

CME GROUP INC.
Form 10-Q
August 06, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

- 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

CME GROUP INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

36-4459170
(I.R.S. Employer
Identification Number)

20 South Wacker Drive, Chicago, Illinois
(Address of principal executive offices)

60606
(Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of each of the registrant's classes of common stock as of July 22, 2009 was as follows: 66,424,136 shares of Class A common stock, \$0.01 par value; 625 shares of Class B common stock, Class B-1, \$0.01 par value; 813 shares of Class B common stock, Class B-2, \$0.01 par value; 1,287 shares of Class B common stock, Class B-3, \$0.01 par value; and 413 shares of Class B common stock, Class B-4, \$0.01 par value.

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PART I: FINANCIAL INFORMATION

On August 22, 2008, NYMEX Holdings, Inc. (NYMEX Holdings) merged into CME NY Inc., a wholly-owned subsidiary of CME Group. Unless otherwise noted, disclosures of trading volume, revenue and other statistical information include the results of NYMEX Holdings beginning on August 23, 2008.

Certain Terms

Throughout this document, unless otherwise specified or if the context otherwise requires:

CME Group refers to (1) CME Holdings and its subsidiaries prior to the completion of the merger between CME Holdings and CBOT Holdings, which occurred on July 12, 2007, (2) the combined company of CME Holdings and CBOT Holdings and their respective subsidiaries after July 12, 2007 and (3) the combined company of CME Holdings, CBOT Holdings and NYMEX Holdings as well as their respective subsidiaries after August 22, 2008;

CME Holdings refers to Chicago Mercantile Exchange Holdings Inc., which was the surviving corporation in its merger with CBOT Holdings and which was renamed CME Group Inc. in connection with the merger;

CME refers to Chicago Mercantile Exchange Inc., a wholly-owned subsidiary of CME Group;

CBOT Holdings refers to CBOT Holdings, Inc.;

CBOT refers to Board of Trade of the City of Chicago, Inc., which was a wholly-owned subsidiary of CBOT Holdings and became a wholly-owned subsidiary of CME Group on July 12, 2007;

NYMEX Holdings refers to NYMEX Holdings, Inc.;

NYMEX refers to New York Mercantile Exchange, Inc. and, unless otherwise indicated also refers to its subsidiary, Commodity Exchange, Inc. (COMEX), which were wholly-owned subsidiaries of NYMEX Holdings and became subsidiaries of CME Group on August 22, 2008 when NYMEX Holdings merged into CME NY Inc., a wholly-owned subsidiary of CME Group, which was renamed CME NYMEX Holdings Inc.;

Exchange refers to CME, CBOT and NYMEX, collectively; and

We, us and our refers to CME Group and its consolidated subsidiaries, collectively.

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FORWARD-LOOKING STATEMENTS

From time to time, in written reports and oral statements, we discuss our expectations regarding future performance. These forward-looking statements are identified by their use of terms and phrases such as believe, anticipate, could, estimate, intend, may, plan, expect and expressions, including references to assumptions. These 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 not to 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:

our ability to realize the benefits and control the costs of our acquisition of NYMEX Holdings and our ability to successfully integrate the businesses of CME Group and NYMEX Holdings, including the fact that such integration may be more difficult, time consuming or costly than expected and revenues following the transaction may be lower than expected and expected cost savings from the transaction may not be fully realized within the expected time frames or at all;

increasing competition by foreign and domestic entities, including increased competition from new entrants into our markets and consolidation of existing entities;

our ability to keep pace with rapid technological developments, including our ability to complete the development and implementation of the enhanced functionality required by our customers;

our ability to continue introducing competitive new products and services on a timely, cost-effective basis, including through our electronic trading capabilities, and our ability to maintain the competitiveness of our existing products and services;

our ability to adjust our fixed costs and expenses if our revenues decline;

our ability to continue to generate revenues from our processing services;

our ability to maintain existing customers, develop strategic relationships and attract new customers;

our ability to expand and offer our products in foreign jurisdictions;

changes in domestic and foreign regulations;

changes in government policy, including policies relating to common or directed clearing, changes as a result of a harmonization of the regulation of the Securities and Exchange Commission (SEC) and the U.S. Commodity Futures Trading Commission (CFTC), or changes relating to the enacted or proposed legislation relating to the current economic crisis;

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the costs associated with protecting our intellectual property rights and our ability to operate our business without violating the intellectual property rights of others;

our ability to generate revenue from our market data that may be reduced or eliminated by the growth of electronic trading or declines in subscriptions;

changes in our rate per contract due to shifts in the mix of the products traded, the trading venue and the mix of customers (whether the customer receives member or non-member fees or participates in one of our various incentive programs) and the impact of our tiered pricing structure;

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the ability of our financial safeguards package to adequately protect us from the credit risks of clearing members;

the ability of our compliance and risk management methods to effectively monitor and manage our risks;

changes in price levels and volatility in the derivatives markets and in underlying fixed income, equity, foreign exchange and commodities markets;

economic, political and market conditions, including the recent volatility of the capital and credit markets and the impact of current economic conditions on the trading activity of our current and potential customers;

our ability to accommodate increases in trading volume and order transaction traffic without failure or degradation of the performance of our systems;

our ability to execute our growth strategy and maintain our growth effectively;

our ability to manage the risks and control the costs associated with our acquisition, investment and alliance strategy;

our ability to continue to generate funds and/or manage our indebtedness to allow us to continue to invest in our business;

industry and customer consolidation;

decreases in trading and clearing activity;

the imposition of a transaction tax on futures and options on futures transactions;

the unfavorable resolution of material legal proceedings;

the seasonality of the futures business; and

changes in the regulation of our industry with respect to speculative trading in commodity interests and derivative contracts.

For a detailed discussion of these and other factors that might affect our performance, see Item 1A. of this Report as well as Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 2, 2009.

The Globe logo, CME, Chicago Mercantile Exchange, CME Group, Globex and E-mini, are trademarks of Chicago Mercantile Exchange Inc. CBOT and Chicago Board of Trade are trademarks of Board of Trade of the City of Chicago, Inc. NYMEX, New York Mercantile Exchange and ClearPort are trademarks of New York Mercantile Exchange, Inc. All other trademarks are the property of their respective owners. Further information about CME Group and its products can be found at <http://www.cmegroup.com>. Information made available on our web site does not constitute a part of this Report.

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TRAKRS, Total Return Asset Contracts, are exchange-traded non-traditional futures contracts designed to provide market exposure to various market-based indexes which trade electronically on the CME Globex electronic platform. Clearing and transaction fees on these products are minimal relative to other products. Unless otherwise noted, disclosures of trading volume and average rate per contract exclude our TRAKRS products.

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In August 2006, we acquired Swapstream, a London-based electronic trading platform for interest rate swaps. Disclosures of trading volume and average rate per contract exclude these products.

Hurricane Risk Landfall Options (HuRLOs) are European style call options on whether, and where, a hurricane first makes landfall on the U.S. Coast. Unless otherwise noted, disclosures of trading volume and average rate per contract exclude our HuRLO products.

All references to options or options contracts in the text of this document refer to options on futures contracts.

Unless otherwise indicated, references to CME Group products include references to exchange-traded products on one of its regulated exchanges (CME, CBOT, NYMEX, COMEX). Products listed in these exchanges are subject to the rules and regulations of the particular exchange and the applicable rulebook should be consulted.

Table of Contents**Item 1. Financial Statements****CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(dollars in millions, except per share data; shares in thousands)

(unaudited)

	June 30, 2009	December 31, 2008
Assets		
Current Assets:		
Cash and cash equivalents	\$ 448.7	\$ 297.9
Collateral from securities lending, at fair value		426.9
Marketable securities, including pledged securities of \$64.6 and \$283.8	105.4	310.1
Accounts receivable, net of allowance of \$1.7 and \$1.8	282.4	234.0
Other current assets	137.0	189.1
Cash performance bonds and security deposits	8,538.9	17,653.5
Total current assets	9,512.4	19,111.5
Property, net of accumulated depreciation and amortization of \$506.0 and \$479.5	725.3	707.2
Intangible assets trading products	16,982.0	16,982.0
Intangible assets other, net	3,308.9	3,369.4
Goodwill	7,523.1	7,519.2
Other assets	479.5	469.4
Total Assets	\$ 38,531.2	\$ 48,158.7
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 38.5	\$ 71.0
Payable under securities lending agreements		456.8
Short-term debt	250.0	249.9
Other current liabilities	179.3	211.8
Cash performance bonds and security deposits	8,538.9	17,653.5
Total current liabilities	9,006.7	18,643.0
Long-term debt	2,738.6	2,966.1
Deferred tax liabilities	7,662.3	7,728.3
Other liabilities	142.3	132.7
Total Liabilities	19,549.9	29,470.1
Shareholders' Equity:		
Preferred stock, \$0.01 par value, 9,860 shares authorized, none issued or outstanding		
Series A junior participating preferred stock, \$0.01 par value, 140 shares authorized, none issued or outstanding		
Class A common stock, \$0.01 par value, 1,000,000 shares authorized, 66,370 and 66,417 shares issued and outstanding as of June 30, 2009 and December 31, 2008, respectively	0.7	0.7
Class B common stock, \$0.01 par value, 3 shares authorized, issued and outstanding		
Additional paid-in capital	17,136.5	17,128.5
Retained earnings	1,988.0	1,719.7

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Accumulated other comprehensive loss	(143.9)	(160.3)
Total Shareholders' Equity	18,981.3	18,688.6
Total Liabilities and Shareholders' Equity	\$ 38,531.2	\$ 48,158.7

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(dollars in millions, except per share data; shares in thousands)

(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues				
Clearing and transaction fees	\$ 536.8	\$ 458.5	\$ 1,064.6	\$ 983.6
Quotation data fees	82.1	59.8	167.6	116.6
Processing services	0.1	18.5	0.2	36.0
Access and communication fees	11.5	10.8	23.1	21.3
Other	17.3	15.6	39.4	30.8
Total Revenues	647.8	563.2	1,294.9	1,188.3
Expenses				
Compensation and benefits	88.0	73.6	174.7	146.9
Communications	11.6	12.8	24.0	27.6
Technology support services	11.6	18.1	23.4	35.1
Professional fees and outside services	22.4	16.0	44.0	30.8
Amortization of purchased intangibles	30.5	17.9	63.8	34.1
Depreciation and amortization	30.1	34.5	61.1	68.8
Occupancy and building operations	18.1	17.3	38.2	34.0
Licensing and other fee agreements	21.7	12.0	46.3	25.5
Restructuring	1.4	0.2	4.6	2.0
Other	13.6	17.1	29.6	39.9
Total Expenses	249.0	219.5	509.7	444.7
Operating Income	398.8	343.7	785.2	743.6
Non-Operating Income (Expense)				
Investment income	10.1	12.0	11.9	23.4
Gains (losses) on derivative investments		(13.0)		(15.2)
Securities lending interest income	0.4		2.8	23.6
Securities lending interest and other costs	0.3		(0.1)	(19.3)
Interest and other borrowing costs	(32.6)	(1.4)	(71.1)	(3.7)
Guarantee of exercise right privileges		(3.6)		4.8
Equity in losses of unconsolidated subsidiaries	(1.7)	(4.0)	(2.9)	(7.9)
Other income (expense)	(0.4)	(0.1)	(0.4)	(8.5)
Total Non-Operating Income (Expense)	(23.9)	(10.1)	(59.8)	(2.8)
Income before Income Taxes	374.9	333.6	725.4	740.8
Income tax provision	153.1	132.4	304.5	256.1
Net Income	\$ 221.8	\$ 201.2	\$ 420.9	\$ 484.7

Earnings per Common Share:

Basic	\$ 3.34	\$ 3.69	\$ 6.35	\$ 8.96
Diluted	3.33	3.67	6.33	8.91

Weighted Average Number of Common Shares:

Basic	66,329	54,500	66,316	54,125
Diluted	66,526	54,752	66,470	54,390

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(dollars in millions, except per share data; shares in thousands)

(unaudited)

	Class A Common Stock (Shares)	Class B Common Stock (Shares)	Common Stock and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance at December 31, 2008	66,417	3	\$ 17,129.2	\$ 1,719.7	\$ (160.3)	\$ 18,688.6
Comprehensive income:						
Net income				420.9		420.9
Change in net unrealized loss on securities, net of tax of \$6.0					9.2	9.2
Change in net actuarial loss on defined benefit plans, net of tax of \$0.9					(1.3)	(1.3)
Change in net unrealized loss on derivatives, net of tax of \$2.8					4.4	4.4
Change in foreign currency translation adjustment, net of tax of \$2.6					4.1	4.1
Total comprehensive income						437.3
Cash dividends on common stock of \$2.30 per share				(152.6)		(152.6)
Repurchase of Class A common stock	(139)		(27.0)			(27.0)
Exercise of stock options	74		13.7			13.7
Excess tax benefits from option exercises and restricted stock vesting			1.3			1.3
Vesting of restricted Class A common stock	4					4
Shares issued to Board of Directors	12		2.4			2.4
Shares issued under the Employee Stock Purchase Plan	2		0.7			0.7
Stock-based compensation			16.9			16.9
Balance at June 30, 2009	66,370	3	\$ 17,137.2	\$ 1,988.0	\$ (143.9)	\$ 18,981.3

Table of Contents**CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (continued)**

(dollars in millions, except per share data; shares in thousands)

(unaudited)

	Class A Common Stock (Shares)	Class B Common Stock (Shares)	Common Stock and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance at December 31, 2007	53,278	3	\$ 10,689.3	\$ 1,619.4	\$ (3.1)	\$ 12,305.6
Comprehensive income:						
Net income				484.7		484.7
Change in net actuarial loss on defined benefit plans, net of tax of \$0.2					0.3	0.3
Change in foreign currency translation adjustment, net of tax of \$0.3					0.5	0.5
Total comprehensive income						485.5
Cash dividends on common stock of \$2.30 per share				(125.3)		(125.3)
Class A common stock issued in exchange for BM&FBovespa SA stock	1,189		631.4			631.4
Tax benefit of stock issuance costs related to CBOT Holdings merger			6.4			6.4
Costs in connection with prior year repurchase of Class A common stock			(0.2)			(0.2)
Exercise of stock options	36		4.5			4.5
Excess tax benefits from option exercises and restricted stock vesting			4.9			4.9
Vesting of issued restricted Class A common stock	5					
Shares issued to Board of Directors	5		2.3			2.3
Shares issued under Employee Stock Purchase Plan	2		0.6			0.6
Stock-based compensation			12.7			12.7
Balance at June 30, 2008	54,515	3	\$ 11,351.9	\$ 1,978.8	\$ (2.3)	\$ 13,328.4

Table of Contents**CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions)

(unaudited)

	Six Months Ended June 30,	
	2009	2008
Cash Flows from Operating Activities		
Net income	\$ 420.9	\$ 484.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	16.9	12.7
Amortization of shares issued to Board of Directors	1.3	1.1
Amortization of purchased intangibles	63.8	34.1
Depreciation and amortization	61.1	68.8
Recognition of in-process research and development acquired from Credit Market Analysis Limited		3.7
Allowance for doubtful accounts	(0.1)	
Net accretion of discounts and amortization of premiums on marketable securities	(2.6)	(0.2)
Net accretion of discounts and amortization of debt financing costs	10.4	(0.5)
Guarantee of exercise right privileges		(4.8)
Net loss on derivative instruments		15.2
Equity in losses of unconsolidated subsidiaries	2.9	7.9
Deferred income taxes	(13.0)	(47.3)
Change in assets and liabilities:		
Accounts receivable	(48.3)	(41.8)
Other current assets	(9.6)	1.6
Other assets	(12.0)	(19.5)
Accounts payable	(32.5)	4.0
Income tax payable	1.4	(30.6)
Other current liabilities	(44.2)	10.8
Other liabilities	22.0	4.8
Net Cash Provided by Operating Activities	438.4	504.7
Cash Flows from Investing Activities		
Proceeds from maturities of available-for-sale marketable securities	368.7	116.2
Purchases of available-for-sale marketable securities	(154.8)	(50.5)
Net change in NYMEX securities lending program investments	425.9	
Purchases of property, net	(79.0)	(77.3)
Acquisition of Credit Market Analysis Limited, net of cash received		(93.7)
Merger-related transaction costs		(13.6)
Purchase of derivative related to BM&FBovespa SA investment		(45.2)
Capital contributions to FXMarketSpace Limited	(2.9)	(4.6)
Net Cash Provided by (Used in) Investing Activities	557.9	(168.7)

Table of Contents**CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

(in millions)

(unaudited)

	Six Months Ended June 30,	
	2009	2008
Cash Flows from Financing Activities		
Proceeds (repayments) of commercial paper, net	\$ (968.9)	\$ 1.3
Proceeds from other borrowings, net of issuance costs	743.8	
Net change in NYMEX securities lending program liabilities	(456.8)	
Cash dividends	(152.6)	(125.3)
Repurchase of Class A common stock, including costs	(27.0)	
Proceeds from exercise of stock options	13.7	4.5
Excess tax benefits from option exercises and restricted stock vesting	1.6	5.2
Proceeds from Employee Stock Purchase Plan	0.7	0.6
Net Cash Used in Financing Activities	(845.5)	(113.7)
Net change in cash and cash equivalents	150.8	222.3
Cash and cash equivalents, beginning of period	297.9	845.3
Cash and Cash Equivalents, End of Period	\$ 448.7	\$ 1,067.6
Supplemental Disclosure of Cash Flow Information		
Income taxes paid	\$ 329.6	\$ 328.5
Interest paid (excluding securities lending program)	41.0	3.8
Non-cash investing activities:		
Change in net unrealized securities gains (losses)	15.2	
Change in net unrealized derivatives gains (losses)	7.2	
Non-cash financing activities:		
Fair value of Class A common stock issued in exchange for BM&FBovespa SA stock		631.4
See accompanying notes to unaudited consolidated financial statements.		

Table of Contents**CME GROUP INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****1. Basis of Presentation**

CME Group acquired Credit Market Analysis Limited, a private company incorporated in the United Kingdom, and its three subsidiaries (collectively, CMA) on March 23, 2008. The financial statements and accompanying notes presented in this report include the financial results of CMA beginning on March 24, 2008.

On August 22, 2008, CME Group completed its merger with NYMEX Holdings, Inc. (NYMEX Holdings). The financial statements and accompanying notes presented in this report include the financial results of the former NYMEX Holdings and its subsidiaries beginning on August 23, 2008.

The accompanying interim consolidated financial statements have been prepared by CME Group 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.

The consolidated financial statements consist of CME Group and its subsidiaries (collectively, the company), including Chicago Mercantile Exchange Inc. (CME), Board of Trade of the City of Chicago, Inc. (CBOT), New York Mercantile Exchange, Inc. (NYMEX) and their respective subsidiaries (collectively, the exchange). In the opinion of management, the accompanying consolidated financial statements include all normal recurring adjustments considered necessary to present fairly the financial position of the company at June 30, 2009 and December 31, 2008 and the results of operations and cash flows for the periods indicated. Quarterly results are not necessarily indicative of results for any subsequent period.

The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in CME Group's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 2, 2009.

Certain reclassifications have been made to the 2008 financial statements to conform to the presentation in 2009.

2. Business Combinations

Effective August 22, 2008, CME Group completed its merger with NYMEX Holdings. The company entered into this merger primarily as a means to expand its product base, further leverage its existing operating model, extend its presence in the over-the-counter market and better position itself to compete on a global scale.

Under purchase accounting, CME Group is considered the acquirer of NYMEX Holdings. The preliminary purchase price consists of the following (in millions):

Acquisition of NYMEX Holdings' outstanding common stock:	
In exchange for CME Group's Class A common stock	\$ 5,931.2
In exchange for cash	3,412.6
Fair value of NYMEX Holdings' stock options and restricted stock units assumed	43.7