

CME GROUP INC.  
Form 10-Q  
May 08, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2012

- 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)

Delaware

(State or other jurisdiction of  
incorporation or organization)

36-4459170

(I.R.S. Employer  
Identification No.)

20 South Wacker Drive, Chicago, Illinois

(Address of principal executive offices)

(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 Web site, 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 definitions 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  (Do not check if a smaller reporting company) 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 April 18, 2012 was as follows: 66,462,439 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

### Certain Terms

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 Inc. (CME Group) products include references to products on one of its regulated exchanges: Chicago Mercantile Exchange Inc. (CME), Board of Trade of the City of Chicago, Inc. (CBOT), New York Mercantile Exchange, Inc. (NYMEX) and Commodity Exchange, Inc. (COMEX). Products listed on these exchanges are subject to the rules and regulations of the particular exchange and the applicable rulebook should be consulted. Unless otherwise indicated, references to NYMEX include its subsidiary, COMEX. 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 Quarterly Report on Form 10-Q.

### Information about Contract Volume and Average Rate per Contract

Disclosed amounts of contract volume and average rate per contract exclude our TRAKRS, credit default swaps, interest rate swaps and CME Clearing Europe contracts.

### Trademark Information

CME Group is a trademark of CME Group Inc. The Globe logo, CME, Chicago Mercantile Exchange, 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. Dow Jones and Dow Jones Indexes are service marks of Dow Jones Trademark Holdings, LLC, and have been licensed to CME Group Index Services LLC. Green Exchange, The Green Exchange and Design, and GreenX are trademarks of Green Exchange LLC. All other trademarks are the property of their respective owners.

### Forward-Looking Statements

From time to time, in this Quarterly Report on Form 10-Q as well as in other written reports and verbal 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 similar 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:

- 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, implementation and maintenance 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, including our ability to provide effective services to the over-the-counter market;
- our ability to adjust our fixed costs and expenses if our revenues decline;
- our ability to maintain existing customers, develop strategic relationships and attract new customers;
- our ability to expand and offer our products outside the United States;
- changes in domestic and non-U.S. regulations;
- changes in government policy, including policies relating to common or directed clearing and changes as a result of legislation stemming from the implementation of the Dodd-Frank Act;
- 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, the state of the overall economy or declines in subscriptions;  
changes in our average 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, including  
our ability to prevent errors and misconduct and protect our infrastructure against security breaches and  
misappropriation of our intellectual property assets;  
changes in price levels and volatility in the derivatives markets and in underlying fixed income, equity, foreign  
exchange, interest rate and commodities markets;  
economic, political and market conditions, including the volatility of the capital and credit markets and the impact of  
economic conditions on the trading activity of our current and potential customers stemming from the financial crisis  
that began in 2008 and any other future crises;  
our ability to accommodate increases in trading volume and order transaction traffic without failure or degradation of  
the performance of our trading and clearing 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 or user fee on futures and options on futures transactions and/or repeal of the 60/40  
tax treatment of such transactions;  
the unfavorable resolution of material legal proceedings; and  
the seasonality of the futures business.

For a detailed discussion of these and other factors that might affect our performance, see Item 1A. of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 27, 2012 and Item 1A. of this Report.

## ITEM 1. FINANCIAL STATEMENTS

## CME GROUP INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(dollars in millions, except par value data; shares in thousands)

(unaudited)

	March 31, 2012	December 31, 2011
Assets		
Current Assets:		
Cash and cash equivalents	\$1,061.7	\$1,042.3
Marketable securities	45.4	47.6
Accounts receivable, net of allowance of \$1.0 and \$1.3	360.0	289.4
Other current assets (includes \$0 and \$40.0 in restricted cash)	149.7	232.6
Cash performance bonds and guaranty fund contributions	7,737.8	9,333.9
Total current assets	9,354.6	10,945.8
Property, net of accumulated depreciation and amortization of \$598.6 and \$576.3	816.5	821.9
Intangible assets—trading products	17,040.5	17,040.5
Intangible assets—other, net	3,280.3	3,312.8
Goodwill	7,984.7	7,984.0
Other assets (includes \$60.5 and \$20.5 in restricted cash)	812.5	653.7
Total Assets	\$39,289.1	\$40,758.7
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$29.0	\$31.1
Other current liabilities	343.1	250.2
Cash performance bonds and guaranty fund contributions	7,737.8	9,333.9
Total current liabilities	8,109.9	9,615.2
Long-term debt	2,107.2	2,106.8
Deferred income tax liabilities, net	7,256.5	7,226.8
Other liabilities	196.4	187.6
Total Liabilities	17,670.0	19,136.4
Redeemable non-controlling interest	70.0	70.3
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, 66,194 and 66,128 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively	0.7	0.7
Class B common stock, \$0.01 par value, 3 shares authorized, issued and outstanding	—	—
Additional paid-in capital	17,140.0	17,115.1
Retained earnings	4,243.6	4,324.6
Accumulated other comprehensive income (loss)	164.8	111.6

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Total Shareholders' Equity	21,549.1	21,552.0
Total Liabilities and Shareholders' Equity	\$39,289.1	\$40,758.7

See accompanying notes to unaudited consolidated financial statements.



CME GROUP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(dollars in millions, except per share data; shares in thousands)  
(unaudited)

	Quarter Ended March 31	
	2012	2011
Revenues		
Clearing and transaction fees	\$621.1	\$691.3
Market data and information services	114.2	107.0
Access and communication fees	19.7	11.5
Other	19.6	21.8
Total Revenues	774.6	831.6
Expenses		
Compensation and benefits	135.1	122.3
Communications	10.3	9.9
Technology support services	12.8	12.0
Professional fees and outside services	32.2	30.7
Amortization of purchased intangibles	32.8	33.2
Depreciation and amortization	34.9	31.0
Occupancy and building operations	20.3	19.4
Licensing and other fee agreements	20.7	23.5
Other	24.3	25.5
Total Expenses	323.4	307.5
Operating Income	451.2	524.1
Non-Operating Income (Expense)		
Investment income	12.1	18.8
Gains (losses) on derivative investments	—	(0.1 )
Interest and other borrowing costs	(29.1 )	(30.1 )
Equity in net losses of unconsolidated subsidiaries	(0.8 )	(1.1 )
Total Non-Operating	(17.8 )	(12.5 )
Income before Income Taxes	433.4	511.6
Income tax provision	167.1	54.5
Net Income	266.3	457.1
Less: net income (loss) attributable to redeemable non-controlling interest	(0.3 )	0.5
Net Income Attributable to CME Group	\$266.6	\$456.6
Earnings per Common Share Attributable to CME Group:		
Basic	\$4.03	\$6.83
Diluted	4.02	6.81
Weighted Average Number of Common Shares:		
Basic	66,163	66,857
Diluted	66,370	67,062
See accompanying notes to unaudited consolidated financial statements.		

CME GROUP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(in millions)  
(unaudited)

	Quarter Ended March 31	
	2012	2011
Net income	\$266.3	\$457.1
Other comprehensive income, net of tax		
Investment securities:		
Net unrealized holding gains arising during the period	99.1	372.6
Income tax benefit (expense)	(48.2)	(106.4)
Investment securities, net	50.9	266.2
Defined benefit plans:		
Net change in defined benefit plans arising during the period	0.5	(2.8)
Amortization of net actuarial (gains) losses included in pension expense	0.6	—
Income tax benefit (expense)	(0.4)	1.1
Defined benefit plans, net	0.7	(1.7)
Derivative instruments:		
Net unrealized holding losses arising during the period	—	0.4
Amortization of effective portion of loss on cash flow hedge	0.2	0.1
Income tax benefit (expense)	(0.1)	(0.2)
Derivative instruments, net	0.1	0.3
Foreign currency translation:		
Foreign currency translation adjustments	2.4	97.6
Income tax benefit (expense)	(0.9)	(13.4)
Foreign currency translation, net	1.5	84.2
Other comprehensive income, net of tax	53.2	349.0
Comprehensive income	319.5	806.1
Less: comprehensive income attributable to redeemable non-controlling interest	(0.3)	0.5
Comprehensive income attributable to CME Group	\$319.8	\$805.6

See accompanying notes to unaudited consolidated financial statements.

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, 2011	66,128	3	\$17,115.8	\$4,324.6	\$ 111.6	\$21,552.0
Net income attributable to CME Group				266.6		266.6
Other comprehensive income attributable to CME Group					53.2	53.2
Dividends on common stock of \$5.23 per share				(347.6 )		(347.6 )
Exercise of stock options	64		7.9			7.9
Excess tax benefits from option exercises and restricted stock vesting			2.8			2.8
Vesting of issued restricted Class A common stock	2		(0.1 )			(0.1 )
Stock-based compensation			14.3			14.3
Balance at March 31, 2012	66,194	3	\$17,140.7	\$4,243.6	\$ 164.8	\$21,549.1

See accompanying notes to unaudited consolidated financial statements.

## 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, 2010	66,847	3	\$17,278.4	\$2,885.8	\$ (104.1 )	\$20,060.1
Net income attributable to CME Group				456.6		456.6
Other comprehensive income attributable to CME Group					349.0	349.0
Dividends on common stock of \$1.40 per share				(93.6 )		(93.6 )
Exercise of stock options	14		3.2			3.2
Vesting of issued restricted Class A common stock	1		0.2			0.2
Stock-based compensation			12.0			12.0
Balance at March 31, 2011	66,862	3	\$17,293.8	\$3,248.8	\$ 244.9	\$20,787.5

See accompanying notes to unaudited consolidated financial statements.

CME GROUP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in millions)  
(unaudited)

	Quarter Ended March 31	
	2012	2011
Cash Flows from Operating Activities		
Net income	\$266.3	\$457.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	14.3	12.0
Amortization of purchased intangibles	32.8	33.2
Depreciation and amortization	34.9	31.0
Amortization of debt financing costs and discount accretion	—	1.9
Equity in net losses of unconsolidated subsidiaries	0.8	1.1
Deferred income taxes	(19.2)	(152.1)
Change in:		
Accounts receivable	(70.3)	(96.4)
Other current assets	1.7	(1.0)
Other assets	4.7	(19.5)
Accounts payable	(2.1)	6.3
Income taxes payable	174.9	157.2
Other current liabilities	(45.2)	(71.0)
Other liabilities	2.3	2.4
Other	(0.3)	(0.1)
Net Cash Provided by Operating Activities	395.6	362.1
Cash Flows from Investing Activities		
Proceeds from maturities of available-for-sale marketable securities	9.1	5.5
Purchases of available-for-sale marketable securities	—	(5.1)
Purchases of property, net	(26.7)	(41.4)
Investment in DME Holdings Limited	(22.8)	—
Other	—	(0.6)
Net Cash Used in Investing Activities	(40.4)	(41.6)
Cash Flows from Financing Activities		
Repayment of other borrowings	—	(420.5)
Cash dividends	(346.5)	(93.6)
Proceeds from exercise of stock options	7.9	3.2
Excess tax benefits related to employee option exercises and restricted stock vesting	2.8	—
Other	—	(0.1)
Net Cash Used in Financing Activities	(335.8)	(511.0)

See accompanying notes to unaudited consolidated financial statements.



CME GROUP INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)  
 (in millions)  
 (unaudited)

	Quarter Ended March 31	
	2012	2011
Net change in cash and cash equivalents	\$19.4	\$(190.5 )
Cash and cash equivalents, beginning of period	1,042.3	855.2
Cash and Cash Equivalents, End of Period	\$1,061.7	\$664.7
Supplemental Disclosure of Cash Flow Information		
Income taxes paid	\$3.8	\$7.0
Interest paid	55.3	56.6
Non-cash investing activities:		
Change in net unrealized securities gains	99.1	372.6
See accompanying notes to unaudited consolidated financial statements.		

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation

The consolidated financial statements consist of CME Group Inc. (CME Group) and its subsidiaries (collectively, the company), including Chicago Mercantile Exchange Inc. (CME), the Board of Trade of the City of Chicago, Inc. (CBOT), New York Mercantile Exchange, Inc. (NYMEX) and their respective subsidiaries (collectively, the exchange).

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. 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 March 31, 2012 and December 31, 2011 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, 2011, filed with the Securities and Exchange Commission (SEC) on February 27, 2012.

## 2. Intangible Assets and Goodwill

Intangible assets consisted of the following at March 31, 2012 and December 31, 2011:

(in millions)	March 31, 2012			December 31, 2011		
	Assigned Value	Accumulated Amortization	Net Book Value	Assigned Value	Accumulated Amortization	Net Book Value
Amortizable Intangible Assets:						
Clearing firm, market data and other customer relationships	\$3,071.9	\$(427.5)	\$2,644.4	\$3,071.9	\$(400.4)	\$2,671.5
Lease-related intangibles	83.2	(48.3)	34.9	83.2	(45.4)	37.8
Technology-related intellectual property	56.2	(31.1)	25.1	56.2	(28.4)	27.8
Other <sup>(1)</sup>	9.8	(9.2)	0.6	11.6	(10.6)	1.0
	3,221.1	(516.1)	2,705.0	3,222.9	(484.8)	2,738.1
Foreign currency translation adjustments	(7.5)	5.2	(2.3)	(8.8)	5.9	(2.9)
Total amortizable intangible assets	\$3,213.6	\$(510.9)	2,702.7	\$3,214.1	\$(478.9)	2,735.2
Indefinite-Lived Intangible Assets:						
Trade names			578.0			578.0
Foreign currency translation adjustments			(0.4)			(0.4)
Total intangible assets – other, net			\$3,280.3			\$3,312.8
Trading products <sup>(2)</sup>			\$17,040.5			\$17,040.5

At March 31, 2012, other amortizable intangible assets consisted of market maker agreements and a definite-lived (1) trade name. At December 31, 2011, other amortizable intangible assets consisted of service and market maker agreements and a definite-lived trade name.

Trading products represent futures and options products acquired in our business combinations with CBOT Holdings, Inc. (CBOT Holdings) and NYMEX Holdings, Inc. (NYMEX Holdings). Clearing and transaction fees (2) revenues are generated through the trading of these products. These trading products, most of which have traded for decades, require authorization from the Commodity and Futures Trading Commission (CFTC). Product authorizations from the CFTC have no term limits.



In April 2012, the company sold two buildings in Chicago and leased back a portion of the property. As part of the sale, the company sold the rights to the existing leases with the building. Certain related intangible assets with an estimated net book value of \$16.6 million were sold as part of the sale-leaseback transaction.

Total amortization expense for intangible assets was \$32.8 million and \$33.2 million for the quarters ended March 31, 2012 and

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2011, respectively. As of March 31, 2012, the future estimated amortization expense related to amortizable intangible assets is expected to be as follows. The future estimated amortization expense is subject to change based on changes in foreign exchange rates.

(in millions)	Amortization Expense
Remainder of 2012	\$93.6
2013	120.2
2014	118.6
2015	114.6
2016	109.3
2017	109.1
Thereafter	2,037.3

Goodwill activity consisted of the following for the quarter ended March 31, 2012 and the year ended December 31, 2011:

(in millions)	Balance at December 31, 2011	Other Activity <sup>(3)</sup>	Balance at March 31, 2012
CBOT Holdings	\$5,035.7	\$—	\$5,035.7
NYMEX Holdings	2,462.2	—	2,462.2
Index Services <sup>(4)</sup>	434.5	—	434.5
Other	51.6	0.7	52.3
Total goodwill	\$7,984.0	\$0.7	\$7,984.7

(in millions)	Balance at December 31, 2010	Other Activity <sup>(3)</sup>	Balance At December 31, 2011
CBOT Holdings	\$5,035.7	\$—	\$5,035.7
NYMEX Holdings	2,462.3	(0.1 )	2,462.2
Index Services	435.6	(1.1 )	434.5
Other	50.0	1.6	51.6
Total goodwill	\$7,983.6	\$0.4	\$7,984.0

<sup>(3)</sup> Other activity includes adjustments to tax contingencies, the recognition of excess tax benefits upon exercise of stock options and foreign currency translation adjustments.

<sup>(4)</sup> Index Services refers to CME Group Index Services LLC.

### 3. Debt

Long-term debt consisted of the following at March 31, 2012 and December 31, 2011:

(in millions)	March 31, 2012	December 31, 2011
\$750.0 million fixed rate notes due August 2013, interest equal to 5.40%	\$749.3	\$749.2
\$750.0 million fixed rate notes due February 2014, interest equal to 5.75%	748.2	748.0
\$612.5 million fixed rate notes due March 2018, interest equal to 4.40% <sup>(1)</sup>	609.7	609.6
Total long-term debt	\$2,107.2	\$2,106.8

In February 2010, the company entered into a forward-starting interest rate swap agreement that modified the (1) interest obligation associated with these notes so that the interest payable effectively became fixed at a rate of 4.46% at issuance on March 18, 2010.

There was no commercial paper outstanding at March 31, 2012 or December 31, 2011. As of March 31, 2012, the most recent commercial paper issuance was in March 2011. During the first quarter of 2011, the weighted average balance, at par value, of commercial paper outstanding was \$124.3 million. In the first quarter of 2011, the maximum month-end balance for commercial paper was \$200.0 million in January.

Long-term debt maturities, at par value, were as follows as of March 31, 2012:

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(in millions)	Par Value
2013	\$750.0
2014	750.0
2015	—
2016	—
2017	—
Thereafter	612.5

The fair values of the fixed rate notes due 2013 and 2014 were estimated using quoted market prices and are considered level 2 liabilities under the three-level classification hierarchy of fair value measurements. The fair value of the fixed rate notes due 2018 was derived using a standard valuation model with market-based observable inputs including U.S. Treasury yields and interest rate spreads, which is considered a level 3 liability. For further information on the three-level classification hierarchy of fair value measurements, see note 6. At March 31, 2012, the fair values of the fixed rate notes were as follows:

(in millions)	Fair Value
\$750.0 million fixed rate notes due August 2013	\$796.2
\$750.0 million fixed rate notes due February 2014	818.8
\$612.5 million fixed rate notes due March 2018	663.8

#### 4. Contingencies

**Legal and Regulatory Matters.** In 2008, Fifth Market, Inc. (Fifth Market) filed a complaint against CME Group and CME seeking a permanent injunction against CME's Globex system and unquantified enhanced damages for what the plaintiff alleges is willful infringement of two U.S. patents, in addition to costs, expenses and attorneys' fees. In March 2012, the U.S. Patent and Trademark Office (USPTO) issued an Office Action that rejected all of the claims in the first patent. Fifth Market has an opportunity to reply and appeal the decision from the USPTO. Based on its investigation to date and advice from legal counsel, the company believes this suit is without merit and intends to defend itself vigorously against these charges.

In 2009, CME and CBOT filed a complaint against Howard Garber seeking a declaratory judgment that neither CME nor CBOT infringed Mr. Garber's patent and that his patent is invalid and unenforceable. In 2009, Technology Research Group LLC (Technology Research), the current owner of the patent at issue, filed counterclaims alleging that CME and CBOT willingly infringe or induce or contribute to the infringement of its patent. Technology Research is seeking damages in an amount no less than a reasonable royalty. In March 2012, the USPTO issued an Office Action that rejected all of the claims in the patent. Mr. Garber has an opportunity to reply and appeal the decision from the USPTO. Based on its investigation to date and advice from legal counsel, the company believes this suit is without merit and intends to defend itself vigorously against these charges.

In 2009, Realtime Data LLC (Realtime) filed a complaint against CME Group and other exchanges alleging willful infringement of four patents which was later amended to add CBOT and NYMEX as defendants. Subsequently, two additional lawsuits have been filed each adding a claim for the infringement of an additional patent. Both of these lawsuits have been consolidated with the original action. Realtime is seeking a permanent injunction, unquantified enhanced damages, attorneys' fees and costs. Based on its investigation to date and advice from legal counsel, the company believes this suit is without merit and intends to defend itself vigorously against these charges.

The foregoing legal matters involve alleged infringements of intellectual property, which due to their nature involve potential liability that is uncertain, difficult to quantify and involve a wide range of potential outcomes. The company believes that the matters are without merit and intends to defend itself vigorously against the claims. We expect the re-examinations by the USPTO in the Fifth Market and Garber matters and the potential appeals of its decisions to result in a determination of the validity of the patents at issue which we expect will have an impact on the merits of the matters.

CME has been named as a defendant in several lawsuits stemming from the MF Global Inc. (MF Global) matter. A number of suits have been filed in federal court in New York on behalf of all commodity account holders or customers of MF Global that had not received a return of 100% of their funds. CME is among the defendants in these actions.

Claims against CME are for aiding and abetting breach of fiduciary duty and aiding and abetting tortious conduct. Unspecified damages along with treble and punitive damages are sought. We expect these suits, along with several other lawsuits related to MF Global in which CME is not named as a defendant, to be consolidated in federal court in New York. Based on our analysis, we believe that we have strong legal and factual defenses to the claims. Given that these matters are in the very early stage, at this time the company is unable to estimate the reasonably possible loss or range of reasonably possible loss in the unlikely event it were found to be liable in these matters. In the normal course of business, the company discusses matters with its regulators that either arise during regulatory

examinations or are otherwise subject to the regulator's inquiry and oversight. These matters could result in censures, fines, penalties or other sanctions. Management believes the outcome of any resulting actions will not have a material impact on its consolidated financial position or results of operations. However, the company is unable to predict the outcome or the timing of the ultimate resolution of these matters, or the potential fines, penalties or injunctive or other equitable relief, if any, that may result from these matters.

In addition, the company is a defendant in, and has potential for, various other legal proceedings arising from its regular business activities. While the ultimate results of such proceedings against the company cannot be predicted with certainty, the company believes that the resolution of any of these matters on an individual basis will not have a material impact on its consolidated financial position or results of operations. At March 31, 2012 and December 31, 2011, the company had accrued \$12.8 million for legal and regulatory matters that were probable and estimable. Intellectual Property Indemnifications. Certain agreements with customers and other third parties related to accessing the CME Globex platform, the CME ClearPort platform, and/or the Clearing 21 platform; utilizing market data services; licensing CME SPAN software; and calculating indexes as a service provider and licensing indexes as the basis of financial products may contain indemnifications from intellectual property claims that may be made against them as a result of their use of the applicable products and/or services. The potential future claims relating to these indemnifications cannot be estimated and, therefore, no liability has been recorded.

#### 5. Guarantees

Clearing House Contract Settlement. CME and CME Clearing Europe (CMECE) mark-to-market open positions for most products at least twice a day. Based on values derived from the mark-to-market process, CME and CMECE require payment from clearing firms whose positions have lost value and make payments to clearing firms whose positions have gained value. For select cleared-only markets, positions are marked-to-market once daily, with the capability to mark-to-market more frequently as market conditions warrant. Under the extremely unlikely scenario of simultaneous default by every clearing firm who have open positions with unrealized losses, the maximum exposure related to CME and CMECE's guarantee would be one half day of changes in fair value of all open positions, before considering CME and CMECE's ability to access defaulting clearing firms' performance bond and guaranty fund balances as well as other available resources. During the first quarter of 2012, CME and CMECE transferred an average of approximately \$2.3 billion a day through their clearing systems for settlement from clearing firms whose positions had lost value to clearing firms whose positions had gained value. CME and CMECE reduce the guarantee exposure through initial and maintenance performance bond requirements and mandatory guaranty fund contributions. The company believes that its guarantee liability is immaterial and therefore has not recorded any liability at March 31, 2012.

Mutual Offset Agreement. CME and Singapore Exchange Limited (SGX) have a mutual offset agreement with a current term through October 2012. The term of the agreement will automatically renew for a one-year period unless either party provides advance notice of their intent to terminate. CME can maintain collateral in the form of U.S. Treasury securities or irrevocable letters of credit. At March 31, 2012, CME was contingently liable to SGX on irrevocable letters of credit totaling \$161.0 million. Regardless of the collateral, CME guarantees all cleared transactions submitted through SGX and would initiate procedures designed to satisfy these financial obligations in the event of a default, such as the use of performance bonds and guaranty fund contributions of the defaulting clearing firm.

Cross-Margin Agreements. CME and The Options Clearing Corporation (OCC) have a cross-margin arrangement, whereby a common clearing firm may maintain a cross-margin account in which the clearing firm's positions in certain CME futures and options on futures contracts are combined with certain positions cleared by OCC for purposes of calculating performance bond requirements. The performance bond deposits are held jointly by CME and OCC. If a participating firm defaults, the gain or loss on the liquidation of the firm's open position and the proceeds from the liquidation of the cross-margin account would be allocated 50% each to CME and OCC.

A cross-margin agreement exists with CME and Fixed Income Clearing Corp (FICC) whereby the clearing firms' offsetting positions with CME are subject to reduced margin requirements. Clearing firms maintain separate performance bond deposits with each clearing house, but depending on the net offsetting positions between CME and FICC, each clearing house may reduce the firm's performance bond requirement. In the event of a firm default, the

total liquidation net gain or loss on the firm's offsetting open positions and the proceeds from the liquidation of the performance bond collateral held by each clearing house's supporting offsetting positions would be divided evenly between CME and FICC. Additionally, if, after liquidation of all the positions and collateral of the defaulting firm at each respective clearing organization, and taking into account any cross-margining loss sharing payments, any of the participating clearing organizations has a remaining liquidating surplus, and any other participating clearing organization has a remaining liquidating deficit, any additional surplus from the liquidation would be shared with the other clearing house to the extent that it has a remaining liquidating deficit. Any remaining surplus funds would be passed to the bankruptcy trustee.

MF Global Bankruptcy Guarantee. The company has provided a \$550.0 million financial guarantee to the bankruptcy trustee of MF Global in order to accelerate the distribution of funds to MF Global customers. In the event that the trustee distributed more property than was permitted by the Bankruptcy Code and CFTC regulations to any former MF Global customer on or after November 16, 2011, the company will make a cash payment for the amount of the erroneous distribution up to \$550.0 million to the trustee. A payment will only be made after the trustee makes reasonable efforts to collect the property erroneously distributed to the customer. If a payment is made by the company, the company may have the right to seek reimbursement of the erroneously distributed property from the applicable customer. The guarantee only applies to the second and third bulk distributions that were facilitated by the company. The guarantee does not cover future distributions made directly by the trustee to customers. The company believes that the likelihood of payment to the trustee is remote given the process in place to validate customer distributions. As a result, the guarantee liability is estimated to be immaterial at March 31, 2012.

#### 6. Fair Value Measurements

The company uses a three-level classification hierarchy of fair value measurements for disclosure purposes.

Level 1 inputs, which are considered the most reliable evidence of fair value, consist of quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs consist of observable market data, other than level 1 inputs, such as quoted prices for similar assets and liabilities in active markets or inputs other than quoted prices that are directly observable.

Level 3 inputs consist of unobservable inputs which are derived and cannot be corroborated by market data or other entity-specific inputs.

In general, the company uses quoted prices in active markets for identical assets to determine the fair value of marketable securities and equity investments. Level 1 assets generally include U.S. Treasury securities and exchange-traded mutual funds. If quoted prices are not available to determine fair value, the company uses other inputs that are observable either directly or indirectly. Assets included in level 2 generally consist of U.S. Government agency securities, municipal bonds and asset-backed securities. The level 2 securities were measured at fair value based on matrix pricing using prices of similar securities with similar inputs such as maturity dates, interest rates and credit ratings.

The company determined the fair value of its contingent consideration liability, considered a level 3 liability, using a discounted cash flow model to calculate the present value of future payouts. The liability was included in level 3 because management used significant unobservable inputs, a discount rate of 20% and probability of payout ranging from 85% to 99%. Significant increases or decreases in any of those inputs in isolation would result in a significantly higher or lower fair value.

Financial assets and liabilities recorded in the consolidated balance sheet as of March 31, 2012 were classified in their entirety based on the lowest level of input that was significant to each asset or liability's fair value measurement.

Financial Instruments Measured at Fair Value on a Recurring Basis:

(in millions)	March 31, 2012			Total
	Level 1	Level 2	Level 3	
Assets at Fair Value:				
Marketable securities:				
U.S. Treasury securities	\$5.1	\$—	\$—	\$5.1
Mutual funds	39.5	—	—	39.5
Asset-backed securities	—	0.8	—	0.8
Total	44.6	0.8	—	45.4
Equity investments	652.7	—	—	652.7
Total Assets at Fair Value	\$697.3	\$0.8	\$—	\$698.1
Liabilities at Fair Value:				
Contingent consideration	\$—	\$—	\$10.8	\$10.8
Total Liabilities at Fair Value	\$—	\$—	\$10.8	\$10.8



There were no transfers of assets between level 1 and level 2 during the first quarter of 2012. The following is a reconciliation of assets and liabilities valued at fair value on a recurring basis using significant unobservable inputs (level 3) during the first quarter of 2012.

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(in millions)	Contingent Consideration
Fair value of liability at December 31, 2011	\$10.3
Unrealized changes in fair value:	
Included in operating expense	0.5
Fair value of liability at March 31, 2012	\$10.8

There were no assets or liabilities valued at fair value on a nonrecurring basis using significant unobservable inputs during the first quarter of 2012.

#### 7. Earnings Per Share

Basic earnings per share is computed by dividing net income attributable to CME Group 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 were exercised and restricted stock awards were converted into common stock. Outstanding stock options of approximately 1,052,000 and 694,000 were anti-dilutive for the quarters ended March 31, 2012 and 2011, respectively. There were approximately 2,000 anti-dilutive restricted stock awards for the quarter ended March 31, 2012 and none for the quarter ended March 31, 2011.

(in millions, except shares and per share data)	Quarter Ended March 31	
	2012	2011
Net Income Attributable to CME Group	\$266.6	\$456.6
Weighted Average Number of Common Shares (in thousands):		
Basic	66,163	66,857
Effect of stock options and restricted stock awards	207	205
Diluted	66,370	67,062
Earnings per Common Share Attributable to CME Group:		
Basic	\$4.03	\$6.83
Diluted	4.02	6.81

#### 8. Subsequent Events

The company has evaluated subsequent events through the date the financial statements were issued and has determined that there are no subsequent events that require disclosure except for the following:

In April 2012, the company sold two buildings in Chicago to an unrelated party and leased back a portion of the property under a 15-year lease. The company will retain ownership of an adjacent building, where the financial trading floor and certain office space is located.

In April 2012, the company established the Family Farmer and Rancher Protection Fund. In the event of a future insolvency of a clearing member or market participant causing customer losses, the fund will provide up to \$100.0 million to family farmers and ranchers who hedge their business in CME Group futures markets.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is provided as a supplement to, and should be read in conjunction with, the accompanying unaudited consolidated financial statements and notes in this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2011.

References in this discussion and analysis to "we," "us" and "our" are to CME Group and its consolidated subsidiaries, collectively. References to "exchange" are to Chicago Mercantile Exchange Inc. (CME), Board of Trade of the City of Chicago, Inc. (CBOT), and New York Mercantile Exchange, Inc. (NYMEX), collectively.

RESULTS OF OPERATIONS

Financial Highlights

The following summarizes significant changes in our financial performance for the periods presented.

(dollars in millions, except per share data)	Quarter Ended March 31		
	2012	2011	Change
Total revenues	\$774.6	\$831.6	(7 )%
Total expenses	323.4	307.5	5
Operating margin	58	% 63	%
Non-operating income (expense)	\$(17.8 )	\$(12.5 )	42
Effective tax rate	39	% 11	%
Net income attributable to CME Group	\$266.6	\$456.6	(42 )
Diluted earnings per common share attributable to CME Group	4.02	6.81	(41 )
Cash flows from operating activities	395.6	362.1	9

In the first quarter of 2012 when compared with the same period in 2011, the decrease in revenues was attributable to a decline in clearing and transaction fees revenue due to lower contract volume.

The increase in overall expenses in the first quarter of 2012 compared with the same period in 2011 was due to higher compensation and benefits resulting from salary increases, rising health care costs and increased expense related to our deferred compensation plans. Also, headcount increased due to the expansion of our over-the-counter clearing services and efforts to globalize our business. Depreciation expense related to the build-out of our co-location services also contributed to a rise in overall expenses.

A decline in dividend income contributed to a decrease in non-operating income (expense) in the first quarter of 2012 when compared with the same period in 2011.

In the first quarter of 2011, a change in the state tax apportionment and a reduction in valuation allowances on other unrealized capital losses previously reserved contributed to a lower effective tax rate when compared with the same period in 2012.

Revenues

(dollars in millions)	Quarter Ended March 31		
	2012	2011	Change
Clearing and transaction fees	\$621.1	\$691.3	(10 )%
Market data and information services	114.2	107.0	7
Access and communication fees	19.7		