

CME GROUP INC.
Form 10-Q
November 10, 2008
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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 September 30, 2008

- 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 000-33379

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 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 October 22, 2008 was as follows: 66,980,743 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 July 12, 2007, CBOT Holdings, Inc. (CBOT Holdings) merged with and into Chicago Mercantile Exchange Holdings Inc. (CME Holdings), which in connection with the merger was renamed CME Group Inc. (CME Group). On August 22, 2008, NYMEX Holdings, Inc. (NYMEX Holdings) merged into CME Group. Unless otherwise noted, disclosures of trading volume, revenue and other statistical information include the results of CBOT Holdings beginning on July 13, 2007 and 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 Commodity Exchange, Inc., which were wholly-owned subsidiaries of NYMEX Holdings and became subsidiaries of CME Group on August 22, 2008 when they merged into CME NY Inc., a wholly-owned subsidiary of CME Group;

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

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

Forward-Looking Statements

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 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 and develop strategic relationships and attract new ones;

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

changes in domestic and foreign regulations;

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changes in government policy, including policies relating to common or directed clearing, changes as a result of a combination of the Securities and Exchange Commission (SEC) and the U.S. Commodity Futures Trading Commission, or changes relating to the recently enacted Emergency Economic Stabilization Act of 2008;

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;

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;

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

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

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

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;

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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 our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on February 28, 2008, our Quarterly Report for the quarter ended March 31, 2008, filed with the SEC on May 9, 2008, our Quarterly Report for the quarter ended June 30, 2008, filed with the SEC on August 7, 2008 and Item 1A of this Report.

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.

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.

CME Economic Derivatives are options and forwards geared to seven key U.S. and European economic indicators that traded in an auction format. Clearing and transaction fees on CME Economic Derivative products are based on notional values rather than volume and are minimal relative to other products. Unless otherwise noted, disclosures of trading volume and average rate per contract exclude these products. In July 2007, we discontinued trading in these products.

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

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

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

(in thousands, except per share data)

(unaudited)

	September 30, 2008	December 31, 2007
Assets		
Current Assets:		
Cash and cash equivalents	\$ 582,421	\$ 845,312
Collateral from securities lending, at fair value	909,360	2,862,026
Marketable securities available for sale, including pledged securities of \$83,914 and \$100,061	127,322	203,308
Accounts receivable, net of allowance of \$2,497 and \$1,392	339,941	187,487
Other current assets	92,893	55,900
Cash performance bonds and security deposits	7,506,397	833,022
Total current assets	9,558,334	4,987,055
Property, net of accumulated depreciation and amortization of \$458,861 and \$435,121	660,795	377,452
Intangible assets trading products	16,959,000	7,987,000
Intangible assets other, net	3,443,331	1,796,789
Goodwill	7,765,049	5,049,211
Other assets	868,543	108,690
Total Assets	\$ 39,255,052	\$ 20,306,197
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 53,130	\$ 58,965
Payable under securities lending agreements	947,073	2,862,026
Short-term debt	503,703	164,435
Other current liabilities	598,321	157,615
Cash performance bonds and security deposits	7,506,397	833,022
Total current liabilities	9,608,624	4,076,063
Long-term debt	2,412,817	
Deferred tax liabilities	8,090,348	3,848,240
Other liabilities	114,503	76,257
Total Liabilities	20,226,292	8,000,560
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, 67,090 and 53,278 shares issued and outstanding as of September 30, 2008 and December 31, 2007, respectively	671	533
Class B common stock, \$0.01 par value, 3 shares authorized, issued and outstanding		
Additional paid-in capital	17,314,171	10,688,766
Retained earnings	1,734,404	1,619,440
Accumulated other comprehensive loss	(20,486)	(3,102)

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Total Shareholders' Equity	19,028,760	12,305,637
Total Liabilities and Shareholders' Equity	\$ 39,255,052	\$ 20,306,197

See accompanying notes to unaudited consolidated financial statements.

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

(in thousands, except per share data)

(unaudited)

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Revenues				
Clearing and transaction fees	\$ 558,721	\$ 477,840	\$ 1,542,280	\$ 988,803
Quotation data fees	75,644	45,821	192,281	95,163
Processing services	17,910	17,981	53,944	90,300
Access and communication fees	10,894	10,487	32,194	25,862
Other	17,783	13,093	48,551	26,434
Total Revenues	680,952	565,222	1,869,250	1,226,562
Expenses				
Compensation and benefits	84,581	78,462	231,458	191,591
Communications	11,496	12,044	39,118	29,973
Technology support services	11,929	15,747	47,041	33,284
Professional fees and outside services	16,958	15,046	47,783	36,328
Amortization of purchased intangibles	29,047	15,964	63,158	16,592
Depreciation and amortization	34,087	32,872	102,869	72,661
Occupancy and building operations	18,960	14,647	52,904	32,835
Licensing and other fee agreements	19,253	11,471	44,792	25,300
Restructuring	49	4,512	2,065	4,512
Other	33,821	19,082	73,722	44,925
Total Expenses	260,181	219,847	704,910	488,001
Operating Income	420,771	345,375	1,164,340	738,561
Non-Operating Income (Expense)				
Investment income	17,986	21,027	41,409	57,727
Gains (losses) on derivative investments	7,504	60	(7,758)	60
Securities lending interest income	8,503	23,150	32,147	91,560
Securities lending interest and other costs	(28,906)	(21,710)	(48,211)	(88,801)
Interest and other borrowing costs	(17,884)	(1,420)	(21,590)	(1,444)
Guarantee of exercise right privileges	8,016	(28,499)	12,789	(28,499)
Equity in losses of unconsolidated subsidiaries	(20,057)	(3,663)	(27,927)	(10,054)
Other income (expense)	67		(8,398)	
Total Non-Operating	(24,771)	(11,055)	(27,539)	20,549
Income before Income Taxes	396,000	334,320	1,136,801	759,110
Income tax provision	227,309	132,748	483,380	301,635
Net Income	\$ 168,691	\$ 201,572	\$ 653,421	\$ 457,475

Earnings per Common Share:

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Basic	\$ 2.82	\$ 3.90	\$ 11.66	\$ 11.28
Diluted	2.81	3.87	11.61	11.18
Weighted Average Number of Common Shares:				
Basic	59,870	51,748	56,054	40,556
Diluted	60,086	52,103	56,302	40,920

See accompanying notes to unaudited consolidated financial statements.

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CME GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in thousands, except per share data)

(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	\$ 10,689,299	\$ 1,619,440	\$ (3,102)	\$ 12,305,637
Comprehensive income:						
Net income				653,421		653,421
Change in net unrealized gain on securities, net of tax of \$7,671					(10,871)	(10,871)
Net unrealized loss on derivatives, net of tax of \$484					(748)	(748)
Change in net actuarial loss on defined benefit plans, net of tax of \$241					364	364
Change in foreign currency translation adjustment, net of tax of \$4,134					(6,129)	(6,129)
Total comprehensive income						636,037
Cash dividends on common stock of \$8.45 per share				(538,457)		(538,457)
Class A common stock issued in exchange for BM&F Bovespa SA stock	1,189		631,394			631,394
Class A common stock issued in NYMEX Holdings merger, including vested stock options, restricted stock units and stock issuance costs	12,566		5,963,347			5,963,347
Tax benefit of stock issuance costs related to CBOT Holdings merger			6,385			6,385
Repurchase of Class A common stock	(62)		(24,003)			(24,003)
Exercise of stock options	106		11,391			11,391
Excess tax benefits from option exercises and restricted stock vesting			7,614			7,614
Vesting of issued restricted Class A common stock	6					
Shares issued to Board of Directors	5		2,464			2,464
Shares issued under Employee Stock Purchase Plan	2		651			651
Stock-based compensation			26,300			26,300
Balance at September 30, 2008	67,090	3	\$ 17,314,842	\$ 1,734,404	\$ (20,486)	\$ 19,028,760

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CME GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (continued)

(in thousands, except per share data)

(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, 2006	34,836	3	\$ 405,862	\$ 1,116,209	\$ (2,979)	\$ 1,519,092
Cumulative effect of adopting FIN No. 48				(3,720)		(3,720)
Balance at January 1, 2007	34,836	3	405,862	1,112,489	(2,979)	1,515,372
Net income				457,475		457,475
Change in net unrealized loss on securities, net of tax of \$967					1,469	1,469
Change in net actuarial loss on defined benefit plans, net of tax of \$838					(1,254)	(1,254)
Change in foreign currency translation adjustment, net of tax of \$370					561	561
Total comprehensive income						458,251
Cash dividends on common stock of \$2.58 per share				(105,749)		(105,749)
Class A common stock issued in CBOT Holdings merger, including stock options and restricted stock assumed and stock issuance costs	19,816		11,126,094			11,126,094
Repurchase of Class A common stock	(1,695)		(950,604)			(950,604)
Exercise of stock options	200		25,192			25,192
Excess tax benefits from option exercises and restricted stock vesting			23,815			23,815
Vesting of issued restricted Class A common stock	6					
Shares issued to Board of Directors	4		2,143			2,143
Shares issued under Employee Stock Purchase Plan	1		662			662
Stock-based compensation			16,219			16,219
Balance at September 30, 2007	53,168	3	\$ 10,649,383	\$ 1,464,215	\$ (2,203)	\$ 12,111,395

See accompanying notes to unaudited consolidated financial statements.

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

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2008	2007
Cash Flows from Operating Activities:		
Net income	\$ 653,421	\$ 457,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	26,300	16,219
Amortization of shares issued to Board of Directors	1,706	1,161
Amortization of purchased intangibles	63,158	16,592
Depreciation and amortization	102,869	72,661
Recognition of in-process research and development acquired from Credit Market Analysis Limited	3,650	
Allowance for doubtful accounts	573	(40)
Net accretion of discounts and amortization of premiums on marketable securities	(210)	(821)
Net accretion of discounts and amortization of financing costs on debt	2,261	274
Loss on sale of metals trading products	2,780	
Net loss on derivative investments	7,758	
Impairment of securities lending assets	21,746	
Impairment of goodwill and intangible assets	14,136	
Guarantee of exercise right privileges	(12,789)	28,499
Equity in losses of unconsolidated subsidiaries	27,927	10,054
Deferred income taxes	(32,179)	(49,160)
Change in assets and liabilities:		
Accounts receivable	(25,916)	(60,877)
Other current assets	60,163	2,537
Other assets	(16,729)	(4,554)
Accounts payable	6,073	(1,548)
Other current liabilities	(91,334)	2,539
Income taxes payable	22,889	67,565
Other liabilities	24,459	12,986
Net Cash Provided by Operating Activities	862,712	571,562
Cash Flows from Investing Activities:		
Proceeds from maturities of marketable securities	254,112	685,250
Purchases of marketable securities	(168,392)	(629,071)
Net change in NYMEX securities lending program investments	119,258	
Purchases of property, net	(119,398)	(89,993)
Cash acquired in merger with CBOT Holdings Inc.		116,187
Acquisition of Credit Market Analysis Limited, net of cash received	(94,228)	
Acquisition of NYMEX Holdings, Inc., net of cash received	(2,769,894)	
NYMEX membership rights payment	(612,000)	
Merger-related transaction costs	(17,536)	(40,626)
Purchase of exercise right privileges		(39,750)
Purchase of derivative related to BM&F Bovespa SA investment	(45,195)	
Proceeds from sale of metals trading products	15,000	
Capital contributions to FXMarketSpace Limited	(7,157)	(14,452)
Contingent consideration for Liquidity Direct Technology, LLC assets		(3,059)

Net Cash Used in Investing Activities	(3,445,430)	(15,514)
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Table of Contents**CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2008	2007
Cash Flows from Financing Activities:		
Proceeds from issuance of commercial paper, net of maturities	\$ 1,035,002	\$ 164,147
Proceeds from other borrowings, net of issuance costs	2,883,888	
Repayment of other borrowings	(1,282,909)	
Net change in NYMEX securities lending program liabilities	(119,258)	
Cash dividends	(202,739)	(105,749)
Stock issuance costs in merger with CBOT Holdings		(15,991)
Repurchase of Class A common stock	(14,157)	(949,340)
Proceeds from exercise of stock options	11,391	25,192
Excess tax benefits related to employee option exercises and restricted stock vesting	7,958	32,561
Proceeds from Employee Stock Purchase Plan	651	662
Net Cash Provided by (Used in) Financing Activities	2,319,827	(848,518)
Net change in cash and cash equivalents	(262,891)	(292,470)
Cash and cash equivalents, beginning of period	845,312	969,504
Cash and Cash Equivalents, End of Period	\$ 582,421	\$ 677,034
Supplemental Disclosure of Cash Flow Information:		
Income taxes paid, net of refunds	\$ 459,585	\$ 253,461
Interest paid (excluding interest for securities lending)	6,936	943
Non-cash investing activities:		