

CME GROUP INC.
Form 10-Q
August 07, 2008
Table of Contents

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, 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 or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 23, 2008 was as follows: 54,551,754 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

CME GROUP INC.

FORM 10-Q

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	2
Item 1. <u>Financial Statements</u>	4
<u>Consolidated Balance Sheets at June 30, 2008 and December 31, 2007</u>	4
<u>Consolidated Statements of Income for the Quarter and Six Months Ended June 30, 2008 and 2007</u>	5
<u>Consolidated Statements of Shareholders' Equity for the Six Months Ended June 30, 2008 and 2007</u>	6
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2008 and 2007</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	29
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	30
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	31
Item 6. <u>Exhibits</u>	33
<u>SIGNATURES</u>	34

Table of Contents

PART I. FINANCIAL INFORMATION

Effective 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 named CME Group Inc. Unless otherwise noted, disclosures of trading volume, revenue and other statistical information include the results of CBOT Holdings and its subsidiaries beginning on July 13, 2007.

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 obtain the required approvals and to satisfy the closing conditions for our proposed merger with NYMEX Holdings, Inc. (NYMEX Holdings) and our ability to realize the benefits and control the costs of the proposed transaction;

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 attract new ones;

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 or changes as a result of a combination of the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission;

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

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

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;

Table of Contents

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;

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, and Item 1A 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.

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.

In this Quarterly Report on Form 10-Q, we refer to our cash earnings, a non-GAAP number. A reconciliation of our cash earnings to net income for the six months ended June 30, 2008 and 2007 is set forth on page 28.

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On March 17, 2008, we entered into that certain Agreement and Plan of Merger, as amended, with CME NY Inc., NYMEX Holdings and New York Mercantile Exchange, Inc. On July 31, 2008, NYMEX Holdings announced its results for the second quarter ended June 30, 2008. Information made available on NYMEX Holdings Web site, including but not limited to its filings with the SEC, do not constitute a part of this report.

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

(in thousands, except per share data)

(unaudited)

	June 30, 2008	December 31, 2007
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,067,644	\$ 845,312
Collateral from securities lending		2,862,026
Marketable securities available for sale, including pledged securities of \$84,274 and \$100,061	138,484	203,308
Accounts receivable, net of allowance of \$1,422 and \$1,392	237,346	187,487
Other current assets	85,858	55,900
Cash performance bonds and security deposits	971,560	833,022
Total current assets	2,500,892	4,987,055
Property, net of accumulated depreciation and amortization of \$430,574 and \$435,121	389,828	377,452
Intangible assets trading products	7,987,000	7,987,000
Intangible assets other, net	1,804,467	1,796,789
Goodwill	5,108,034	5,049,211
Other assets	772,411	108,690
Total Assets	\$ 18,562,632	\$ 20,306,197
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	\$ 63,198	\$ 58,965
Payable under securities lending agreements		2,862,026
Short-term debt	164,938	164,435
Other current liabilities	147,074	157,615
Cash performance bonds and security deposits	971,560	833,022
Total current liabilities	1,346,770	4,076,063
Deferred tax liabilities	3,809,926	3,848,240
Other liabilities	77,567	76,257
Total Liabilities	5,234,263	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, 54,515 and 53,278 shares issued and outstanding as of June 30, 2008 and December 31, 2007, respectively	545	533
Class B common stock, \$0.01 par value, 3 shares authorized, issued and outstanding		
Additional paid-in capital	11,351,394	10,688,766
Retained earnings	1,978,779	1,619,440
Accumulated other comprehensive loss	(2,349)	(3,102)

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Total Shareholders' Equity	13,328,369	12,305,637
Total Liabilities and Shareholders' Equity	\$ 18,562,632	\$ 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 June 30, 2008	2007	Six Months Ended June 30, 2008	2007
Revenues				
Clearing and transaction fees	\$ 458,492	\$ 252,722	\$ 983,559	\$ 510,963
Quotation data fees	59,872	24,326	116,637	49,342
Processing services	18,552	37,560	36,034	72,319
Access and communication fees	10,761	7,712	21,300	15,375
Other	15,511	6,689	30,768	13,341
Total Revenues	563,188	329,009	1,188,298	661,340
Expenses				
Compensation and benefits	73,588	56,729	146,877	113,129
Communications	12,850	8,850	27,622	17,929
Technology support services	18,118	8,645	35,112	17,537
Professional fees and outside services	16,074	12,110	30,825	21,282
Amortization of purchased intangibles	17,901	322	34,111	628
Depreciation and amortization	34,467	20,106	68,782	39,789
Occupancy and building operations	17,211	9,361	33,944	18,188
Licensing and other fee agreements	12,049	6,794	25,539	13,829
Restructuring	236		2,016	
Other	17,234	13,848	41,349	26,178
Total Expenses	219,728	136,765	446,177	268,489
Operating Income	343,460	192,244	742,121	392,851
Non-Operating Income (Expense)				
Investment income	12,049	19,395	23,423	36,700
Gains (losses) on derivative investments	(13,065)		(15,262)	
Securities lending interest income		35,520	23,644	68,410
Securities lending interest expense		(34,331)	(18,219)	(66,756)
Interest expense	(1,240)	(24)	(3,344)	(24)
Guarantee of exercise right privileges	(3,624)		4,773	
Equity in losses of unconsolidated subsidiaries	(3,941)	(3,371)	(7,870)	(6,391)
Other expenses	(75)		(8,465)	
Total Non-Operating	(9,896)	17,189	(1,320)	31,939
Income before Income Taxes	333,564	209,433	740,801	424,790
Income tax provision	132,382	83,558	256,071	168,887
Net Income	\$ 201,182	\$ 125,875	\$ 484,730	\$ 255,903
Earnings per Common Share:				
Basic	\$ 3.69	\$ 3.61	\$ 8.96	\$ 7.34
Diluted	3.67	3.57	8.91	7.26
Weighted Average Number of Common Shares:				

Basic