through our open outcry trading facilities. Most of that open outcry volume is related to trading in Eurodollar contracts. Our electronic functionality may not be capable of accommodating all of the complex trading strategies typically used for trading our Eurodollar contracts. We have implemented electronic system upgrades, including our recent launch of our enhanced options system on our GLOBEX electronic platform. In addition, we are developing additional functionality to accommodate more Eurodollar trading strategies. We may not complete the development of, or successfully implement the required electronic functionality for, our Eurodollar marketplace, including the integration and operation of our enhanced options system. Moreover, our Eurodollar customers may not accept our electronic trading systems. In either event, our ability to increase our electronic Eurodollar trading volume would be adversely affected. In addition, if we are unable to develop our electronic trading systems to include other products and markets, or if our electronic marketplaces do not have the required functionality, performance, reliability, speed and liquidity, we may not be able to compete successfully in a new environment that we expect to be increasingly dominated by electronic trading.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our industry has been subject to several fundamental regulatory changes, including changes in the statute under which we have operated since 1974. The Commodity Exchange Act generally required all futures contracts to be executed on an exchange that has been approved by the Commodity Futures Trading Commission, or CFTC. The exchange trading requirement was modified by CFTC regulations and interpretations to permit privately negotiated swap contracts to be transacted in the OTC market. The CFTC exemption under which the OTC derivatives market operated precluded the OTC market from using exchange-like electronic transaction systems and clearing facilities. These barriers to competition from the OTC market were largely repealed by the Commodity Futures Modernization Act, which became effective in December of 2000. It is possible that the chief beneficiaries of the Commodity Futures Modernization Act will be OTC dealers and competitors that operate or intend to open electronic trading facilities or to conduct their futures business directly among themselves on a bilateral basis. The customers who may access these trading facilities or engage in bilateral private transactions are the same customers who account for a substantial portion of our trading volume. The Commodity Futures Modernization Act also permits banks, broker-dealers and some of their affiliates to engage in foreign exchange futures transactions for or with retail customers without being subject to regulation under the Commodity Exchange Act.

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

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

The trading activities of our members accounted for approximately 78% of our trading volume during the first six months of 2004. When we became a for-profit company, we changed the role of our members in the operation of our business. We eliminated many member-dominated committees or converted them into advisory bodies. We gave our professional staff greater decision-making responsibilities. Subject to the oversight of our Board of Directors, our management is charged with making decisions that are designed to enhance shareholder value, which may lead to decisions or outcomes with which our members disagree. These changes may make us less attractive to our members and encourage them to conduct their business at, or seek membership in, another exchange or to trade in equivalent products among themselves on a private, bilateral basis. A material decrease in member trading activity would negatively impact liquidity and trading volume in our products and reduce our revenues. A loss or material reduction in the number of our clearing firms and the capital they provide to guarantee their trades and the trades of their customers would also diminish the strength and attractiveness of our clearing house and our markets.

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

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

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

We are substantially dependent on trading volume from three product offerings for a significant portion of our clearing and transaction fee revenues and profits. The clearing and transaction fee revenues attributable to transactions in our Eurodollar contracts, all our contracts based on the S&P 500 and NASDAQ-100 (including our E-mini products), and privately negotiated foreign exchange transactions using our clearing house were approximately 41%, 28%, 11% and 6%, respectively, of our total clearing and transaction fee revenues during the first six months of 2004 and 36%, 35%, 12% and 8%, respectively, during 2003. Any significant decline in our trading volume in any of these products would negatively impact our business, financial condition and operating results.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- loss of customers; and
- regulatory sanctions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- difficulties in the assimilation of acquired businesses or technologies;
- diversion of management’s attention from other business concerns;
- assumption of unknown material liabilities;
- 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, or CBOE, and CBOT, to trade single stock futures and futures based on narrow-based stock indexes. Under the terms of our operating agreement, we own approximately a 40% interest in the joint venture, CBOE owns approximately a 40% interest and CBOT and management of OneChicago each own a minority interest. Our ability to control key decisions relating to the operation and development of OneChicago will be limited. In addition, under the terms of our operating agreement, until May 31, 2005, we are restricted from in any way engaging in the business of trading, marketing, regulating, selling, purchasing, clearing or settling transactions in single stock futures other than in conjunction with the joint venture. This restriction on our ability to compete applies whether or not we remain part of the joint venture, but it does not apply to futures based on narrow-based stock indexes. In 2002, we entered into an agreement with NYMEX to introduce e-miNY energy futures contracts, which trade on our GLOBEX electronic trading platform and clear at the NYMEX clearing house. During the term of the agreement and for one year thereafter, we are generally prohibited, other than in cooperation with NYMEX, from providing for or facilitating electronic trading in futures or options on futures contracts on any underlying commodity (or index of commodities) that is also the underlying commodity for a product listed for trading by NYMEX. We cannot assure you that any joint venture or alliance that we have entered into or may enter into in the future will be successful.

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

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

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

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

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

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

- restrictions on the use of trading terminals or the contracts that may be traded;
- becoming subject to extensive regulations and oversight, tariffs and other trade barriers;
- reduced protection for intellectual property rights;

- difficulties in staffing and managing foreign operations; and
- potentially adverse tax consequences.

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

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

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

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

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

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

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

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

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