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

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

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

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

The number of shares outstanding of each of the registrant's classes of common stock as of October 20, 2004 was as follows: 34,074,663 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.

Table of Contents

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.

FORM 10-Q

INDEX


| | | Page |
|---|---|---|
| PART I. FINANCIAL INFORMATION: | | 3 |
| Item 1. | Financial Statements | 4 |
| | Consolidated Balance Sheets at September 30, 2004 and December 31, 2003 | 4 |
| | Consolidated Statements of Income for the Nine Months Ended and Three Months Ended September 30, 2004 and 2003 | 5 |
| | Consolidated Statements of Shareholders’ Equity for the Nine Months Ended September 30, 2004 and 2003 | 6 |
| | Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2004 and 2003 | 7 |
| Item 2. | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 11 |
| Item 3. | Quantitative and Qualitative Disclosures about Market Risk | 20 |
| Item 4. | Controls and Procedures | 21 |
| PART II. OTHER INFORMATION: | | 21 |
| Item 1. | Legal Proceedings | 21 |
| Item 6. | Exhibits | 22 |
| Signatures | | 23 |

**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.

CME Globex® and SPAN® are our registered trademarks. CME E-mini™ is our service mark. CLEARING 21® is a registered trademark, and 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®, Russell® and TRAKRS℠ and other trade names, service marks, trademarks and registered trademarks that are not proprietary to us, are the property of their respective owners and used herein under license.

Table of Contents

**Item 1. Financial Statements**

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

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 282,779 | $ 185,124 |
| Collateral from securities lending | 1,729,216 | 1,004,400 |
| Short-term investments of interest earning facilities | 129,408 | 370,504 |
| Marketable securities | 302,779 | 256,538 |
| Accounts receivable, net of allowance of $1,270 and $866 | 83,884 | 52,972 |
| Other current assets | 15,343 | 21,589 |
| Cash performance bonds and security deposits | 1,594,896 | 2,832,252 |
| Total current assets | 4,138,305 | 4,723,379 |
| Property, net of accumulated depreciation and amortization | 127,354 | 118,203 |
| Other assets | 30,061 | 31,054 |
| Total Assets | $ 4,295,720 | $4,872,636 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | $ 16,680 | $ 24,690 |
| Payable under securities lending agreements | 1,729,216 | 1,004,400 |
| Payable to participants in interest earning facilities | 129,408 | 370,504 |
| Other current liabilities | 57,435 | 56,129 |
| Cash performance bonds and security deposits | 1,594,896 | 2,832,252 |
| Total current liabilities | 3,527,635 | 4,287,975 |
| Other liabilities | 18,436 | 21,666 |
| Total Liabilities | 3,546,071 | 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, 33,942,705 and 32,922,061 shares issued and outstanding as of September 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 | 247,090 | 195,222 |
| Unearned restricted stock compensation | (1,998) | (941) |
| Retained earnings | 504,878 | 368,312 |
| Accumulated net unrealized gains (losses) on marketable securities | (660) | 73 |
| Total Shareholders' Equity | 749,649 | 562,995 |
| Total Liabilities and Shareholders' Equity | $ 4,295,720 | $4,872,636 |

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

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

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Revenues | | | | |
| Clearing and transaction fees | $ 413,763 | $ 326,053 | $ 147,937 | $ 107,846 |
| Clearing and transaction processing services | 41,005 | 540 | 14,354 | 180 |
| Quotation data fees | 45,198 | 38,980 | 14,913 | 13,611 |
| Access fees | 11,893 | 11,566 | 3,924 | 3,961 |
| Communication fees | 7,579 | 7,243 | 2,523 | 2,415 |
| Investment income | 9,094 | 5,661 | 3,229 | 2,351 |
| Securities lending interest income | 11,892 | 7,327 | 4,492 | 2,441 |
| Other | 16,355 | 12,786 | 5,328 | 4,456 |
| Total Revenues | 556,779 | 410,156 | 196,700 | 137,261 |
| Securities lending interest expense | (11,017) | (6,739) | (4,311) | (2,251) |
| Net Revenues | 545,762 | 403,417 | 192,389 | 135,010 |
| Expenses | | | | |
| Compensation and benefits | 122,150 | 107,878 | 40,939 | 36,664 |
| Occupancy | 20,561 | 18,996 | 7,033 | 6,421 |
| Professional fees, outside services and licenses | 26,950 | 22,789 | 10,020 | 7,850 |
| Communications and computer and software maintenance | 36,923 | 33,986 | 12,008 | 10,687 |
| Depreciation and amortization | 39,466 | 39,863 | 13,555 | 13,331 |
| Marketing, advertising and public relations | 7,859 | 8,963 | 2,878 | 1,827 |
| Other | 18,288 | 14,937 | 6,077 | 5,349 |
| Total Expenses | 272,197 | 247,412 | 92,510 | 82,129 |
| Income before income taxes | 273,565 | 156,005 | 99,879 | 52,881 |
| Income tax provision | (110,794) | (63,474) | (40,451) | (21,484) |
| Net Income | $ 162,771 | $ 92,531 | $ 59,428 | $ 31,397 |
| Earnings per Common Share: | | | | |
| Basic | $ 4.88 | $ 2.84 | $ 1.75 | $ 0.96 |
| Diluted | 4.74 | 2.73 | 1.72 | 0.93 |
| Weighted Average Number of Common Shares: | | | | |
| Basic | 33,373,797 | 32,632,391 | 33,935,280 | 32,738,674 |
| Diluted | 34,330,411 | 33,890,969 | 34,496,191 | 33,942,315 |

See accompanying notes to consolidated financial statements.

Table of Contents

**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 | | | | | 162,771 | | 162,771 |
| Change in net unrealized gain (loss) on securities, net of tax benefit of $499 | | | | | | (733) | (733) |
| Total comprehensive income | | | | | | | 162,038 |
| Exercise of stock options | 996,444 | | 2,245 | | | | 2,245 |
| Tax benefit related to employee stock compensation | | | 43,341 | | | | 43,341 |
| Quarterly cash dividends on common stock of $0.26 per share | | | | | (26,205) | | (26,205) |
| Vesting of issued restricted Class A common stock | 24,200 | | | | | | |
| Stock-based compensation | | | 4,578 | | | | 4,578 |
| 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 | | | | 657 | | | 657 |
| Balance September 30, 2004 | 33,942,705 | 3,138 | $247,429 | $ (1,998) | $504,878 | $ (660) | $ 749,649 |
| Balance December 31, 2002 | 32,530,372 | 3,138 | $179,994 | $ (665) | $266,810 | $ — | $ 446,139 |
| Net income | | | | | 92,531 | | 92,531 |
| Exercise of stock options | 258,190 | | 5,428 | | | | 5,428 |
| Tax benefit related to employee stock compensation | | | 3,792 | | | | 3,792 |
| Quarterly cash dividends on common stock of $0.14 per share | | | | | (13,716) | | (13,716) |
| Vesting of issued restricted Class A common stock | 22,200 | | | | | | |
| Stock-based compensation | | | 2,496 | | | | 2,496 |
| Forfeited restricted stock | | | (39) | 39 | | | — |
| Grant of 13,600 shares of restricted Class A common stock | | | 867 | (867) | | | — |
| Amortization of unearned restricted stock compensation | | | | 396 | | | 396 |
| Balance September 30, 2003 | 32,810,762 | 3,138 | $192,538 | $ (1,097) | $345,625 | $ — | $ 537,066 |

See accompanying notes to consolidated financial statements.

[Table of Contents]

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Cash Flows from Operating Activities: | | |
| Net income | $ 162,771 | $ 92,531 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 39,466 | 39,863 |
| Stock-based compensation | 5,235 | 2,892 |
| Deferred income tax liability (benefit) | 4,192 | (993) |
| Loss on investment in joint venture | 2,798 | 3,582 |
| Amortization of purchased intangibles | 195 | — |
| Amortization of purchased premiums on investments in debt securities | 2,272 | — |
| Loss on disposal of fixed assets | 351 | 852 |
| Increase (decrease) in allowance for doubtful accounts | 404 | (260) |
| Tax benefit related to employee stock compensation | 43,341 | 3,792 |
| Increase in accounts receivable | (31,316) | (7,070) |
| Decrease in other current assets | 6,246 | 3,617 |
| Decrease (increase) in other assets | 24 | (4,269) |
| Decrease in accounts payable | (8,010) | (9,786) |
| Increase in other current liabilities | 2,656 | 12,864 |
| Increase (decrease) in other liabilities | (3,230) | 1,019 |
| Net Cash Provided by Operating Activities | 227,395 | 138,634 |
| Cash Flows from Investing Activities: | | |
| Purchases of property, net | (48,968) | (38,107) |
| Purchase of intangible assets | (4,818) | — |
| Capital contributions to joint venture | (900) | (5,491) |
| Purchases of marketable securities | (99,153) | (29,633) |
| Proceeds from maturities of marketable securities | 49,408 | — |
| Net Cash Used in Investing Activities | (104,431) | (73,231) |
| Cash Flows from Financing Activities: | | |
| Payments on long-term debt | (1,349) | (4,841) |
| Cash dividends | (26,205) | (13,716) |
| Proceeds from exercised stock options | 2,245 | 5,428 |
| Net Cash Used in Financing Activities | (25,309) | (13,129) |
| Net increase in cash and cash equivalents | 97,655 | 52,274 |
| Cash and cash equivalents, beginning of period | 185,124 | 339,260 |
| Cash and cash equivalents, end of period | $ 282,779 | $ 391,534 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Interest paid (excludes securities lending interest expense) | $ 1,888 | $ 318 |
| Income taxes paid | 61,876 | 59,684 |

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 September 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 principally in the form of cash, funds deposited in the various Interest Earnings Facility (IEF) programs, U.S. Government and certain foreign government securities or bank letters of credit. These performance bonds 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 $129.4 million at September 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. At September 30, 2004, all funds in these IEFs were invested in overnight reverse repurchase agreements. If funds invested in the IEF are required to be liquidated due to a clearing firm redemption transaction and funds are not immediately available due to lack of liquidity in the investment portfolio, default of a repurchase counterparty, or loss in market value, CME guarantees the amount of invested funds. Financial Accounting Standards Board (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 CME Globex and utilizing our market data services, SPAN software and our CLEARING 21 clearing system, contain indemnifications from intellectual property claims that may be made against them as a result of their use of these products. The potential future claims relating to these indemnifications cannot be estimated and, therefore, in accordance with FIN No. 45, no liability has been recorded.

### 4. Stock Options

In the first nine months of 2004, CME granted stock options totaling 336,500 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 $143.89, 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 $15.0 million, measured at the grant dates using the Black-Scholes method of valuation. Risk-free rates ranging from 3.35% to 4.30% were used over a period of six years with volatility factors ranging from 29.4% to 36.4% and a range of 0.7% to 1.1% for the dividend yield. This compensation expense will be recognized on an accelerated basis over the vesting period.

In the first nine 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.

Table of Contents

The following table summarizes stock option activity for the nine months ended September 30, 2004:

| | Number of Shares | |
|---|---|---|
| | Class A | Class B |
| Balance at December 31, 2003 | 2,378,214 | 112 |
| Granted | 336,500 | — |
| Exercised | (884,708) | (44) |
| Cancelled | (299,138) | (68) |
| Balance at September 30, 2004 | 1,530,868 | — |
| Weighted Average Exercise Price at September 30, 2004 | $ 55.73 | |

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 September 30, 2004, 670,488 of the outstanding options were exercisable.

### 5. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of all classes of common stock outstanding for each reporting period. Diluted earnings per share reflects the increase in shares using the treasury stock method to reflect the impact of an equivalent number of shares of common stock if stock options and restricted stock awards were exercised or converted into common stock. Prior to the exercise of the remainder of the former CEO's option in the second quarter of 2004, the dilutive effect of that option was calculated as if the entire option, including the Class A share and Class B share portions of the option, was satisfied through the issuance of Class A shares. The diluted weighted average number of common shares outstanding at September 30, 2004 excludes the incremental effect related to 315,650 outstanding stock options that would be anti-dilutive.

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Net Income (in thousands) | $ 162,771 | $ 92,531 | $ 59,428 | $ 31,397 |
| Weighted Average Number of Common Shares: | | | | |
| Basic | 33,373,797 | 32,632,391 | 33,935,280 | 32,738,674 |
| Effect of stock options | 930,060 | 1,225,868 | 538,129 | 1,174,173 |
| Effect of restricted stock grants | 26,554 | 32,710 | 22,782 | 29,468 |
| Diluted | 34,330,411 | 33,890,969 | 34,496,191 | 33,942,315 |
| Earnings per Share: | | | | |
| Basic | $ 4.88 | $ 2.84 | $ 1.75 | $ 0.96 |
| Diluted | 4.74 | 2.73 | 1.72 | 0.93 |

### 6. Employee Benefit Plans

The funding goal for CME is to have its pension plan 100% funded on a projected benefit obligation basis, while also achieving the maximum tax deductible contribution and satisfying any minimum required contribution. Year-end 2003 assumptions had been used to project the liabilities and assets from December 31, 2003 to December 31, 2004. These assumptions were updated as of September 30, 2004. The result of this new projection is that estimated liabilities would exceed the fair value of plan assets at December 31, 2004 by approximately $3.9 million. Accordingly, it is estimated that a $3.9 million contribution will allow CME to meet its funding goal for its pension plan for 2004. It is anticipated that this contribution will be made prior to December 31, 2004.

Table of Contents

**7. Subsequent Event**

On October 15, 2004, the secured committed line of credit with a consortium of banks was renewed by CME at the annual renewal date. The credit facility was renewed for $750.0 million and on terms substantially the same as the expiring line of credit.

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

**Results of Operations for the Nine Months Ended September 30, 2004 Compared to the Nine Months Ended September 30, 2003**

**Overview**

Our operations for the nine months ended September 30, 2004 resulted in net income of $162.8 million compared to net income of $92.5 million for the nine months ended September 30, 2003. The increase in net income resulted primarily from a 35.3% increase in net revenues that was partially offset by a 10.0% increase in operating expenses. The increase in net revenues was primarily driven by a 26.9% increase in clearing and transaction fees attributed primarily to a 25.0% increase in total trading volume during the first nine months of 2004 when compared to the first nine months of 2003. In addition, we earned an incremental $40.5 million of revenues resulting from clearing and transaction processing services provided to the Chicago Board of Trade (CBOT). Contributing to the $24.8 million overall increase in expenses was $14.3 million related to compensation and benefits as well as increases in professional fees, outside services and licenses, communications and computer and software maintenance, and other expenses. This was partially offset by a reduction in marketing, advertising and public relations expenses in the first nine months of 2004 when compared to the same time period in 2003.

Trading volume for the nine months ended September 30, 2004 totaled 602.7 million contracts, representing a 25.0% increase in total trading volume over the 482.3 million contracts traded during the same period in 2003. Average daily trading volume for the nine months ended September 30, 2004 of 3.2 million contracts represented an increase of 24.3% over the 2.6 million contracts during the same period in 2003. Average daily trading volume for the month of September 2004 was 3.6 million contracts per day, the highest monthly average daily trading volume in our history. In addition, 62.4% of our trading volume in August 2004 was generated on CME Globex, our electronic trading platform, the highest percentage of trading volume on Globex in our history during any one-month period. For the three months ended September 30, 2004, 61.8% of our trading volume was executed on CME Globex, which was also the highest percentage of trading volume on Globex during any three-month period in our history.

**Revenues**

Total revenues increased $146.6 million, or 35.7%, to $556.8 million for the nine months ended September 30, 2004 from $410.2 million for the nine months ended September 30, 2003. Net revenues increased $142.4 million, or 35.3%, to $545.8 million for the nine months ended September 30, 2004 from $403.4 million for the nine months ended September 30, 2003. This increase in revenues was attributable primarily to a 24.3% increase in average daily trading volume for the nine months ended September 30, 2004 when compared to the nine months ended September 30, 2003. In the first nine months of 2004, CME Globex volume represented 55.1% of total trading volume, or an average 1.8 million contracts per day, a 58.4% increase over the same period in 2003. We earn a higher rate per contract for trades executed on CME Globex. The increase in electronic trading volume was led by interest rate and equity product trading volume growth and, to a lesser extent, foreign exchange product trading volume growth. In addition, in March 2004, our Class B shareholders approved a proposal to transition the front two CME Eurodollar futures contracts onto Globex if minimum volume thresholds are not maintained. This initiative was combined with certain fee changes and incentives that led to increased electronic trading volume for these contracts. Increased trading volume levels resulted principally from: CME 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 CME Globex and attract new customers. The additional clearing and transaction fees resulting from the increased trading volume and the increased percentage of trades executed electronically were augmented by fees for clearing and transaction processing services provided to CBOT, increased revenue from quotation data fees, additional investment income, increased fees for managing our IEF programs and greater trading revenue from GFX, our wholly owned subsidiary that utilizes CME Globex to provide liquidity, primarily in foreign exchange contracts.

*Clearing and Transaction Fees.* Clearing and transaction fees, which include clearing fees, CME Globex electronic trading fees and other volume-related charges, increased $87.7 million, or 26.9%, to $413.8 million for the nine months ended September 30, 2004 from $326.1 million for the nine months ended September 30, 2003. A significant portion of the increase was attributable to the 24.3% 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 CME Globex, for which additional fees are assessed. In the first nine months of 2004, CME Globex average daily trading volume was approximately 1.8 million contracts, or 55.1% of total trading volume, compared to approximately 1.1 million contracts, or 43.2% during the same period in 2003. All of our product areas, with the exception of commodity products, experienced growth in CME Globex volume during the nine months ended September 30, 2004 when compared to the nine months ended September 30, 2003.

The average rate, or revenue, per contract, excluding TRAKRS contracts, increased to $0.702 for the nine months ended September 30, 2004 from $0.692 for the same period in 2003. Our TRAKRS products are charged a much lower rate per contract and, therefore, are not included in our comparison of the overall rate per contract. The average rate per contract in the first nine months of 2004 increased by $0.017 as a result of the higher percentage of trades executed on CME Globex, as we earn additional fees for these trades. In addition, we experienced an increase of $0.005 due to a product mix shift of trades on CME Globex from equity E-mini products to interest rate products, which earn a higher rate per contract than equity E-mini products. Partially offsetting these increases to the average rate per contract was a reduction of $0.008 in the first nine months of 2004 when compared to the same period in 2003 as a result of $3.6 million of clearing fee assessments that increased revenues during the nine months ended September 30, 2003. There were no similar assessments during the same period in 2004. The average rate per contract was also reduced by $0.007 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. Also, our tiered pricing structure for CME Eurodollars reduced the average rate per contract by $0.002 during the nine months ended September 30, 2004 as trading volume increased in our CME Eurodollar contracts resulting in additional provided incentives. Finally, although the CME Eurodollar back month incentive program, that began on March 1, 2003, ended on December 31, 2003, similar incentives were granted during 2004 through our CME Eurodollar market maker program. Therefore, the increase in the average rate per contract from the expiration of one program was offset by the impact of the new program.

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

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| **Product Area** | **2004** | **2003** | **Percentage Increase** |
| Interest Rate | 1,722,589 | 1,257,477 | 37.0 % |
| Equity, excluding TRAKRS | 1,169,586 | 1,079,022 | 8.4 |
| Foreign Exchange | 185,734 | 133,090 | 39.6 |
| Commodity | 39,594 | 35,706 | 10.9 |
| Total Volume, excluding TRAKRS | 3,117,503 | 2,505,295 | 24.4 |
| TRAKRS | 71,322 | 59,919 | 19.0 |
| Total Volume | 3,188,825 | 2,565,214 | 24.3 |
| CME Globex Volume, including TRAKRS | 1,756,835 | 1,109,281 | 58.4 |
| CME Globex Volume as a Percent of Total Volume, including TRAKRS | 55.1% | 43.2% | |
| Clearing and Transaction Fee Revenues (in thousands) | $ 413,763 | $ 326,053 | |
| Average Rate per Contract, excluding TRAKRS | $ 0.702 | $ 0.692 | |
| Average Rate per Contract | $ 0.687 | $ 0.676 | |

We experienced an increase in our interest rate volume in the first nine months of 2004 when compared to the first nine months of 2003. In the first nine months of 2004, 29.2% of our interest rate volume was completed on CME Globex compared to 3.2% during the same period in 2003. This increase represented incremental average daily trading volume in our interest rate products on CME Globex of 462,488 contracts. More competitive customer fees, the participation of market makers and increased usage of handheld electronic trading units on our trading floor contributed to increased trading volume of CME Eurodollars on Globex. In 2004, there has also been uncertainty related to interest rate levels resulting in increased volatility that was not as evident in the first nine months of 2003, which contributed to higher volume levels. The volatility in U.S. equity markets in the first nine months of 2003 was not as evident during the first nine months of 2004. Despite the lower volatility, our equity product volume, excluding TRAKRS, grew 8.4% during the first nine months of 2004 when compared to the first nine months of 2003. Our equity product volume was influenced by increased distribution to customers through CME Globex facilitated by incentive programs introduced during the second quarter of 2004 that enabled additional market participants to obtain reduced fees on our products. Our foreign exchange volume has benefited from increased volatility and fee incentive programs initiated during the second quarter of 2004 which have resulted in increased trading on CME Globex. In the first nine months of 2004, 63.8% of our foreign exchange volume was conducted through CME Globex compared to 41.0% during the same period in 2003. Price levels and volatility patterns contributed to the increase in volume in commodity products during the first nine months of 2004 when compared to the first nine months of 2003.

During the first nine months of 2004, we introduced various pricing and incentive programs to expand our customer base to additional geographic locations. These initiatives included an 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, an 18-month European Incentive Plan for proprietary trading groups and trading arcades located in Europe, an 18-month Asian Incentive Program for hedge funds and banks located in the Pacific Rim, and an incentive pricing initiative for electronic foreign exchange (eFX) trading for commercial banks that are not currently members. The European Incentive Plan will also incorporate a tiered pricing structure for CME Eurodollars on Globex effective January 1, 2005.

To encourage trading of CME Eurodollar contracts on Globex, we introduced several pricing changes and incentive programs during the nine months ended September 30, 2004. These included fee reductions on CME Globex for customers to $0.55 from $0.80 per side, expansion of our market maker initiative in our electronic CME Eurodollar futures market and CME Globex fee waivers for traders who trade more than 1,000 CME Eurodollar contracts per day using our handheld trading devices. Additionally, in August 2004, we launched an enhanced options system for electronic trading of options on CME Eurodollar futures. This functionality facilitates trading of complex combination and spread trades typically used with futures on short-term interest rates.

We also launched various initiatives related to our foreign exchange products. These included a 12-month CME Globex fee incentive program designed to encourage equity member firms to increase their proprietary non-automated trading volume, an incentive pricing initiative 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 alliances which will provide additional access to our foreign exchange products and CME Eurodollars on Globex. Specifically, we announced an agreement with Reuters to bring banks and investment banks direct futures trading by offering our eFX markets to Reuters' global interbank customer base in a spot equivalent format. Seven of the world's largest banks and leading futures clearing firms have agreed to participate in the launch with beta testing expected to begin by the end of 2004.

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 nine months ended September 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 Processing Services.* Clearing and transaction processing services increased $40.5 million to $41.0 million for the nine months ended September 30, 2004 from $0.5 million for the nine months ended September 30, 2003. Clearing and transaction processing services includes fees derived from providing clearing and settlement services to CBOT, listing futures products on CME Globex for NYMEX and processing single stock futures trades for certain of our clearing firms that execute trades at OneChicago, LLC (OneChicago). This increase was a result of providing clearing and transaction processing services to CBOT. We began providing these services for some CBOT products on November 24, 2003 and, as of January 2, 2004, we began clearing all CBOT products. We cleared nearly 447 million matched contracts for CBOT during the nine months ended September 30, 2004. In addition, we earned $0.5 million related to NYMEX transaction processing.

*Quotation Data Fees.* Quotation data fees increased $6.2 million, or 16.0%, to $45.2 million for the nine months ended September 30, 2004 from $39.0 million for the nine months ended September 30, 2003. The increase resulted primarily from the change to our fee structure that was implemented on January 1, 2004. At that time, we modified our market data pricing to a flat fee structure. Users of the professional service 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 and third quarters 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 nine months of 2004, there were approximately 63,000 subscribers to our market data and the data was accessible from approximately 180,000 screens and included approximately 30,000 subscribers to our lower-priced non-professional service. This represented an increase from September 30, 2003 of approximately 5,000 screens displaying our data and 4,000 subscribers, including 1,000 subscribers to our lower-priced non-professional E-mini market data service.

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

Effective January 1, 2005, we plan to modify our professional service market data pricing to $35 per month for each market data screen or device.

*Access Fees.* Access fees increased $0.3 million, or 2.8%, to $11.9 million for the nine months ended September 30, 2004 from $11.6 million for the nine months ended September 30, 2003. This increase was attributed to expanded distribution offset by our customers consolidating connections into higher capacity bandwidths.

*Communication Fees.* Communication fees increased $0.4 million, or 4.6%, to $7.6 million for the nine months ended September 30, 2004 from $7.2 million for the nine months ended September 30, 2003. The increase is due largely to greater usage of handheld electronic trading devices.

*Investment Income.* Investment income increased $3.4 million, or 60.6%, to $9.1 million for the nine months ended September 30, 2004 from $5.7 million for the nine months ended September 30, 2003. The annualized average rate earned on all investments improved to approximately 1.5% in the first nine months of 2004 compared to approximately 1.1% during the same time period in 2003, representing an increase in investment income of approximately $1.9 million. The increase in rates earned was due to changes in the composition of our investment portfolio as well as increases in market interest rates. Also, approximately $1.4 million of the increase in interest income resulted from increased funds available for investment and increased cash performance bonds and security deposits. In addition, as a result of the issuance by the Financial Accounting Standards Board (FASB) of 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. Investment income for the nine months ended September 30, 2004 includes $1.6 million of interest income from the first IEFs compared to $0.6 million during the third quarter of 2003. Consolidation of the first IEFs has no effect on our net income since a corresponding increase is reflected in our expenses related to fees paid for managing these IEFs and the distribution of these IEF earnings to the participants. Partially offsetting these increases was a $0.7 million decrease in the investment results of our non-qualified deferred compensation plan that 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 $4.6 million, to $11.9 million for the nine months ended September 30, 2004 from $7.3 million for the nine months ended September 30, 2003. The average balance of proceeds from securities lending activity was $1.3 billion for the nine months ended September 30, 2004 and $0.8 billion for the nine months ended September 30, 2003. Securities lending interest expense increased $4.3 million, to $11.0 million for the nine months ended September 30, 2004 from $6.7 million for the nine months ended September 30, 2003. This expense is an integral part of our securities lending program and is required to engage in securities lending transactions. Therefore, this expense is presented in the consolidated statements of income as a reduction of total revenues. The net revenues from securities lending represented an annualized return of 0.09% on the average daily balances in the first nine months of 2004 compared to 0.10% in the first nine months of 2003.

*Other Revenue.* Other revenue increased $3.6 million, or 27.9%, to $16.4 million for the nine months ended September 30, 2004 from $12.8 million for the nine months ended September 30, 2003. This increase resulted from a variety of factors. There was a $1.4 million increase in fees associated with managing our IEF programs during the nine months ended September 30, 2004 when compared to the nine months ended September 30, 2003, a $0.8 million decrease in our share of the net loss of OneChicago, a $0.6 million increase in sales of our CME SPAN software and a $0.3 million increase in the trading revenue generated by GFX. Lastly, we experienced losses on certain technology equipment taken out of service during the first nine months of 2004 that totaled $0.4 million compared to $0.9 million during the same period in 2003.

**Expenses**

Total operating expenses increased $24.8 million, or 10.0%, to $272.2 million for the nine months ended September 30, 2004 from $247.4 million for the nine months ended September 30, 2003. This increase was attributed primarily to increases of $14.3 million in compensation and benefits, $4.2 million in professional fees, outside services and licenses and $3.4 million in other operating expenses. These increases were partially offset by a reduction of $1.1 million in marketing, advertising and public relations expense.

*Compensation and Benefits Expense.* Compensation and benefits expense increased $14.3 million, or 13.2%, to $122.2 million for the nine months ended September 30, 2004 from $107.9 million for the nine months ended September 30, 2003. There were four significant components to this increase. First, compensation and benefits expense increased by approximately $4.9 million during the first nine months of 2004 compared to the first nine months of 2003 as a result of annual salary increases and related increases in employer taxes and benefits. Second, the average number of employees increased approximately 5%, or by 57 employees, during the first nine months of 2004 from the first nine months of 2003. We had 1,230 employees at September 30, 2004. This increased headcount resulted in additional compensation and benefits expense of approximately $4.5 million. Third, the bonus expense for the first nine months of 2004, as accrued under the provisions of our annual incentive plan, increased $3.9 million when compared to the same period in 2003. Finally, stock-based compensation expense increased $2.3 million to $5.2 million for the nine months ended

September 30, 2004. This increase resulted primarily from a full nine months of expense during 2004 for the options granted in June 2003 as well as four months' recognition of expense related to the employee option grants in June 2004. These increases were partially offset by a $0.7 million increase in the capitalization of compensation and benefits relating to internally developed software. In addition, we experienced a decrease of $0.7 million in the investment results of our non-qualified deferred compensation plan for the nine month period ended September 30, 2004 that is included in compensation and benefits expense but does not affect income, as there is an equal and offsetting impact to our investment income.

*Occupancy Expense.* Occupancy expense increased $1.6 million, or 8.2%, to $20.6 million for the nine months ended September 30, 2004 from $19.0 million for the nine months ended September 30, 2003. Occupancy expense increased primarily as a result of rent that began in April 2004 for an additional remote data center, additional space we now lease at our main location, and increased operating expenses.

*Professional Fees, Outside Services and Licenses Expense.* Professional fees, outside services and licenses expense increased $4.2 million, or 18.3%, to $27.0 million for the nine months ended September 30, 2004 from $22.8 million for the nine months ended September 30, 2003. The increase resulted primarily from our revenue sharing agreement with SGX and license fees relating to our equity products. We incurred $1.7 million of expense related to our revenue sharing agreement with SGX, whereby we pay SGX a portion of our revenue generated by CME Eurodollars on Globex when our relative market share reaches certain levels during SGX's floor trading hours. This revenue sharing, which is capped at $0.3 million per month, has resulted from the growth in electronic trading of CME Eurodollars. There was no similar expense in 2003 due to the relatively low percentage of CME Eurodollars trading on Globex at that time. In addition, license fees increased by $1.4 million in the first nine months of 2004 from the first nine months of 2003 as a result of increased trading volume and increased licensing rates for certain of our products. We also experienced increases of $0.7 million for consulting services related to Sarbanes-Oxley reporting requirements.

*Communications and Computer and Software Maintenance Expense.* Communications and computer and software maintenance expense increased $2.9 million, or 8.6%, to $36.9 million for the nine months ended September 30, 2004 from $34.0 million for the nine months ended September 30, 2003. This expense is affected primarily by growth in electronic trading. During the first nine months of 2004, we experienced greater communications expense that included a $0.8 million increase for connections to CME Globex. Also, during the first nine months of 2003 we received a $2.5 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 during the first nine months of 2004, resulting in a net increase in expenses of $2.2 million during the first nine months of 2004 when compared to the first nine months of 2003. This increase in communication expenses was offset by a $1.8 million decrease in other communication expenses as a result of network consolidation and cost reduction efforts. Our computer and software maintenance costs are driven by the number of transactions processed, not the volume of contracts traded. During the nine months ended September 30, 2004, the number of transactions we processed increased approximately 26%. In addition, we processed approximately 86% of total transactions electronically in the first nine months of 2004 compared to nearly 80% in the first nine months of 2003, which represented 55.1% and 43.2%, respectively, of total contracts traded. As a result, our expenses for software, software maintenance and hardware maintenance increased $1.5 million during the first nine months of 2004 when compared to the same period in 2003.

*Depreciation and Amortization Expense.* Depreciation and amortization expense decreased $0.4 million, or 1.0%, to $39.5 million for the nine months ended September 30, 2004 from $39.9 million for the nine months ended September 30, 2003. The decrease was primarily the result of certain leasehold improvements, software and technology assets that became fully depreciated or have been retired since September 30, 2003. The depreciation on these assets exceeded the depreciation for assets acquired since that date. Capital expenditures totaled $49.0 million for the nine months ended September 30, 2004 and $63.0 million for the twelve months ended December 31, 2003. Technology-related purchases, defined as purchases of computers and related equipment, software, internally developed software, and costs associated with the build-out of our third data center as well as the expansion of our second data center, represented approximately 87% and 76%, respectively, of these purchases.

*Marketing, Advertising and Public Relations Expense.* Marketing, advertising and public relations expense decreased $1.1 million, to $7.9 million for the nine months ended September 30, 2004 from $9.0 million for the nine months ended September 30, 2003. In the first nine months of 2003, we incurred $5.1 million of expense associated with our brand advertising campaign. There was no similar expense in the first nine months of 2004. Partially offsetting this decreased brand advertising expense was an increase in product advertising and other marketing-related efforts during the first nine months of 2004 when compared to the same period in 2003.

*Other Expense.* Other expense increased $3.4 million, or 22.4%, to $18.3 million for the nine months ended September 30, 2004 from $14.9 million for the nine months ended September 30, 2003. The primary factor in this increase was $0.8 million of expense related to the consolidation of the first IEF program that was effective in the third quarter of 2003. This expense represents the distribution of the net earnings of these IEFs to the participants in the program. In addition, we experienced a $0.6 million increase in bank fees, a $0.5 million increase in bad debt expense, a $0.4 million increase in currency delivery fees resulting from increased currency delivery revenue, and increases in other general administrative expenses.

**Income Tax Provision**

We recorded a tax provision of $110.8 million for the nine months ended September 30, 2004 compared to $63.5 million for the same period in 2003. The effective tax rate was 40.5% for the first nine months of 2004, compared to 40.7% for the first nine months of 2003. The decrease in the effective tax rate 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 2004.

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

**Overview**

Our operations for the three months ended September 30, 2004 resulted in net income of $59.4 million compared to net income of $31.4 million for the three months ended September 30, 2003. This increase resulted primarily from a 42.5% increase in net revenues that was partially offset by a 12.6% increase in operating expenses. The increase in net revenues was driven by a 37.2% increase in clearing and transaction fees attributed primarily to a 24.6% increase in total trading volume during the third quarter of 2004 when compared to the third quarter of 2003 and the increase in the percentages of trades executed on CME Globex. In addition, the third quarter of 2004 reflects $14.2 million of revenue resulting from clearing and transaction processing services provided to CBOT. The $10.4 million increase in total expenses resulted primarily from a $4.2 million increase in compensation and benefits and a $2.1 million increase in professional fees, outside services and licenses, as well as smaller increases in our other expense categories.

Trading volume for the three months ended September 30, 2004 totaled 208.3 million contracts, representing an average daily trading volume of 3.3 million contracts. This was a 24.6% increase in total trading volume over the 167.2 million contracts traded during the same period in 2003 that represented an average daily trading volume of 2.6 million contracts.

**Revenues**

Total revenues increased $59.4 million, or 43.3%, to $196.7 million for the three months ended September 30, 2004 from $137.3 million for the three months ended September 30, 2003. Net revenues increased $57.4 million, or 42.5%, in the third quarter of 2004 compared to the same time period in 2003. The increase in revenues was attributable primarily to a 24.6% increase in average daily trading volume in the three months ended September 30, 2004 when compared to the three months ended September 30, 2003 as well as the growth in electronic trading volume. In the third quarter of 2004, CME Globex volume represented 61.8% of total trading volume, or 2.0 million contracts per day, a 71.2% 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, increased revenue from quotation data fees, additional investment income and increased fees for managing our IEF programs.

*Clearing and Transaction Fees.* Clearing and transaction fees increased $40.1 million, or 37.2%, to $147.9 million for the three months ended September 30, 2004 from $107.8 million for the three months ended September 30, 2003. A significant portion of the increase was attributable to the 24.6% 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 on CME Globex, for which additional fees are assessed. In the third quarter of 2004, CME Globex average daily trading volume was 2.0 million contracts, or 61.8% of total trading volume compared to 1.2 million contracts, or 45.0% during the same period in 2003. The increase in CME Globex volume occurred primarily in our interest rate and foreign exchange products during the three months ended September 30, 2004 when compared to the three months ended September 30, 2003.

The average rate per contract, excluding our TRAKRS contracts, increased to $0.717 for the three months ended September 30, 2004 from $0.674 for the same period in 2003. The average rate per contract in the third quarter of 2004 increased by $0.038 as a result of a greater percentage of our trades being executed on CME Globex, which has a higher rate per contract. In addition, the average rate per contract increased by $0.032 due to a decrease in the percentage of our volume receiving member rates. For the three months ended September 30, 2004, 77% of our volume was generated by members compared to 79% for the same period in 2003. Partially offsetting these increases to the average rate per contract was a reduction of $0.010 from reduced volume in our mutual offset agreement with SGX. Also, the average rate per contract was reduced by $0.007 for the three months ended September 30, 2004 when compared to the same time period in 2003 as a result of $1.1 million of clearing fee assessments that increased revenues during the three months ended September 30, 2003. There were no similar assessments during the same period in 2004. In addition, our tiered pricing structure for CME Eurodollars reduced the average rate per contract by $0.006 during the three months ended September 30, 2004 as trading volume increased in our CME Eurodollar contracts resulting in additional provided incentives. Finally, although our CME Eurodollar back month incentive program, that began on March 1, 2003, ended on December 31, 2003, similar incentives were granted during 2004 through our CME Eurodollar market maker program. Therefore, the increase in the average rate per contract from the expiration of one program was offset by the impact of the new program.

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

| Product Area | Three Months Ended September 30, 2004 | Three Months Ended September 30, 2003 | Percentage Increase (Decrease) |
|---|---|---|---|
| Interest Rate | 1,854,232 | 1,257,408 | 47.5 % |
| Equity, excluding TRAKRS | 1,135,360 | 1,067,538 | 6.4 |
| Foreign Exchange | 193,134 | 135,768 | 42.3 |
| Commodity | 40,546 | 38,369 | 5.7 |
| Total Volume, excluding TRAKRS | 3,223,272 | 2,499,083 | 29.0 |
| TRAKRS | 31,361 | 113,924 | (72.5) |
| Total Volume | 3,254,633 | 2,613,007 | 24.6 |
| CME Globex Volume, including TRAKRS | 2,012,762 | 1,175,569 | 71.2 |
| CME Globex Volume as a Percent of Total Volume, including TRAKRS | 61.8% | 45.0% | |
| Clearing and Transaction Fee Revenues (in thousands) | $ 147,937 | $ 107,846 | |
| Average Rate per Contract, excluding TRAKRS | $ 0.717 | $ 0.674 | |
| Average Rate per Contract | $ 0.710 | $ 0.645 | |

We experienced an increase in our interest rate volume in the third quarter of 2004 when compared to the third quarter of 2003. In the third quarter of 2004, 44.1% of our interest rate volume was executed on CME Globex compared to 3.5% during the same period in 2003. This increase represented incremental average daily trading volume in our interest rate products on CME Globex of 773,808 contracts. More competitive customer fees, the participation of market makers and increased usage of handheld electronic trading units on our trading floor contributed to increased trading volume of CME Eurodollars on Globex. In 2004, there has also been continuing uncertainty related to interest rate levels and actual Federal Reserve Board interest rate changes that was not evident in the third quarter of 2003. Our equity volume increased by 6.4% during the third quarter of 2004 when compared with the same period of 2003. Despite lower volatility in the U.S. equity markets, the trading volume was influenced by increased distribution to our equity user base, the success of our Russell products and increased activity in our CME E-mini products. Our foreign exchange volume has benefited from increased volatility, the introduction of various incentive plans and additional European market awareness. The publicity related to our launching of three new Eastern European currencies during the third quarter of 2004 has led to increased visibility with foreign exchange market participants. In the third quarter of 2004, 67.3% of our foreign exchange volume was conducted on CME Globex compared to 45.8% during the same period in 2003. This increase was due to the introduction of our incentive plans and wider distribution access to Asian and European market participants. Price levels and volatility patterns contributed to the increase in volume in our commodity products during the third quarter of 2004 when compared to the third quarter of 2003.

*Clearing and Transaction Processing Services.* Clearing and transaction processing services increased $14.2 million to $14.4 million for the three months ended September 30, 2004 from $0.2 million for the three months ended September 30, 2003. The increase was a result of providing clearing and transaction processing services to CBOT. We cleared more than 151 million matched contracts for CBOT during the three months ended September 30, 2004 resulting in revenues of $14.2 million.

*Quotation Data Fees.* Quotation data fees increased $1.3 million, or 9.6%, to $14.9 million for the three months ended September 30, 2004 from $13.6 million for the three months ended September 30, 2003. The increase resulted primarily from the change to our fee structure that was implemented on January 1, 2004.

*Access Fees.* Access fees were relatively constant at $3.9 million for the three months ended September 30, 2004 and $4.0 million for three months ended September 30, 2003.

*Communication Fees.* Communication fees were relatively constant at $2.5 million for the three months ended September 30, 2004 and $2.4 million for the three months ended September 30, 2003. The number of individuals and firms utilizing our communications services and the associated rates have not changed significantly during the three months ended September 30, 2004 and 2003.

*Investment Income.* Investment income increased $0.8 million, or 37.3%, to $3.2 million for the three months ended September 30, 2004 from $2.4 million for the three months ended September 30, 2003. This increase resulted primarily from an increase in the annualized average rate earned on all investments to approximately 1.7% in the third quarter of 2004 compared to approximately 1.0% during the same time period in 2003, resulting in approximately $1.2 million of additional interest income. The third quarter of 2004 included approximately $0.4 million of additional interest income as a result of increased funds available for investment and increased cash performance bonds and security deposits. Partially offsetting these increases was a $0.4 million decrease in the investment results of our non-qualified deferred compensation plan that is included in investment income but does not affect our net income, as there is an equal decrease in our compensation and benefits expense.

*Securities Lending Interest Income and Expense.* Securities lending interest income increased $2.1 million, to $4.5 million for the three months ended September 30, 2004 from $2.4 million for the three months ended September 30, 2003. The average balance of proceeds from securities lending activity was $1.2 billion for the three months ended September 30, 2004 and $0.9 billion for the three months ended September 30, 2003. Securities lending interest expense increased $2.0 million, to $4.3 million for the three months ended September 30, 2004 from $2.3 million for the three months ended September 30, 2003. This expense is an integral part of our securities lending program and is required to engage in securities lending transactions. Therefore, this expense is presented in the consolidated statements of income as a reduction of total revenues. The net revenues from securities lending represented an annualized return of 0.06% on the average daily balance in the third quarter of 2004 compared to 0.09% in the third quarter of 2003.

*Other Revenue.* Other revenue increased $0.8 million, or 19.6%, to $5.3 million for the three months ended September 30, 2004 from $4.5 million for the three months ended September 30, 2003. The increase is primarily due to a $0.7 million increase in fees associated with managing our IEF programs, a $0.5 million increase in sales of our CME SPAN software, and a $0.2 million decrease in our share of the OneChicago net loss during the third quarter of 2004. These increases were partially offset by a decrease in net trading gains for GFX of $0.4 million. Lastly, in the third quarter of 2004, we experienced a $0.2 million increase in losses on certain technology equipment taken out of service when compared to the same time period in 2003.

**Expenses**

Total operating expenses increased $10.4 million, or 12.6%, to $92.5 million for the three months ended September 30, 2004 from $82.1 million for the three months ended September 30, 2003. This increase was attributed primarily to additional expense of $4.2 million in compensation and benefits, $2.1 million related to professional fees, outside services and licenses, $1.3 million in communications and computer and software maintenance and $1.1 million in marketing, advertising and public relations, as well as smaller increases in various other expense categories.

*Compensation and Benefits Expense.* Compensation and benefits expense increased $4.2 million, or 11.7%, to $40.9 million for the three months ended September 30, 2004 from $36.7 million for the three months ended September 30, 2003. There were three significant components to this increase. First, the average number of employees increased approximately 4%, or by 52 employees, in the third quarter of 2004 compared with the third quarter of 2003. This increased headcount resulted in additional compensation and benefits expense of approximately $1.3 million. Second, there was an increase of $1.3 million in the bonus expense accrued under the provisions of our annual incentive plan. Lastly, stock-based compensation expense increased by $1.1 million, primarily as a result of expense recognized during the third quarter of 2004 for the options granted in June 2004. Other factors contributing to the increase include $0.6 million for the annual salary increases and related increases in employer taxes and benefits and a $0.3 million decrease in the capitalization of compensation and benefits relating to internally developed software. These increases were partially offset by a $0.4 million reduction in the earnings of the non-qualified deferred compensation plan which has no affect on net income as there is an equal and offsetting impact to our investment income.

*Occupancy Expense.* Occupancy expense increased $0.6 million, or 9.5%, to $7.0 million for the three months ended September 30, 2004 from $6.4 million for the three months ended September 30, 2003. Occupancy expense increased primarily as a result of rent that began in April 2004 for an additional remote data center, additional space we now lease at our main location, and increased operating expenses.

*Professional Fees, Outside Services and Licenses Expense.* Professional fees, outside services and licenses expense increased $2.1 million, or 27.6%, to $10.0 million for the three months ended September 30, 2004 from $7.9 million for the three months ended September 30, 2003. The increase resulted primarily from our revenue sharing agreement with SGX and license fees relating to our equity products. We experienced a $0.9 million expense related to a revenue sharing agreement with SGX, whereby we pay SGX a portion of our revenue generated by CME Eurodollars on Globex when our relative market share reaches certain levels during SGX's floor trading hours. There was no similar revenue sharing payment required in 2003. In addition, license fees increased by $0.5 million in the third quarter of 2004 from the third quarter of 2003 as a result of increased trading volume and increased licensing rates for certain of our products. We also experienced an increase of $0.5 million for consulting services related to Sarbanes-Oxley reporting requirements.

*Communications and Computer and Software Maintenance Expense.* Communications and computer and software maintenance expense increased $1.3 million, or 12.4%, to $12.0 million for the three months ended September 30, 2004 from $10.7 million for the three months ended September 30, 2003. This expense is affected primarily by growth in electronic trading. In the third quarter of 2004, we experienced an increase in communications expense of $0.6 million. This increase was due primarily to a $1.4 million refund in the third quarter of 2003 from our telecommunications provider as a result of a billing error that related to prior periods. There was no similar refund in the third quarter of 2004. Partially offsetting this increase was a reduction of $0.8 million in the third quarter of 2004 due to network consolidation, renegotiations and other cost reduction efforts, partially offset by costs associated with the expansion of our European operations. 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 September 30, 2004, the number of transactions we processed increased approximately 26%. In addition, we processed nearly 89% of total transactions electronically in the third quarter of 2004 compared to approximately 80% in the third quarter of 2003, which represented 61.8% and 45.0%, respectively, of total contracts traded. As a result, our expenses for software, software maintenance and hardware maintenance increased $0.6 million in the third quarter of 2004 compared to the third quarter of 2003.

*Depreciation and Amortization Expense.* Depreciation and amortization expense increased $0.3 million, or 1.7%, to $13.6 million for the three months ended September 30, 2004 from $13.3 million for the three months ended September 30, 2003. This increase was the result of the depreciation for leasehold improvements, software and technology assets acquired since September 30, 2003 that exceeded the depreciation for certain assets that became fully depreciated or were retired since September 30, 2003.

*Marketing, Advertising and Public Relations Expense.* Marketing, advertising and public relations expense increased $1.1 million, to $2.9 million for the three months ended September 30, 2004 from $1.8 million for the three months ended September 30, 2003. This increase resulted from additional product advertising and other marketing-related efforts during the three months ended September 30, 2004.

*Other Expense.* Other expense increased $0.8 million, or 13.6%, to $6.1 million for the three months ended September 30, 2004 from $5.3 million for the three months ended September 30, 2003. This increase resulted primarily from additional bank fees, bad debt expense and other general administrative expenses.

**Income Tax Provision**

We recorded a tax provision of $40.5 million for the three months ended September 30, 2004 compared to $21.5 million for the same period in 2003. The effective tax rate was relatively constant at 40.5% for the third quarter of 2004 and 40.6% for the third quarter of 2003.

**Liquidity and Capital Resources**

*Liquidity and Cash Management*. Cash and cash equivalents increased $97.7 million during the nine months ended September 30, 2004, totaling $282.8 million at September 30, 2004 compared to $185.1 million at December 31, 2003. The increase resulted primarily from cash provided by operations of $227.4 million that was substantially offset by purchases of property, net of trade-in allowances, of $49.0 million; purchases of marketable securities, net of sales and maturities, of $49.7 million; and our regular quarterly dividends totaling $26.2 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.

Included in other assets are net deferred tax assets of $10.3 million and $14.0 million at September 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 liquidated 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 $227.4 million for the nine months ended September 30, 2004 and $138.6 million for the same period in 2003. While net income increased from period to period by $70.2 million, cash provided by operations increased by $88.8 million primarily as a result of an increase in tax benefits related to employee option exercises and vesting of restricted stock, that was partially offset by increases in accounts receivable and a decrease in other current liabilities. Tax benefits related to employee option exercises and vesting of restricted stock increased to $43.3 million for the nine months ended September 30, 2004 compared to $3.8 million for the same period in 2003. This is a result of employee stock transactions in the second and third quarters of 2004 that will reduce income tax obligations for 2004. We experienced an increase in accounts receivable of $31.3 million during the nine month period ended September 30, 2004 compared to an increase of $7.1 million

for the same period in 2003. 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 $15.2 million greater in September 2004 than in September 2003. Additional receivables also existed at September 30, 2004 as a result of the clearing and transaction processing services we provided to CBOT that were fully implemented on January 2, 2004. There was no similar receivable at September 30, 2003. Other current liabilities increased by $2.7 million during the nine month period ended September 30, 2004 compared to an increase of $12.9 million for the same period in 2003. This resulted primarily from a decrease in current taxes payable during the nine month period ended September 30, 2004 as a result of tax benefits we will receive from the exercise of employee stock awards.

Cash used in investing activities was $104.4 million for the nine months ended September 30, 2004 compared to $73.2 million for the nine months ended September 30, 2003. The increase of $31.2 million was primarily due to the $49.7 million of purchases of marketable securities in excess of the cash provided by the maturities of marketable securities in the first nine months of 2004. These purchases resulted from the change in our investment policy that we implemented in the third quarter of 2003. In the first nine months of 2003 similar purchases of marketable securities totaled $29.6 million. Cash used to acquire and develop capital assets increased $10.9 million, to $49.0 million for the first nine months of 2004 from $38.1 million for the same period in 2003. The intellectual property and operating assets of Liquidity Direct Technology, LLC were acquired in 2004 and included $0.5 million for software that is reflected 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 nine months of 2004 compared to contributions of $5.5 million during the same period in 2003.

Cash used in financing activities was $25.3 million for the nine months ended September 30, 2004 compared to $13.1 million for the same period in 2003. The increase resulted primarily from the payment of regular quarterly dividends that totaled $26.2 million in the first nine months of 2004 compared to $13.7 million for the same period in 2003. The increase resulted primarily from our improved prior year’s cash earnings that is the basis used to determine the amount of the dividend and the increase in our annual dividend target from 20% to approximately 30% of the prior year’s cash earnings. This increase in the target was effective with the dividend payment in the fourth quarter of 2003. In addition, cash used in financing activities for the regularly scheduled payments on long-term debt related to our capital lease obligations decreased $3.5 million to $1.3 million for the first nine months of 2004 from $4.8 million for the same period in 2003. These capital lease obligations will be completely paid by year-end 2004. The proceeds from stock option exercises decreased $3.2 million to $2.2 million for the nine months ended September 30, 2004 from $5.4 million for the nine months ended September 30, 2003. The majority of stock option exercises for the nine months ended September 30, 2003 were for options exercised in our secondary offering of stock that was completed in June 2003. There was no corresponding offering in 2004. The majority of stock option exercises for the nine months ended September 30, 2004 did not result in the receipt of cash since the former CEO and certain employees elected to satisfy the exercise price of their options through the surrender of a portion of those options.

*Debt Instruments*. As of September 30, 2004, we were contingently liable on irrevocable letters of credit totaling $52.0 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, other securities escrowed by U.S. Treasury securities and AAA-rated corporate debt securities. Pursuant to this new policy, maturities may now extend to a maximum of 60 months and we plan to hold investments to maturity.

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

*Interest Rate Risk*. Interest income from marketable securities, short-term cash investments and cash performance bonds and security deposits was $7.3 million in the first nine months of 2004 and $3.9 million for the first nine months of 2003. Our marketable securities experienced net unrealized losses of $1.2 million and no realized gains or losses during the nine month period ended September 30, 2004. There were no realized or unrealized gains during the same period of 2003. At September 30, 2004, we owned marketable securities with a fair value of $302.8 million.

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

| Year | Principal Amount | Weighted Average Interest Rate |
|---|---|---|
| 2004 | $ 18,921 | 1.87 % |
| 2005 | 75,181 | 2.56 |
| 2006 | 73,571 | 3.82 |
| 2007 | 72,317 | 4.35 |
| 2008 | 59,687 | 2.12 |
| Total | $ 299,677 | 3.17 % |
| Fair Value | $ 302,779 | |

The 2004 and 2008 contractual maturities include certain zero-coupon marketable securities. Excluding these securities, the 2004 and 2008 weighted average interest rates would be 2.09% and 3.34%, respectively.

Under the investment policy that has been in effect during 2004, 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 futures contracts on CME 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 also engaged in purchases and sales of CME Eurodollar futures contracts on Globex during 2003 and the first six months of 2004. At the end of the second quarter of 2004, it was determined that GFX's participation in CME Eurodollars on Globex was no longer necessary for liquidity purposes. Any potential impact on the earnings of GFX from a change in foreign exchange rates would not be significant. Net position limits are established for each trader and totaled $12.0 million in aggregate notional value as of September 30, 2004.

At September 30, 2004, GFX held futures positions with a notional value of $99.0 million, offset by a similar amount of spot foreign exchange positions. The notional value of futures positions at September 30, 2003 totaled $99.7 million. All positions are marked to market through a charge or credit to other revenue on a daily basis. Net trading gains were $5.6 million for the nine months ended September 30, 2004 and $5.3 million for the nine months ended September 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.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

On August 3, 2004, McGraw-Hill Companies, Inc. filed suit against CME in the Southern District of New York seeking declaratory and injunctive relief relating to the scope and proper interpretation of the 1997 License Agreement under which we trade various products based on S&P indexes. McGraw-Hill claims that statements about a launch by CME of a variance product based on an S&P index amounts to a threatened breach of contract, misappropriation, federal trademark infringement and unfair competition, federal and state trademark dilution, common law trademark infringement, and common law unfair competition. McGraw-Hill is seeking unspecified damages in addition to an injunction. On September 20, 2004, CME filed its answer and counterclaims against

McGraw-Hill, including claims for injunctive relief, breach of contract and unspecified damages. CME also named the Chicago Board Options Exchange and CBOE Futures Exchange, LLC as additional parties and is seeking injunctive relief and punitive damages for tortious interference with contractual and prospective business relations and misappropriation. Based on its investigation to date and advice from legal counsel, we believe McGraw-Hill's claims are without merit and intend to defend them vigorously.

On October 14, 2003, the U.S. Futures Exchange, L.L.C. (Eurex U.S.) and U.S. Exchange Holdings, Inc., filed suit against the CBOT and CME in the United States District Court for the District of Columbia. The suit alleges that CBOT and CME violated the antitrust laws and tortiously interfered with the business relationship and contract between Eurex U.S. and The Clearing Corporation. The U.S. Futures Exchange, L.L.C. and U.S. Exchange Holdings, Inc. are seeking a preliminary injunction and treble damages. On December 12, 2003, CBOT and CME filed separate motions to dismiss or, in the event the motion to dismiss is denied, to move the venue to the United States District Court for the Northern District of Illinois. On September 2, 2004, the judge granted CBOT's and CME's motion to transfer venue to the Northern District of Illinois. In light of that decision, the judge did not rule on the motions to dismiss. Based on its investigation to date and advice from legal counsel, we believe this suit lacks factual or legal foundation and we intend to vigorously defend against these charges.

In November 2002, a former employee filed a complaint against CME in the Circuit Court of Cook County, Illinois (Case No. 02L014905), which was subsequently amended to allege common law claims of retaliatory discharge. This individual is seeking damages in excess of $3 million in this action. On July 19, 2004, the court granted CME's motion to dismiss for failure to state a claim with leave for the petitioner to re-file his claim. On August 16, 2004, the former employee re-filed his claim for retaliatory discharge. On September 29, 2004, CME again moved to dismiss for failure to state a claim. The response to this motion was filed October 20, 2004. Discovery in this matter is ongoing. CME has asserted three counterclaims against the former employee for breach of fiduciary duty, unlawful destruction of personal property and conversion. In June 2003, the former employee filed a complaint in the United States District Court for the Northern District of Illinois alleging that his employment was terminated because of his race in violation of Title VII, and that his employment termination violated Section 1981 (which prohibits discrimination in making and enforcing contracts). In this matter, the individual seeks reinstatement, back pay and benefits, punitive damages in the amount of $2 million, plus actual damages to be determined at trial. CME has asserted the same three counterclaims alleged in the state action in the federal action. Discovery in this matter was closed in October. Based on its investigation to date and advice from legal counsel, we believe these claims are without merit and intend to defend them vigorously.

**Item 6. Exhibits**

| | |
|---|---|
| 10.1** | Form of Equity Grant Letter for Executive Officers. |
| 10.2 | Second Amendment, made as of October 7, 2004, to that certain Lease, dated as of November 11, 1983, between Chicago Mercantile Exchange Trust (successor to CME Real Estate Company) and Chicago Mercantile Exchange Inc. (incorporated by reference to Exhibit 99.1 to Chicago Mercantile Exchange Holdings Inc. Form 8-K filed with the SEC on October 19, 2004). |
| 10.3 | Sixth Amendment, dated as of May 1, 2003, the Seventh Amendment, dated as of April 20, 2004, and the Eighth Amendment, dated as of October 29, 2004 to that certain Lease, dated March 31, 1998, between EOP – 10 & 30 South Wacker, L.L.C., as beneficiary of a land trust, dated October 1, 1997, and known as American National Bank and Trust Company of Chicago Trust No. 123434 (as successor in interest to American National Bank and Trust Company of Chicago, not individually but solely as trustee under Trust Agreement dated June 2, 1981 and known as Trust No. 51234) and Chicago Mercantile Exchange Inc. |
| 10.4 | Credit Agreement, dated as of October 15, 2004, among Chicago Mercantile Exchange Inc., each of the banks from time to time party thereto and the Bank of New York, as collateral agent (incorporated by reference to Exhibit 99.1 to Chicago Mercantile Exchange Holdings Inc. Form 8-K filed with the SEC on October 19, 2004). |
| 31.1 | Section 302 Certification—Craig S. Donohue, Chief Executive Officer. |
| 31.2 | Section 302 Certification—James E. Parisi, Managing Director and Chief Financial Officer. |
| 32.1 | Section 906 Certification. |
| 99.1 | Certain Factors That May Affect Our Business. |

** Management contract.

Table of Contents

**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: November 8, 2004

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

**Exhibit 10.1**

20 South Wacker Drive 312/930.1000 *tel*
Chicago, IL 60606-7499 312/466.4410 *fax*
www.cme.com

[Date]

Re: Equity Grant

Dear [Recipient]:

We are pleased to provide you with a grant of non-qualified stock options and restricted stock under the Chicago Mercantile Exchange Holdings Inc. (“CME Holdings”) Amended and Restated Omnibus Stock Plan (the “Plan”). This option and restricted stock grant is in recognition of the expected positive impact you will make toward the future success of Chicago Mercantile Exchange Inc. (“CME”). Your grant will allow you ownership in CME Holdings, which is a means for you to share in the success of the company while creating shareholder value. Certain terms of your stock option and restricted stock grant follow:

**Stock Option Terms**

| | |
|---|---|
| Option: | You have been granted a non-qualified stock option to purchase [options amount] shares of Class A common stock, $.01 par value, of Chicago Mercantile Exchange Holdings Inc. |
| Grant Date: | [date] |
| Exercise Price per share: | $[market price on date of grant] |
| Vesting Schedule: | Except as may otherwise provided in the Plan, 20 percent of the option grant shall become exercisable on each anniversary of the grant date, with 100 percent of the option grant becoming exercisable on the fifth anniversary of the grant date. CME may accelerate this Vesting Schedule under certain circumstances in its sole discretion. |
| Expiration: | Subject to earlier termination pursuant to the terms of the Plan, unexercised portions of the option will expire not later [ten years from grant date]. |

**Restricted Stock Terms**

| | |
|---|---|
| Restricted Stock: | You have been granted [RS amount] restricted shares of Class A common stock, $.01 par value, of Chicago Mercantile Exchange Holdings Inc. |
| Grant Date: | [date] |
| Vesting Schedule: | Except as may otherwise provided in the Plan, 20 percent of the restricted stock grant shall become exercisable on each anniversary of the grant date, with 100 percent of the restricted stock grant becoming exercisable on the fifth anniversary of the grant date. CME may accelerate this Vesting Schedule under certain circumstances in its sole discretion. |

To be eligible to receive this grant, you must have entered into a Confidentiality, Non-Compete and Non-Solicitation Agreement with CME. In addition to the terms stated in this grant letter, your stock option and restricted stock grant shall be subject to the terms and conditions of the Plan, a copy of which is enclosed. By accepting this stock option and restricted stock grant, you hereby agree to the terms and conditions of the Plan.

Again, we congratulate you on this recognition of your importance to our organization and its future.

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.

By: ________________________________________
Name: Beth Keeve
Title: Managing Director, Organizational Development

**Exhibit 10.3**

**SIXTH AMENDMENT**

This Sixth Amendment (this **"Amendment")** is made and entered into as of May 1,2003 by and between 10 & 30 SOUTH WACKER, L.L.C., a Delaware limited liability company **("Landlord")** and CHICAGO MERCANTILE EXCHANGE INC., a Delaware corporation **("Tenant").**

**RECITALS:**

Landlord and Tenant (each as a successor in interest by assignment and/or operation of law) are parties to a certain Lease dated as of March 31, 1988 between American National Bank as Trustee under Trust Agreement dated June 2, 1981 and known as Trust No. 51234 and Chicago Mercantile Exchange, an Illinois not-for-profit corporation, as amended by amendments dated November 1, 1999, January 2, 2002, May 3, 2002, August 22, 2002 and October 1, 2002 (the **"Lease"**). The parties desire to amend the Lease as hereinafter provided. Therefore, the parties agree as follows:

1. **Defined Terms.** Except as defined in this Amendment, the capitalized defined terms used in this Amendment shall have the meanings ascribed to such terms in the Lease. References to **"Section"** refer to sections and subsections of the Lease. References to **"Exhibit"** or **"Exhibits"** are to exhibits to this Amendment unless otherwise indicated. For the purposes of this Amendment, the following terms shall have the following meaning:

**"18th Floor Space"** means the space located on the 18th floor of the 30 South Wacker Building consisting of 26,616 rentable square feet and depicted on Exhibit A.

2. **<u>Addition of 18th Floor Space</u>.**

(a) Effective as of December 1, 2003 (the “18th Floor Effective Date”), the 18th Floor Space shall be added to and become part of the Premises. Base Rent and Rent Adjustment for the 18th Floor Space shall commence as of July 1, 2004 (the “18th Floor Rent Commencement Date”), it being agreed that Tenant shall not be required to pay Base Rent or Rent Adjustments for the 18th Floor Space with respect to the period prior to the 18th Floor Rent Commencement Date. Tenant’s Proportion for the 30 South Wacker Building shall be appropriately adjusted effective as of the 18th Floor Rent Commencement Date. The 18th Floor Space is subject to all the terms and conditions of the Lease except as expressly modified herein.

(b) The 18th Floor Space shall be delivered by Landlord and accepted by Tenant in “as is” condition. The parties hereto acknowledge that Tenant is currently in possession of a 16,434 rentable square foot portion of the 18th Floor Space as “Temporary Space” pursuant to Section 23 of the Fifth Amendment dated October 1, 2002 (the “Fifth Amendment”). If Landlord fails to deliver possession of any other portion of the 18th Floor Space to Tenant on or before the 18lh Floor Effective Date: (i) the 18th Floor Effective Date for such undelivered portion shall be postponed until the date on which Landlord provides Tenant with possession of such space, and (ii) Tenant shall have the right to extend the term of the Lease for 8,242 rentable square feet of space currently

leased by Tenant on the 31st Floor of the 10 South Wacker Building in accordance with the terms of Section 2 (c) below. If Landlord fails to deliver possession of any portion of the 18th Floor Space to Tenant on or before the 18th Floor Rent Commencement Date, the 18th Floor Rent Commencement Date for such undelivered portion shall be postponed until the date on which Landlord provides Tenant with possession of such space. Tenant shall not, however, be entitled to an extension of the rent free period beyond the adjusted 18th Floor Rent Commencement Date for such space.

(c) Tenant currently leases 8,242 rentable square feet of space on the 31st Floor of the 10 South Wacker Building for a term that is currently scheduled to expire on November 30, 2003. This space is defined as the “Expansion Space” pursuant to the First Amendment to the Lease dated November 1, 1999. If Landlord fails to provide Tenant with possession of any portion of the 18th Floor Space on or before the 18th Floor Effective Date, the Expansion Extended Term (as defined in the Second Amendment to Lease dated January 7, 2002) shall automatically be extended to the date on which Landlord delivers possession of the entire 18th Floor Space to Tenant (the “Automatic Extended Expiration Date”). The period beginning on December 1, 2003 and ending on the Automatic Extended Expiration Date is referred to as the “Automatic Extension Term”. Tenant shall not be

required to pay Base Rent or Rent Adjustments with respect to the Expansion Space during the Automatic Extension Term and Tenant's Proportion of the 10 South Wacker Building shall be appropriately adjusted as of December 1, 2003 to reflect the fact that Tenant will not be required to pay Rent Adjustments for the Expansion Space during the Automatic Extension Term. Tenant shall also have the option to extend the term of the Expansion Space (the "Additional Expansion Extended Term") for up to two (2) full lease months beyond: (i) the end of the Automatic Extension Term (if Landlord fails to deliver possession of the entire 18lh Floor Space on or before the 18lh Floor Effective Date), or (ii) the end of the Expansion Extended Term (if Landlord delivers possession of the entire 18th Floor Space on or before the 18lh Floor Effective Date). For example, if the Automatic Extension Term ends on January 23, 2004, the Additional Expansion Extended Term would run for up to two (2) full lease months beginning on January 24, 2004 and ending on March 23, 2004. Tenant shall pay Landlord Base Rental during the Additional Expansion Extended Term at the gross rate of $17,171.00 per lease month. Tenant shall not be required to pay Rent Adjustments for the Expansion Space during the Additional Expansion Extended Term. Base Rental shall be appropriately prorated for any partial lease month during the Additional Expansion Extended Term, it being agreed that Tenant may vacate the

Expansion Space and thereby end the Additional Expansion Extended Term at any time by notice to Landlord.

(d) Tenant shall be entitled to receive a cash allowance of $332,700 which Tenant may use, at its discretion, for remodeling, upgrades, alterations, equipment and other costs related to the 18th Floor Space and Premises. Such allowance has been added to and made a part of the Allowance granted to Tenant pursuant to Section 12 of the Fifth Amendment, as such Section 12 is hereinafter amended pursuant to Section 4 of this Amendment.

3. **Base Rent.** Base Rent for the 18th Floor Space shall be as follows:

| Period | Monthly Amount | Lease Year Amount | Annual Rate per Square Foot |
|---|---|---|---|
| 18th Floor Rent Commencement Date through December 31, 2004 | $ 44,360.00* | $266,160.00* | $ 20.00/sq.ft. |
| January 1, 2005 through December 31, 2005 | $ 45,469.00 | $545,628.00 | $ 20.50/sq.ft. |
| January 1, 2006 through December 31, 2006 | $ 46,578.00 | $558,936.00 | $ 21.00/sq.ft. |
| January 1, 2007 through December 31, 2007 | $ 47,687.00 | $572,244.00 | $ 21.50/sq.ft. |
| January 1, 2008 through November 30, 2008 | $ 48,796.00 | $536,756.00** | $ 22.00/sq.ft. |

* Monthly and Annual Amounts assume that the entire 18th Floor Space has been delivered to Tenant on or before July 1, 2004.

** Amount reflects a Lease Year of 11 months

4. **Allowance.** Section 12 of the Fifth Amendment is amended and restated in its entirety to provide as follows:

Landlord will provide Tenant with a cash allowance of $2,332,700 (the **"Allowance")** which Tenant may use, at its discretion, for remodeling, upgrades, alterations, equipment or other costs related to the Premises. The Allowance, the Relocation Allowance and the 19th Floor Expansion Allowance are collectively referred to as the "Allowances". Disbursements of any portion of the Allowances for Alterations shall be paid to Tenant in periodic disbursements within 30 days after receipt of the following documentation: (i) an application for payment and sworn statement of contractor substantially in the form of AIA Document G-702 covering all work for which disbursement is to be made to a date specified therein; (ii) a certification from an AIA architect substantially in the form of the Architect's Certificate for Payment which is located on AIA Document G702, Application and Certificate of Payment; and (iii) Contractor's, subcontractor's and material supplier's waivers of liens which shall cover all Alterations for which disbursement is being requested. Disbursements of any portion of the Allowances for items other than Alterations shall be paid to Tenant within 30 days after receipt of invoices for the cost incurred by Tenant. If Landlord fails to timely pay the Allowances or any portion thereof, Tenant's obligation to pay Base Rent and Rent Adjustments (without interest or late charge) shall be deferred until the applicable portion of the Allowances is paid. Tenant shall pay Landlord any Base Rent and Rent Adjustments so deferred within

thirty (30) days after the applicable portion of the Allowances is paid to Tenant. Notwithstanding the foregoing, the amount of Base Rent and Rent Adjustments that Tenant is entitled to defer shall be limited to the amount of the Allowances that is not timely paid by Landlord.

5. **Expansion Option.** Section 48, as amended by Section 19 of the Fifth Amendment, is amended and restated in its entirety to provide as follows:

> 48. Expansion Option. Tenant shall have the option (the "Expansion Option") to lease 14,094 rentable square feet on the 19th floor of the 30 South Wacker Building as depicted on Exhibit B (the "19th Floor Expansion Space"). Such Expansion Option shall be exercised by notice to Landlord on or before September 30, 2004, provided that such notice will not be effective if any uncured default then exists and applicable grace periods with respect thereto have then expired. If such Expansion Option is timely exercised, the 19th Floor Expansion Space shall be delivered to Tenant and added to the Premises on July 1, 2005 and Tenant's Proportion for the 30 South Wacker Building shall be appropriately adjusted. Base Rent for the 19th Floor Expansion Space shall be based upon the base rental rates applicable to the other Office Premises (including all subsequent adjustments thereto). Tenant shall be entitled to receive a cash allowance of $132,362.00 (the "19th Floor Expansion Allowance") which Tenant may use, at its discretion, for remodeling, upgrades, alterations, equipment or other costs related to the 19th Floor Expansion Space. The 19th Floor Expansion Allowance shall be disbursed in the manner described in Section 4 of this Amendment with respect to the Allowance.

6. **12th Floor Space.** Tenant acknowledges that Landlord desires to lease the 12th floor of the 10 South Wacker Building to itself, the managing or leasing agent for the Building or one or more of their respective affiliated entities (the "Landlord Related Entities"); provided that such space shall be used by the Landlord Related Entity(ies) as a management and/or leasing office. Tenant agrees that its Right of First Offer on all or any portion of the 12th floor of the 10 South Wacker Building to be subject and subordinate to Landlord's right to lease such space to itself or any of the Landlord Related Entities and that such right of

Landlord shall be considered to be a “Superior Right” as defined in Section 50.B; provided that a sublease or assignment of any portion of the 12th floor space to a party other than a Landlord Related Entity shall be subject to Tenant’s Right of First Offer.

7. **Temporary Space.** Section 23 of the Fifth Amendment amended and restated Section 2 of the Fourth Amendment dated August 22, 2002 in its entirety. Section 23 of the Fifth Amendment is hereby amended and restated in its entirety to provide as follows:

> Commencing on January 1, 2003 (or such earlier date as Landlord may permit) through November 30, 2003 **(“Temporary Space Term”),** Tenant shall be permitted to occupy Suite 1818 at the 30 South Wacker Building **(“Suite 1818”)** consisting of 16,434 rentable square feet, which space is depicted on Exhibit I of the Fifth Amendment (the **“Temporary Space”).** No Base Rent or Rent Adjustment shall be payable with respect to the Temporary Space during the Temporary Space Term. Temporary Space shall be governed by the terms of the Lease. Landlord shall provide Tenant with an allowance of $250,000 (the **“Relocation Allowance”)** to be applied toward the cost of relocating into the Temporary Space and, at Tenant’s discretion, for remodeling, upgrades, alterations, equipment or other costs related to the Premises. The Relocation Allowance shall be disbursed in the same manner as the Allowance. If all or any portion of the Relocation Allowance is not used on or before November 30, 2003, Tenant may use all or any portion of such unused amount as a credit against Base Rent and Rent Adjustment.

8. **Sublease of Suite 2020.** Landlord hereby grants its consent to a subletting of all or any portion of Suite 2020 of the 30 South Wacker Building by Reuters, as sublessor, to Tenant, as sublessee.

9. **Configuration of Elevator Banks.** The low mid-rise elevator bank for the 30 South Wacker Building currently serves floors 11-21. Landlord shall have the right at anytime to switch the service of floor 21 from the low mid-rise elevator bank to the high mid-rise elevator bank. Regardless of whether Landlord reconfigures the elevator bank for the 21st floor, Landlord agrees that it will not reduce the number of

elevator cars serving any floor in the low mid-rise elevator bank below its current number of seven (7) at any time prior to November 30, 2006. If less than 63,500 rentable square feet in the low mid-rise elevator bank is unleased on November 30, 2006, Landlord agrees that it will not reduce the number of elevator cars serving the low mid-rise elevator bank at any time prior to November 30, 2008.

10. **Miscellaneous**.

(a) This Amendment sets forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representation or agreement.

(b) Except as herein modified or amended, the provisions, conditions and terms of the Lease shall remain unchanged and in full force and effect.

(c) In the case of any inconsistency between the provision of the Lease and this Amendment, the provision of this Amendment shall govern and control.

(d) Neither party shall be bound by this Amendment until both parties have executed and delivered the same to the other.

(e) Tenant hereby represents to Landlord that Tenant has dealt with no broker in connection with this Amendment except for The Levy Organization **(“Broker”).** Tenant agrees to indemnify and hold Landlord Related Parties harmless from all claims of any brokers other than Broker claiming to have represented Tenant in connection with this Amendment. Landlord hereby

represents to Tenant that Landlord has dealt with no broker in connection with this Amendment. Landlord agrees to indemnify and hold Tenant Related Parties harmless from all claims of any brokers claiming to have represented Landlord in connection with this Amendment.

(f) Each exhibit attached hereto is hereby made a part hereof.

(g) Each signatory of this Amendment represents hereby that he or she has the authority to execute and deliver the same on behalf of the party hereto for which such signatory is acting.

**[The next page is the signature page.]**

IN WITNESS WHEREOF, Landlord and Tenant have duly executed this Amendment as of the day and year first above written.

LANDLORD: 10 & 30 SOUTH WACKER, L.L.C., a Delaware limited liability company

By: IL-10 & 30 South Wacker, L.L.C., a Delaware limited liability company, it administrative managing member

By: Equity Office Management, L.L.C., a Delaware limited liability company, its non-member manager

By: /s/ Arvid Povilaitis
Name: Arvid Povilaitis
Title: Senior Vice President

TENANT:

CHICAGO MERCANTILE EXCHANGE INC.,
a Delaware corporation

By: /s/ David G. Gomach
Name: David G. Gomach
Title: CFO

**SEVENTH AMENDMENT**

THIS **SEVENTH AMENDMENT** (the "Amendment") is made and entered into as of the 20 day of April, 2004, by and between **10 & 30 SOUTH WACKER, L.L.C., a Delaware limited liability company** ("Landlord"), and **CHICAGO MERCANTILE EXCHANGE, INC., a Delaware corporation** ("Tenant").

**RECITALS**

A. Landlord and Tenant (each as a successor in interest by assignment and/or operation of law) are parties to that certain lease dated as of March 31, 1988 ("Original Lease"), which lease has been previously amended by instruments dated November 1, 1999 ("First Amendment"), January 2, 2002 ("Second Amendment"), May 3, 2002 ("Third Amendment"), August 22, 2002 ("Fourth Amendment"), October 1, 2002 ("Fifth Amendment") and May 1, 2003 ("Sixth Amendment, and together with the First Amendment, Second Amendment, Third Amendment, Fourth Amendment and Fifth Amendment, collectively, the "Lease"). Pursuant to the Lease, Landlord has leased to Tenant, space (the "Premises") in the buildings commonly known as 10 S. Wacker and 30 S. Wacker located at 10 South Wacker Drive ("10 South Building") and 30 South Wacker Drive ("30 South Building"), Chicago, Illinois (either of 10 South Building or 30 South Building, a "Building").

B. Tenant's lease of approximately 8,242 rentable square feet of space on the 31st floor the 10 South Building and known as Suite 3115 ("Expansion Space", as defined in the First Amendment and referred to and previously extended in the Second Amendment and Third Amendment) by its terms expired on November 30, 2003 ("Prior Expansion Space Termination Date") and Tenant has remained in possession of the Expansion Space as a holdover tenant with Landlord's consent since the Prior Expansion Space Termination Date, and the parties desire to formally extend the Term of the Expansion Space, all on the following terms and conditions.

**NOW, THEREFORE,** in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

I. **Extension.** The Term of the Expansion Space is hereby extended from February 1, 2004, for a period of 12 months and shall expire on January 31, 2005 ("Extended Expansion Space Termination Date"), unless sooner terminated in accordance with the terms of the Lease. That portion of the Term of the Expansion Space commencing February 1, 2004 ("Expansion Space Extension Date") and ending on the Extended Expansion Space Termination Date shall be referred to herein as the "Extended Expansion Space Term".

II. **Base Rent.** As of the Expansion Space Extension Date, the schedule of Base Rent payable with respect to the Expansion Space during the Extended Expansion Space Term is the following:

| Period | Annual Rate Per Square Foot | Monthly Base Rent |
|---|---|---|
| 2/1/04 – 1/31/05 | $10.00 | $6,868.33 |

All such Base Rent shall be payable by Tenant in accordance with the terms of the Lease.

III. **Additional Security Deposit.** No additional security deposit shall be required in connection with this Amendment.

IV. **Expenses and Taxes.** For the period commencing on the Expansion Space Extension Date and ending on the Extended Expansion Space Termination Date, Tenant shall pay for Tenant's Proportion of Expenses and Taxes in accordance with the terms of the Lease.

V. **Improvements to Expansion Space.**

A. **Condition of Expansion Space.** Tenant is in possession of the Expansion Space and accepts the same "as is" without any agreements, representations, understandings or obligations on the part of Landlord to perform any alterations, repairs or improvements, except as may be expressly provided otherwise in this Amendment.

B. **Responsibility for Improvements to Expansion Space.** Any construction, alterations or improvements to the Expansion Space shall be performed by Tenant at its sole cost and expense using contractors selected by Tenant and approved by Landlord and shall be governed in all respects by the provisions of the Lease.

VI. **Expansion Space Termination Right.** At any time during the Extended Expansion Space Term, Tenant, so long as it is not in default hereunder or under the Lease, shall have the right to terminate its lease of the Expansion Space only ("Expansion Space Termination Option") for any reason by providing at least 45 days prior written notice to Landlord, in which event, Tenant's lease of the Expansion Space only shall be deemed terminated as of the date of termination ("Expansion Space Accelerated Expiration Date") specified in such notice. If Tenant exercises the Expansion Space Termination Option, Tenant simultaneously with delivery of its notice of exercise of the Expansion Space Termination Option shall pay to Landlord, as a fee in connection with the acceleration of the Extended Expansion Space Termination Date and not as a penalty, an amount equal to the unamortized portion of $8,242.00 (i.e.; the costs incurred by Landlord in connection with the Expansion Space) (the "Termination Fee"). The "unamortized portion" of the foregoing shall be determined using an interest rate of 11% per annum. In addition, if Tenant exercises the Expansion Space Termination Option as provided for herein, Tenant shall remain liable for all rent and other sums due hereunder and under the Lease with respect to the Expansion Space up to and including the Expansion Space Accelerated Expiration Date even though billings for such may occur subsequent to the Expansion Space Accelerated Expiration Date. Nothing herein shall be construed as granting to Tenant the right to terminate it lease of any of the other Premises leased by Tenant under the Lease.

VII. **Other Pertinent Provisions.** Landlord and Tenant agree that, effective as of the date of this Amendment, the Lease shall be amended in the following additional respects:

A. Landlord and Tenant acknowledge and agree that the Expansion Option restated at Section 19 of the Fifth Amendment has expired and is of no further force or effect.

VIII **Miscellaneous.**

A. This Amendment sets forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements. Under no circumstances shall Tenant be entitled to any Rent abatement, improvement allowance, leasehold improvements, or other work to the Premises, or any similar economic incentives that may have been provided Tenant in connection with entering into the Lease, unless specifically set forth in this Amendment.

B. Except as herein modified or amended, the provisions, conditions and terms of the Lease shall remain unchanged and in full force and effect.

C. In the case of any inconsistency between the provisions of the Lease and this Amendment, the provisions of this Amendment shall govern and control.

D. Submission of this Amendment by Landlord is not an offer to enter into this Amendment but rather is a solicitation for such an offer by Tenant. Landlord shall not be bound by this Amendment until Landlord has executed and delivered the same to Tenant.

E. The capitalized terms used in this Amendment shall have the same definitions as set forth in the Lease to the extent that such capitalized terms are defined therein and not redefined in this Amendment.

F. Tenant hereby represents to Landlord that Tenant has dealt with no broker in connection with this Amendment other than the Levy Organization ("Broker"). Tenant agrees to indemnify and hold Landlord, its members, principals, beneficiaries, partners, officers, directors, employees, mortgagee(s) and agents, and the respective principals and members of any such agents (collectively, the "Landlord Related Parties") harmless from all claims of any brokers claiming to have represented Tenant in connection with this Amendment other than Broker. Landlord hereby represents to Tenant that Landlord has dealt with no broker in connection with this Amendment. Landlord agrees to indemnify and hold Tenant,

its members, principals, beneficiaries, partners, officers, directors, employees, and agents, and the respective principals and members of any such agents (collectively, the "Tenant Related Parties") harmless from all claims of any brokers claiming to have represented Landlord in connection with this Amendment.

G. Each signatory of this Amendment represents hereby that he or she has the authority to execute and deliver the same on behalf of the party hereto for which such signatory is acting.

**IN WITNESS WHEREOF,** Landlord and Tenant have duly executed this Seventh Amendment as of the day and year first above written.

**LANDLORD:**

**10 & 30 SOUTH WACKER, L.L.C., a Delaware limited liability company**

By: IL-10 & 30 South Wacker, L.L.C., a Delaware limited liability company, its administrative managing member

By: Equity Office Management, L.L.C., a Delaware limited liability company, its non-member manager

By: /s/ Donald E. Huffner
Name: Donald E. Huffner
Title: Senior Vice President

**TENANT:**

**CHICAGO MERCANTILE EXCHANGE, INC., a Delaware corporation**

By: /s/ Phupinder Gill
Name: Phupinder Gill
Title: President

## EIGHTH AMENDMENT

**THIS EIGHTH AMENDMENT** (the **"Amendment"**) is made and entered into as of October 29, 2004, by and between **10 & 30 SOUTH WACKER, L.L.C., a Delaware limited liability company** ("Landlord"), and **CHICAGO MERCANTILE EXCHANGE INC., a Delaware corporation** ("Tenant").

## RECITALS

A. Landlord and Tenant (each as a successor in interest by assignment and/or operation of law) are parties to that certain lease dated as of March 31, 1988 (the "**Lease**"), which lease has been previously amended by instruments dated November 1, 1999 ("First Amendment"), January 2, 2002 ("Second Amendment"), May 3, 2002 ("Third Amendment"), August 22, 2002 ("Fourth Amendment"), October 1, 2002 ("Fifth Amendment"), May 1, 2003 ("Sixth Amendment) and April 20, 2004 ("Seventh Amendment"), and which lease, together with the First Amendment, Second Amendment, Third Amendment, Fourth Amendment, Fifth Amendment, Sixth Amendment and Seventh Amendment is collectively, the "Lease". Pursuant to the Lease, Landlord has leased to Tenant, space (the "**Original Premises**") in the buildings commonly known as 10 S. Wacker and 30 S. Wacker located at 10 South Wacker Drive ("**10 South Building**") and 30 South Wacker Drive ("**30 South Building**"), Chicago, Illinois (either of 10 South Building or 30 South Building, a "Building").

B. Tenant has requested that additional space containing approximately **15,707** rentable square feet (described as 2,068 rentable square feet in Suite 1900, 350 rentable square feet in Suite 1902, 8,057 rentable square feet in Suite 1908, 1,263 rentable square feet in Suite 1910, 3,268 rentable square feet in Suite 1920, and 701 rentable suare feet in Suite 1990) on the 19th floor of the 30 South Building shown on **Exhibit A** hereto (the "**Expansion Space**") be added to the Original Premises and that the Lease be appropriately amended and Landlord is willing to do the same on the following terms and conditions.

**NOW, THEREFORE**, in consideration of the above recitals, which by this reference are incorporated herein, the mutual covenants and conditions contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

1. **Expansion and Effective Date.**

1.01. Effective as of July 1, 2005 (the "**Expansion Effective Date**"), the Premises, as defined in the Lease, is increased by the addition of the Expansion Space, and from and after the Expansion Effective Date, the Original Premises and the Expansion Space, collectively, shall be deemed the Premises, as defined in the Lease. The Term for the Expansion Space shall commence on the Expansion Effective Date and end on the expiration of the Term, which, unless sooner terminated in accordance with the Lease or extended by Tenant's exercise of a Renewal Option under the Lease, shall mean November 30, 2008. (Such date, for purposes of this Amendment and the Lease, is referred to as the "**Termination Date**"). The Expansion Space is subject to all the terms and conditions of the Lease except as expressly modified herein and except that, with respect to the Expansion Space, Tenant shall not be entitled to receive any of the allowances, abatements or other financial concessions granted with respect to the Original Premises unless such concessions are expressly provided for herein with respect to the Expansion Space.

1.02. If Landlord fails to deliver possession of the Expansion Space by April 1, 2005 for any reason, including but not limited to, holding over by prior occupants, the Expansion Effective Date shall be delayed for a period equal to the number of days by which the possession delivery date was delayed past April 1, 2005. Any such delay in the Expansion Effective Date shall not subject Landlord to any liability for any loss or damage resulting therefrom. Landlord shall not be entitled to Base Rent or Rent Adjustments for the Expansion Space prior to the Expansion Effective Date. If the Expansion Effective Date is delayed, the Termination Date under the Lease shall not be similarly extended. Notwithstanding the foregoing, Landlord acknowledges that the Expansion Space is currently vacant and Landlord anticipates that it will deliver possession of the Expansion Space to Tenant on April 1, 2005.

2. **Base Rent.** In addition to Tenant's obligation to pay Base Rent for the Original Premises, Tenant shall pay Landlord Base Rent for the Expansion Space as follows:

| Months of Term or Period | Annual Rate Per Square Foot | Monthly Base Rent |
|---|---|---|
| Expansion Effective Date – 06/30/06 | $ 10.00 | $13,089.17* |
| 07/01/06 – 06/30/07 | $ 10.50 | $13,743.63 |
| 07/01/07 – 06/30/08 | $ 11.00 | $14,398.08 |
| 07/01/08 – 11/30/08 | $ 11.50 | $15,052.54 |

All such Base Rent shall be payable by Tenant in accordance with the terms of the Lease.

* The Monthly Base Rent will be appropriately prorated for any partial Lease month.

3. **Additional Security Deposit.** No additional security deposit shall be required in connection with this Amendment.

4. **Tenant's Proportion.** For the period commencing with the Expansion Effective Date and ending on the Termination Date, Tenant's Proportion for the Expansion Space is 1.5196%.

5. **Expenses and Taxes.** For the period commencing with the Expansion Effective Date and ending on the Termination Date, Tenant shall pay for Tenant's Proportion of Expenses and Taxes applicable to the Expansion Space in accordance with the terms of the Lease.

6. **Improvements to Expansion Space.**

6.01. **Condition of Expansion Space.** Tenant has inspected the Expansion Space and agrees to accept the same "as is" without any agreements, representations, understandings or obligations on the part of Landlord to perform any alterations, repairs or improvements.

6.02. **Responsibility for Improvements to Expansion Space.** Any construction, alterations or improvements to the Expansion Space shall be performed by Tenant at its sole cost and expense using contractors selected by Tenant and approved by Landlord and shall be governed in all respects by the terms of the Lease. In any and all events, the Expansion Effective Date shall not be postponed or delayed if the initial improvements to the Expansion Space are incomplete on the Expansion Effective Date for any reason whatsoever. Any delay in the completion of initial improvements to the Expansion Space shall not subject Landlord to any liability for any loss or damage resulting therefrom.

7. **Beneficial Occupancy of the Expansion Space.** Tenant shall be permitted to take possession of the Expansion Space on April 1, 2005 before the Expansion Effective Date. Such possession shall be subject to the terms and conditions of the Lease and this Amendment, however, Tenant shall not be required to pay Base Rent and Rent Adjustments applicable to the Expansion Space prior to the Expansion Effective Date. However, Tenant shall be required to pay for the cost of services requested by Tenant (e.g. freight elevator usage).

8. **Other Pertinent Provisions.** Landlord and Tenant agree that, effective as of the date of this Amendment, the Lease shall be amended in the following additional respects:

Expansion Option. The Expansion Option, as it appears in Section 5 of the Sixth Amendment, is deleted and shall be of no further force or effect.

9. **Miscellaneous.**

9.01. This Amendment and the attached exhibits, which are hereby incorporated into and made a part of this Amendment, set forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements. Under no circumstances shall Tenant be entitled to any Rent abatement, improvement allowance, leasehold improvements, or other work to the Premises, or any similar economic incentives

that may have been provided Tenant in connection with entering into the Lease, unless specifically set forth in this Amendment. Tenant agrees that neither Tenant nor its agents or any other parties acting on behalf of Tenant shall disclose any matters set forth in this Amendment or disseminate or distribute any information concerning the terms, details or conditions hereof to any person, firm or entity without obtaining the express written consent of Landlord.

9.02. Except as herein modified or amended, the provisions, conditions and terms of the Lease shall remain unchanged and in full force and effect.

9.03. In the case of any inconsistency between the provisions of the Lease and this Amendment, the provisions of this Amendment shall govern and control.

9.04. Submission of this Amendment by Landlord is not an offer to enter into this Amendment but rather is a solicitation for such an offer by Tenant. Landlord shall not be bound by this Amendment until Landlord has executed and delivered the same to Tenant.

9.05. The capitalized terms used in this Amendment shall have the same definitions as set forth in the Lease to the extent that such capitalized terms are defined therein and not redefined in this Amendment.

9.06. Tenant hereby represents to Landlord that Tenant has dealt with no broker in connection with this Amendment except for Holly Duran Real Estate Partners LLC ("Broker"). Tenant agrees to indemnify and hold Landlord, its trustees, members, principals, beneficiaries, partners, officers, directors, employees, mortgagee(s) and agents, and the respective principals and members of any such agents (collectively, the "**Landlord Related Parties**") harmless from all claims of any brokers, other than Broker, claiming to have represented Tenant in connection with this Amendment. Landlord hereby represents to Tenant that Landlord has dealt with no broker in connection with this Amendment. Landlord agrees to indemnify and hold Tenant, its trustees, members, principals, beneficiaries, partners, officers, directors, employees, and agents, and the respective principals and members of any such agents (collectively, the "**Tenant Related Parties**") harmless from all claims of any brokers claiming to have represented Landlord in connection with this Amendment.

9.07. Each signatory of this Amendment represents hereby that he or she has the authority to execute and deliver the same on behalf of the party hereto for which such signatory is acting.

**IN WITNESS WHEREOF**, Landlord and Tenant have duly executed this Amendment as of the day and year first above written.

**LANDLORD:**

**10 & 30 SOUTH WACKER, L.L.C.,**
**a Delaware limited liability company**

By: IL-10 & 30 South Wacker, L.L.C., a Delaware limited liability company, its administrative managing member

By: Equity Office Management, L.L.C., a Delaware limited liability company, its non-member manager

By: /s/ C. J. Dempsey

Name: C. J. Dempsey

Title: Vice President of Leasing

Date:

**TENANT:**

**CHICAGO MERCANTILE EXCHANGE INC.,**
**a Delaware corporation**

By: /s/ David Gomach

Name: David Gomach
Title: Managing Director and Chief Financial Officer
Date:

**EXHIBIT 31.1**

**SECTION 302 CERTIFICATION**

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

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

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

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

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

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

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

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

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

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

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

November 8, 2004

By: /s/ Craig S. Donohue
Name: Craig S. Donohue
Title: Chief Executive Officer

**EXHIBIT 31.2**

**SECTION 302 CERTIFICATION**

I, James E. Parisi, 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.

November 8, 2004

By: /s/ James E. Parisi
Name: James E. Parisi
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 September 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 James E. Parisi, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

By: /s/ Craig S. Donohue
Name: Craig S. Donohue
Title: Chief Executive Officer

Date: November 8, 2004

By: /s/ James E. Parisi
Name: James E. Parisi
Title: Chief Financial Officer

Date: November 8, 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.

**EXHIBIT 99.1**

## 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.*

We believe that our shareholders who own trading rights on our exchange own more than a majority of our outstanding Class A common stock. In addition, as of April 21, 2004, the date of our most recent Annual Meeting of Shareholders, 12 of the 20 directors on our Board owned or were officers or directors of others who owned memberships on our exchange. We are dependent on the revenues from the trading and clearing activities of our members. This dependence also gives them substantial influence over how we operate our business.

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

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

*Our certificate of incorporation grants special rights to holders of Class B common stock, which protect their trading rights and give them special Board representation, and 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 or non-existent.

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

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

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

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

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

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

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

*The 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 nine months of 2004 approximately 34% 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 CME Eurodollar contract and E-mini S&P 500 and E-mini NASDAQ-100 products. However, during the nine months ended September 30, 2004 approximately 44% of our volume and approximately 34% of our clearing and transaction fee revenues were generated through our open outcry trading facilities. Despite the increase in trading of our CME Eurodollar contract on Globex, most of our 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 CME Eurodollar contracts. We have implemented electronic system upgrades, including our recent addition of implied butterfly spread functionality to accommodate more complex CME Eurodollar trading strategies on our Globex electronic platform and the launch of our enhanced options system for CME Eurodollar options. However, we may not complete the development of, or successfully implement the required electronic functionality for, CME's Eurodollar marketplace, including the integration and operation of our enhanced options system. Moreover, CME Eurodollar customers may not accept our electronic trading systems. In either event, our ability to increase trading volume of CME Eurodollars on Globex would be adversely affected. In addition, if we are unable to develop our electronic trading systems to include other products and markets, or if our electronic marketplaces do not have the required functionality, performance, reliability, speed and liquidity, we may not be able to compete successfully in an environment that is increasingly dominated by electronic trading.

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

Currently, we maintain both open outcry trade 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 our key products in a manner that is competitive with the functionality supported by other electronic markets;
- match fees of our competitors that offer only electronic trading facilities;
- attract independent software vendors to write front-end software that will effectively access our electronic trading system and automated order routing system;
- respond to technological developments or service offerings by competitors; and
- generate sufficient revenue to justify the substantial capital investment we have made and will continue to make to 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 futures contracts.

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

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

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

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

A number of factors beyond our control may contribute to substantial fluctuations in our operating results—particularly in our quarterly results. 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 previously described, you will not be able to rely on our operating results in any particular period as an indication of our future performance. If we fail to meet securities analysts' expectations regarding our operating performance, the price of our Class A common stock could decline substantially.

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

Our industry has been subject to several fundamental regulatory changes, including changes in the statute under which we have operated since 1974. The Commodity Exchange Act generally required all futures contracts to be executed on an exchange that had been approved by the Commodity Futures Trading Commission, or CFTC. The "exchange trading requirement" was modified by CFTC regulations and interpretations to permit privately negotiated swap contracts to be transacted in the OTC market. The CFTC exemption under which the OTC derivatives market operated precluded the OTC market from using exchange-like electronic transaction systems and clearing facilities. These barriers to competition from the OTC market were repealed by the Commodity Futures Modernization Act 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. These customers are the same customers who use CME foreign exchange products. In the future, our industry may become subject to new regulations or changes in the interpretation or enforcement of existing regulations. We cannot predict the extent to which any future regulatory changes may adversely impact our business, including our ability to compete with enterprises who offer off-exchange trading and who benefit from a reduced regulatory burden and lower-cost business model.

The 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 nine 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 the CME Eurodollar, S&P 500 or NASDAQ-100 futures and options on futures contracts or in privately negotiated foreign exchange transactions using our clearing house would adversely affect our revenues and profitability.*

We are substantially dependent on trading volume from 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 CME Eurodollar contracts, all our contracts based on the S&P 500 and NASDAQ-100 (including CME E-mini products), and privately negotiated foreign exchange transactions using our clearing house were approximately 44%, 26%, 10% and 6%, respectively, of our total clearing and transaction fee revenues during the first nine 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 the CME Eurodollar contract serves as a global financial benchmark, but we cannot assure you that, in the future, other products will not become preferred alternatives to the CME Eurodollar contract as a means of managing or speculating on interest rate risk. We also cannot assure you that competitors will not enter the Eurodollar market. For example, in March 2004, Euronext.liffe began listing and trading Eurodollar futures contracts. Our members may also elect to trade Eurodollars in privately negotiated bilateral transactions without the use of our clearing house. In either of these events, our trading volume, revenues and profitability could be adversely affected.

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

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

We cannot assure you that either of our Standard & Poor’s or Nasdaq license agreements will be renewed when they terminate. In addition, we cannot assure you that others will not succeed in creating stock index futures based on information similar to that which we have obtained by license or that market participants will not increasingly use alternative instruments, including securities and options based on the S&P and NASDAQ indexes, to manage or speculate on U.S. stock risks. Parties may also succeed in offering indexed products that are similar to our licensed products in countries that are beyond the jurisdictional reach of us and/or the licensors. We also cannot assure you that Nasdaq will not directly or indirectly through other exchanges offer security futures contracts that compete with our broad-based index futures contracts based upon NASDAQ indexes. 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 or on third-party exchanges for which we provide clearing and transaction processing services. As a result, we are exposed to significant credit risk of third parties, including our clearing firms. We are also exposed, indirectly, to the credit risk of customers of our clearing firms. These parties may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. A substantial part of our working capital is at risk if a clearing firm defaults on its obligations to our clearing house and its margin and security deposits are insufficient to meet its obligations. Although we have policies and procedures to help 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 transaction processing 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 transaction processing 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 and transaction processing 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 and transaction processing services we provide to CBOT will also depend on our ability to control our costs associated with providing such 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.*

We sell our market data to individuals and organizations that use our markets or monitor general economic conditions. Revenues from our market data totaled approximately $45 million, or 8% of our net revenues, in the first nine months of 2004 and approximately $39 million, or 10% of our net revenues for the same period in 2003. Electronic trading systems do not usually impose separate charges for supplying market data to trading terminals. If we do not separately charge for market data supplied to trading terminals, and trading terminals with access to our markets become widely available, we 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;
- security breaches;
- litigation or other customer claims;
- loss of customers; and
- regulatory sanctions.

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

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

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

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

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

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

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

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

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

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

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

Although the 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, Italy, 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 are also subject to oversight by the SEC. Our operations are subject to ongoing review and oversight, including:

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

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

The CFTC has broad powers to investigate and enforce compliance and punish non-compliance with its rules and regulations. We cannot assure you that we and/or our directors, officers 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 CME customers or improper use of confidential information. Employee misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Our employees also may commit errors that could subject us to financial claims for negligence, or otherwise, as well as regulatory actions. For example, employees of GFX Corporation enter into transactions to promote liquidity in CME foreign exchange contracts on 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 the CME 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;
- general economic and political conditions in the countries from which our markets are accessed may have an adverse effect on our volume from those countries; and
- potentially adverse tax consequences.

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

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

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

*Any infringement by us on patent rights of others could result in litigation and adversely affect our ability to continue to provide, or increase the cost of providing, 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. Under our dividend policy, our dividend target is approximately 30% of the prior year's cash earnings. In March, June and September, we paid a quarterly dividend of $0.26 per shares to our Class A and Class B shareholders. Although in the past our subsidiary has generated sufficient cash flow to pay dividends to us to allow us to pay a dividend in respect of our Class A and Class B common stock, we cannot guarantee you that it will continue to have adequate cash flow to do so in the future. Our existing credit facility, as well as future credit facilities, other future debt obligations and statutory provisions, may limit our ability to pay dividends.