

CME GROUP INC.
Form 10-Q
November 05, 2010
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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, 2010

- 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 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 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 (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 October 20, 2010 was as follows: 67,011,625 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 exchange-traded 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 Report.

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. All other trademarks are the property of their respective owners.

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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 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 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, and changes resulting from the adoption and implementation of the Dodd-Frank Act and any changes in the regulation of our industry with respect to speculative trading in commodity interests and derivative contracts;

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, the state of the overall economy 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;

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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 recent 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 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 this Report, Item 1A. of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC) on February 26, 2010, and Item 1A. of our Quarterly Report on Form 10-Q, filed with the SEC on August 6, 2010.

Table of Contents**ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CME GROUP INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

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

(unaudited)

	September 30, 2010	December 31, 2009
Assets		
Current Assets:		
Cash and cash equivalents	\$ 568.2	\$ 260.6
Marketable securities	44.3	42.6
Accounts receivable, net of allowance of \$1.0 and \$1.9	333.4	248.3
Other current assets	106.9	165.6
Cash performance bonds and security deposits	2,996.4	5,981.9
Total current assets	4,049.2	6,699.0
Property, net of accumulated depreciation and amortization of \$572.0 and \$546.1	740.6	738.5
Intangible assets trading products	17,038.0	16,982.0
Intangible assets other, net	3,470.5	3,246.5
Goodwill	7,961.0	7,549.2
Other assets	427.2	435.8
Total Assets	\$ 33,686.5	\$ 35,651.0
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	\$ 43.8	\$ 46.7
Short-term debt	420.5	299.8
Other current liabilities	205.5	195.2
Cash performance bonds and security deposits	2,996.4	5,981.9
Total current liabilities	3,666.2	6,523.6
Long-term debt	2,104.4	2,014.7
Deferred tax liabilities, net	7,769.9	7,645.9
Other liabilities	177.4	165.8
Total Liabilities	13,717.9	16,350.0
Redeemable non-controlling interest	67.8	
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, 66,793 and 66,511 shares issued and outstanding as of September 30, 2010 and December 31, 2009	0.7	0.7
Class B common stock, \$0.01 par value, 3 shares authorized, issued and outstanding		

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Additional paid-in capital	17,258.1	17,186.6
Retained earnings	2,766.8	2,239.9
Accumulated other comprehensive income (loss)	(124.8)	(126.2)
Total Shareholders' Equity	19,900.8	19,301.0
Total Liabilities and Shareholders' Equity	\$ 33,686.5	\$ 35,651.0

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		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenues				
Clearing and transaction fees	\$ 598.7	\$ 540.6	\$ 1,860.9	\$ 1,605.2
Market data and information services	101.4	81.4	291.0	249.0
Access and communication fees	11.3	11.4	33.4	34.5
Other	22.0	17.0	55.2	56.6
Total Revenues	733.4	650.4	2,240.5	1,945.3
Expenses				
Compensation and benefits	110.4	87.3	312.3	262.0
Communications	9.8	11.5	30.8	35.5
Technology support services	12.5	11.3	37.4	34.7
Professional fees and outside services	26.1	17.9	82.5	61.9
Amortization of purchased intangibles	32.4	30.7	95.5	94.5
Depreciation and amortization	33.1	32.3	98.1	93.4
Occupancy and building operations	17.0	19.1	57.7	57.3
Licensing and other fee agreements	20.5	21.2	62.8	67.5
Restructuring		0.6	(0.5)	5.2
Other	28.7	17.1	91.2	46.7
Total Expenses	290.5	249.0	867.8	758.7
Operating Income	442.9	401.4	1,372.7	1,186.6
Non-Operating Income (Expense)				
Investment income	12.6	10.5	28.1	22.4
Impairment of long-term investment		(22.4)		(22.4)
Gains (losses) on derivative investments			6.0	
Securities lending interest income				2.8
Securities lending interest and other costs				(0.1)
Interest and other borrowing costs	(35.9)	(32.1)	(105.2)	(103.2)
Equity in losses of unconsolidated subsidiaries	(3.9)	(1.6)	(6.9)	(4.5)
Other income (expense)				(0.4)
Total Non-Operating	(27.2)	(45.6)	(78.0)	(105.4)
Income before Income Taxes	415.7	355.8	1,294.7	1,081.2
Income tax provision	171.4	153.5	539.0	458.0

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Net Income	244.3	202.3	755.7	623.2
Less: net income attributable to redeemable non-controlling interest			0.5	
Net Income Attributable to CME Group	\$ 244.3	\$ 202.3	\$ 755.2	\$ 623.2
Earnings per Common Share Attributable to CME Group:				
Basic	\$ 3.67	\$ 3.05	\$ 11.42	\$ 9.39
Diluted	3.66	3.04	11.39	9.37
Weighted Average Number of Common Shares:				
Basic	66,556	66,384	66,125	66,339
Diluted	66,744	66,573	66,320	66,514
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, 2009	66,511	3	\$ 17,187.3	\$ 2,239.9	\$ (126.2)	\$ 19,301.0
Comprehensive income:						
Net income attributable to CME Group				755.2		755.2
Change in net unrealized loss on securities, net of tax of \$0.9					(3.8)	(3.8)
Change in net actuarial loss on defined benefit plans, net of tax of \$1.0					1.5	1.5
Change in net unrealized loss on derivatives, net of tax of \$2.7					4.1	4.1
Change in foreign currency translation adjustment, net of tax of \$0.2					(0.4)	(0.4)
Total comprehensive income attributable to CME Group						756.6
Cash dividends on common stock of \$3.45 per share				(228.3)		(228.3)
Class A common stock issued to BM&FBOVESPA	2,206		607.1			607.1
Repurchase of Class A common stock	(2,007)		(575.2)			(575.2)
Exercise of stock options	55		6.5			6.5
Excess tax benefits from option exercises and restricted stock vesting			3.6			3.6
Vesting of issued restricted Class A common stock	18		(1.4)			(1.4)
Shares issued to Board of Directors	8		2.3			2.3
Shares issued under Employee Stock Purchase Plan	2		0.7			0.7
Stock-based compensation			27.9			27.9
Balance at September 30, 2010	66,793	3	\$ 17,258.8	\$ 2,766.8	\$ (124.8)	\$ 19,900.8

See accompanying notes to unaudited consolidated financial statements.

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, 2008	66,417	3	\$ 17,129.2	\$ 1,719.7	\$ (160.3)	\$ 18,688.6
Comprehensive income:						
Net income attributable to CME Group				623.2		623.2
Change in net unrealized loss on securities, net of tax of \$16.3					25.2	25.2
Change in net actuarial loss on defined benefit plans, net of tax of \$0.9					(1.4)	(1.4)
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 \$2.2					3.4	3.4
Total comprehensive income attributable to CME Group						654.8
Cash dividends on common stock of \$3.45 per share				(229.0)		(229.0)
Repurchase of Class A common stock	(139)		(27.0)			(27.0)
Exercise of stock options	92		16.8			16.8
Excess tax benefits from option exercises and restricted stock vesting				1.0		1.0
Vesting of issued restricted Class A common stock	16		(1.6)			(1.6)
Shares issued to Board of Directors	12		2.4			2.4
Shares issued under Employee Stock Purchase Plan	2		0.7			0.7
Stock-based compensation			23.6			23.6
Balance at September 30, 2009	66,400	3	\$ 17,145.1	\$ 2,113.9	\$ (128.7)	\$ 19,130.3

See accompanying notes to unaudited consolidated financial statements.

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

(in millions)

(unaudited)

	Nine Months Ended September 30,	
	2010	2009
Cash Flows from Operating Activities		
Net income	\$ 755.7	\$ 623.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	27.9	23.6
Amortization of purchased intangibles	95.5	94.5
Depreciation and amortization	98.1	93.4
Credit Market Analysis Limited impairment	20.5	
Net accretion of discounts and amortization of debt financing costs	3.8	11.6
Equity in losses of unconsolidated subsidiaries	6.9	4.5
Impairment of long-term investment		22.4
Deferred income taxes	(31.3)	(28.9)
Change in assets and liabilities:		
Accounts receivable	(63.9)	(30.2)
Other current assets	15.0	(8.4)
Other assets	4.8	(7.6)
Accounts payable	(2.0)	(34.9)
Income taxes payable	(5.1)	1.7
Other current liabilities	14.5	(56.2)
Other liabilities	21.7	29.6
Other	0.9	(0.5)
Net Cash Provided by Operating Activities	963.0	737.8
Cash Flows from Investing Activities		
Proceeds from maturities of available-for-sale marketable securities	11.5	389.1
Purchases of available-for-sale marketable securities	(10.2)	(159.9)
Net change in NYMEX securities lending program investments		425.9
Purchases of property, net	(97.7)	(112.9)
Cash acquired in formation of Index Services	5.4	
Proceeds from Chicago Board Options Exchange exercise right privileges	39.7	
Purchase of Bolsa Mexicana de Valores, S.A.B. de C.V. shares	(17.4)	
Capital contributions to FXMarketSpace Limited		(2.8)
Net Cash Provided by (Used in) Investing Activities	(68.7)	539.4
Cash Flows from Financing Activities		
Repayments of commercial paper, net of proceeds	(99.9)	(1,168.8)
Proceeds from other borrowings, net of issuance costs	608.0	743.5
Repayment of other borrowings	(300.0)	(250.0)
Net change in NYMEX securities lending program liabilities		