

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC
Form S-1
June 10, 2002

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As filed with the Securities and Exchange Commission on June 10, 2002

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

6200
(Primary Standard Industrial
Classification Code Number)

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

**30 South Wacker Drive
Chicago, Illinois 60606
(312) 930-1000**

(Address, Including Zip Code, and Telephone Number,
Including Area Code, of Registrant's Principal Executive Offices)

Craig S. Donohue, Esq.
Managing Director and Chief Administrative Officer
Chicago Mercantile Exchange Holdings Inc.
30 South Wacker Drive
Chicago, Illinois 60606
(312) 930-1000

(Name, Address, Including Zip Code, and Telephone Number,
Including Area Code, of Agent For Service)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this
Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933,
check the following box. //

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. //

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Class A Common Stock, par value \$.01 per share (including rights to acquire Series A Junior Participating Preferred Stock pursuant to our rights plan)	\$ 150,000,000	\$ 13,800

(1) Estimated solely for the purpose of computing the registration fee in accordance with Rule 457(o) of the Securities Act of 1933, as amended.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)
Issued , 2002

Shares

CLASS A COMMON STOCK

Chicago Mercantile Exchange Holdings Inc. is offering _____ shares of Class A common stock and the selling shareholders are offering _____ shares of Class A common stock. This is our initial public offering, and there has been no organized public market for our Class A common stock. We anticipate that the initial public offering price will be between \$ _____ and \$ _____ per share. Chicago Mercantile Exchange Holdings Inc. will not receive any proceeds from the sale of shares by the selling shareholders.

We will apply to list our Class A common stock on The New York Stock Exchange under the symbol " ."

Investing in our common stock involves risks. See "Risk Factors" beginning on page 6.

PRICE \$ A SHARE

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Chicago Mercantile Exchange Holdings	Proceeds to Selling Shareholders
Per Share	\$	\$	\$	\$
Total	\$	\$	\$	\$
Chicago Mercantile Exchange Holdings Inc. has granted the underwriters the right to purchase up to an additional				shares to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated expects to deliver the shares to purchasers on , 2002.

MORGAN STANLEY

SALOMON SMITH BARNEY

WILLIAM BLAIR & COMPANY

UBS WARBURG

JPMORGAN

, 2002

[INSIDE FRONT COVER]

[Photographic montage of a globe, hand signals and wallboard displays (from our open outcry trading floors) and a computer keyboard (used for electronic trading). The image is captioned "Our futures and options on futures contracts are traded electronically all over the world, as well as on our open outcry trading floors in Chicago and through privately negotiated transactions."]

TABLE OF CONTENTS

	Page
Prospectus Summary	1
Risk Factors	6
Special Note About Forward-Looking Statements	22
Our Reorganization	23
Use of Proceeds	25
Dividend Policy	25
Capitalization	26
Dilution	27
Selected Financial Data	28
Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Industry Overview	55
Business	58
Management	87
Certain Relationships and Related Transactions	98
Principal and Selling Shareholders	99

	Page
Description of Capital Stock	103
Shares Eligible for Future Sale	113
Material U.S. Federal Tax Consequences To Non-U.S. Shareholders	114
Underwriters	116
Legal Matters	118
Experts	118
Where You Can Find Additional Information	119
Index to Financial Statements	F-1

Our principal executive offices are located at 30 South Wacker Drive, Chicago, Illinois 60606, and our telephone number is (312) 930-1000. In this prospectus, the terms "company," "exchange," "we," "us" and "our" refer to Chicago Mercantile Exchange Holdings Inc. and its subsidiary, Chicago Mercantile Exchange Inc., when the distinction between the two companies is not important to the discussion. When the distinction between the two companies is important to the discussion, we use the term "CME" to refer to Chicago Mercantile Exchange Inc. and "CME Holdings" to refer to Chicago Mercantile Exchange Holdings Inc. On December 3, 2001, we reorganized into a holding company structure. This reorganization was effected through a merger of CME Holdings' wholly owned subsidiary, CME Merger Subsidiary Inc., into CME. Following the merger, CME became a wholly owned subsidiary of CME Holdings. For a more detailed discussion of our reorganization, see the section of this prospectus entitled "Our Reorganization."

Unless otherwise indicated, all information in this prospectus (1) reflects the consummation of our reorganization; and (2) assumes the underwriters do not exercise their over-allotment option.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell shares of Class A common stock and seeking offers to buy shares of Class A common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of the Class A common stock.

We have not taken any action to permit a public offering of the shares of Class A common stock outside the United States or to permit the possession or distribution of this prospectus outside the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about and observe any restrictions relating to the offering of the shares of Class A common stock and the distribution of this prospectus outside the United States.

Chicago Mercantile Exchange Inc., our logo, CME,[®] GLOBEX,[®] IEF,[®] CLEARING 21[®] and SPAN[®] are our registered trademarks. GLOBEX Trader, Moneychanger, CME E-quotes and E-mini are our service marks. e-mini is a service mark of CME and New York Mercantile Exchange, Inc. pursuant to agreement.

S&P, S&P 500, Standard & Poor's 500, S&P/BARRA Growth, S&P/BARRA Value, S&P MidCap 400, S&P/TOPIX 150, Nasdaq-100, Russell 2000, and other trade names, service marks, trademarks and registered trademarks that are not proprietary to us, are the property of their respective owners and are used herein under license. The FORTUNE e-50 Index is a trademark of FORTUNE, a division of Time Inc., which is licensed for use by us in connection with futures and options on futures. These products have not been passed on by FORTUNE for suitability for a particular use. The products are not sponsored, endorsed, sold or promoted by FORTUNE. FORTUNE makes no warranty and bears no liability with respect to these products. FORTUNE makes no warranty as to the accuracy and/or completeness of the Index or the data included therein or the results to be obtained by any person from the use of the Index or the data included therein.

PROSPECTUS SUMMARY

The following is a summary of some of the information contained in this prospectus. In addition to this summary, we urge you to read the entire prospectus carefully, especially the risks of investing in our Class A common stock discussed under "Risk Factors" and our consolidated financial statements and notes to those financial statements included elsewhere in this prospectus.

Overview

We are the largest futures exchange in the United States and the second largest exchange in the world for the trading of futures and options on futures, as measured by 2001 annual trading volume. In 2001, our customers traded futures and options on futures contracts with a notional dollar value of \$293.9 trillion, making us the world's largest exchange by this measure. We also have the largest futures and options on futures open interest of any exchange in the world, and on December 13, 2001, our open interest reached an all-time high of 18.9 million contracts.

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We bring together buyers and sellers of derivative products on our open outcry trading floors, on the GLOBEX electronic trading platform and through privately negotiated transactions that we clear. We offer market participants the opportunity to trade futures contracts and options on futures for interest rates, stock indexes, foreign exchange and commodities. We believe several of our key products, including our Eurodollar futures, S&P 500 Index futures and Nasdaq-100 Index futures, maintain global benchmark status.

We own our clearing house and are able to guarantee, clear and settle every contract traded through our exchange. During the first quarter of 2002, we processed an average of nearly 490,000 clearing transactions per day. We currently have the capacity to clear more than one million transactions per day, and our scalable systems give us the ability to further increase our capacity substantially, with very little lead time. As of March 31, 2002, we acted as custodian for approximately \$27.4 billion in collateral and, in the first quarter of 2002, moved an average of \$1.6 billion of settlement funds through our clearing system each day. In addition, 38 exchanges and clearing organizations worldwide have adopted our Standard Portfolio Analysis of Risk, or SPAN, risk evaluation system, and both the New York Mercantile Exchange, or NYMEX, and Euronext N.V., or Euronext, use CLEARING 21, our state-of-the-art clearing system.

We have a demonstrated history of innovation in our industry. In the 1960s, we introduced the first livestock futures contracts that resulted in the physical delivery of live cattle. In 1972, we introduced the world's first financial futures contracts when we launched seven foreign exchange futures contracts. That innovation fundamentally changed the nature and scope of futures markets, transforming them from agricultural hedging mechanisms to hedging and risk management markets applied to financial instruments and financial risks. We also developed the first cash-settled futures in 1981 with the introduction of Eurodollar futures, which is now the world's most actively traded futures contract. Cash settlement also enabled us to introduce in 1982 the first successful stock index futures contract, the S&P 500 futures. In 1987, we pioneered the concept of global electronic trading of derivatives contracts, and we subsequently launched the GLOBEX platform in 1992. Today, most of our products trade electronically. In 1997, we introduced the first of our E-mini stock index products, which are smaller sized electronically traded versions of our successful benchmark stock index futures contracts.

CME was founded in 1898 as a not-for-profit corporation. In November 2000, CME became the first U.S. financial exchange to demutualize and become a shareholder-owned corporation. As a consequence, we have adopted a for-profit approach to our business, including strategic initiatives aimed at optimizing volume, efficiency and liquidity. We posted record trading volume of more than 411.7 million contracts in 2001, an increase of 78.1% over 2000, which was previously our busiest year. During the first quarter of 2002, which was our fifth consecutive record volume quarter, we posted trading volume of more than 120.5 million contracts, an increase of 30.0% over the same period in 2001. Our 2001 revenues, net of securities lending interest expense, were \$387.2 million, an increase of

1

70.9% from the \$226.6 million recorded during the same period in 2000. Our net income for 2001 was \$68.3 million, compared to a net loss of \$5.9 million during 2000.

Currently, we have strategic alliances with the leading derivative exchanges and clearing organizations in France, Spain, England, Singapore and Japan to extend the market reach of our global derivatives business.

As part of our continuing effort to introduce new products based on new markets or securities, we recently formed OneChicago, LLC, our joint venture with Chicago Board Options Exchange, or CBOE, and the Chicago Board of Trade, or CBOT, to trade single stock futures and futures on narrow-based stock indexes. We also recently entered into an agreement with NYMEX to offer newly created small-sized versions of key NYMEX energy futures contracts for trading on our GLOBEX electronic trading platform. The products, based on our successful E-mini stock index contracts, will be called e-miNY energy futures and will clear at the NYMEX clearing house.

Industry Background

According to the Futures Industry Association, the total number of futures contracts traded worldwide on futures exchanges grew from approximately 475 million in 1990 to approximately 1.8 billion in 2001, representing a compound annual growth rate of 13%. The growth in global futures trading volume is attributable to the increasing awareness of the importance of risk management, greater price volatility in key market sectors and greater access to futures markets through technological innovation and the relaxation of regulatory barriers. Growing awareness of the opportunities to obtain or hedge market exposure through the use of futures contracts, rather than purchasing or selling the underlying financial instrument or commodity, has also contributed to increased customer interest in the use of futures contracts.

We believe globalization, deregulation and recent advances in technology are changing the way both the futures and broader commodities and financial exchange markets operate. In recent years, the world's financial markets, as well as the exchanges and marketplaces that serve them, have experienced an accelerating pace of globalization. The emphasis on greater geographic diversification of investments, investment opportunities in emerging markets and expanded cross-border commercial activities are leading to increasing levels of cross-border trading and

capital movements. Deregulation of some aspects of the financial services industry has increased customer access to products and markets, reduced regulatory barriers to product innovation and encouraged consolidation. In addition, technological advances have led to the introduction of alternative trading systems.

Competitive Strengths

Since our exchange was organized in 1898, we have established ourselves as a premier global marketplace for financial risk management. We believe our principal competitive strengths are:

Highly Liquid Markets. Our deep and liquid markets tend to attract additional customers, which in turn further enhances our liquidity.

Global Benchmark Products. We believe our key Eurodollar and stock index products serve as global benchmarks for valuing and pricing risk and are increasingly recognized by our customers as efficient tools for managing and hedging their interest rate and equity market risks.

Diverse Portfolio of Products and Services. We differentiate ourselves from our competitors by developing and offering to our customers a diverse array of products, as well as a broad range of trade execution and clearing services.

Wholly Owned Clearing House. We believe our performance guarantee and capital-efficient clearing systems are major attractions of our markets. In addition, ownership of our clearing house and our available capacity enable us to efficiently introduce new products, as well as provide clearing services to other exchanges.

2

Proven and Scalable Technology. We possess fast, reliable and fully integrated trading and clearing systems that are highly scalable and designed to accommodate additional products with relatively limited modifications and low incremental costs.

Global Reach. Our electronic trading services are available around the world approximately 23 hours a day and five days per week.

Growth Strategy

Globalization, deregulation and advances in technology offer significant opportunities for expanding futures markets, and exchange markets generally. We intend to increase our trading volume, revenues and profitability by capitalizing on these opportunities through implementation of the following four strategies:

Expand Our Current Core Business. We intend to advance our position as a leader in the futures industry by continually expanding customer access to our markets and services, offering additional trade execution choices and enhancing our market data and information products.

Expand Customer Access. We continue to expand our customer base and trading volume by broadening the access, order routing, trading and clearing solutions we offer to existing and prospective customers.

Expand Electronic and Other Trade Execution Choices. Our strategy is to offer our customers a broad range of trade execution choices, including increased electronic trading, enhanced facilities for privately negotiated transactions and new links with exchanges around the world.

Enhance Our Market Data and Information Products. We intend to leverage the value of our market data and information capabilities by developing enhancements to our existing information products and creating new products.

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Add New Products. We intend to continue to introduce, either directly or through alliances with other exchanges, new products based on new markets or securities, such as single stock futures and futures on narrow-based stock indexes. In addition, we intend to continue working with emerging cash market trading platforms to jointly develop innovative futures products.

Provide Transaction Processing and Other Business Services to Third Parties. We intend to leverage our existing capacity and scalable technology and business processes to offer a broad range of services to other exchanges, clearing organizations and e-marketplaces. We believe that third parties will be attracted by our proven ability to process high volumes of transactions.

Pursue Select Alliances and Acquisitions. We plan to supplement our internal growth through the formation of joint ventures or alliances and select acquisitions of businesses or technologies that help us to enter new markets, provide services that we currently do not offer, open access to our markets or advance our technology.

Corporate Information

CME Holdings was incorporated in Delaware in August 2001. Our principal executive offices are located at 30 South Wacker Drive, Chicago, Illinois 60606, and our telephone number is (312) 930-1000. Our Web site is <http://www.cme.com>. Information contained in our Web site is not incorporated by reference into this prospectus, and you should not consider information contained in our Web site as part of this prospectus.

3

THE OFFERING

Class A common stock offered by us	shares
Class A common stock offered by the selling shareholders	shares
Common stock to be outstanding immediately after this offering:	
Class A common stock	shares
Class B common stock	3,138 shares
Use of proceeds	We intend to use the net proceeds from this offering for development of our technology infrastructure, for capital expenditures, to finance possible acquisitions and investments in technology, businesses, products or services, for working capital and for general corporate purposes. Please see the section of this prospectus entitled "Use of Proceeds."
Proposed New York Stock Exchange symbol	

The number of shares of our Class A common stock outstanding immediately after this offering is based on the number of shares outstanding at _____, 2002. This number does not take into account:

1,169,750 shares of Class A common stock issuable upon the exercise of outstanding stock options issued under our stock option plan, with an exercise price of \$22 per share; and

1,438,578 shares of Class A common stock issuable upon the exercise of outstanding stock options issued to our chief executive officer, at a weighted average exercise price of \$23.09 per share.

In this prospectus, we refer to our Class A, Class A-1, Class A-2, Class A-3 and Class A-4 common stock collectively as our Class A common stock, and we refer to our Class B-1, Class B-2, Class B-3 and Class B-4 common stock collectively as our Class B common stock.

4

SUMMARY CONSOLIDATED FINANCIAL DATA

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The following summary consolidated financial data with respect to each of the years in the three-year period ended December 31, 2001 have been derived from our audited consolidated financial statements. The financial information provided as of and for the three months ended March 31, 2001 and 2002 is unaudited, but in the opinion of management contains all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of our results of operations and financial position for such periods. The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes included elsewhere in this prospectus.

Year Ended December 31,			Three Months Ended March 31,	
1999	2000	2001	2001	2002

(unaudited)

(in thousands, except per share amounts)

Income Statement Data:

Net revenues(1)	\$ 210,602	\$ 226,552	\$ 387,153	\$ 92,170	\$ 101,092
Total expenses	203,958	234,635	272,788	58,823	72,502
Limited partners' interest in earnings of PMT Limited Partnership	(2,126)	(1,165)			
Net income (loss)	2,663	(5,909)	68,302	19,990	17,109
Earnings (loss) per share:(2)					
Basic	0.09	(0.21)	2.37	0.69	0.59
Diluted	0.09		2.33	0.69	0.57

As of December 31,

As of March 31,

1999	2000	2001	2001	2002
------	------	------	------	------

(unaudited)

(in thousands)

Balance Sheet Data:

Total assets	\$ 303,467	\$ 381,444	\$ 2,068,881	\$ 1,161,954	\$ 2,090,024
Current assets(3)	178,401	267,432	1,946,110	1,046,461	1,958,394
Current liabilities(3)	111,717	198,294	1,801,845	960,064	1,802,334
Long-term obligations and limited partners' interest in PMT	23,087	19,479	16,667	17,973	16,476
Shareholders' equity	168,663	163,671	250,369	183,917	271,214

Year Ended December 31,

Three Months Ended
March 31,

1999	2000	2001	2001	2002
------	------	------	------	------

(unaudited)

(in thousands, except notional value of trading volume)

Other Data:

Total trading volume (round turns, in contracts)(4)	200,737	231,110	411,712	92,714	120,520
GLOBEX trading volume (round turns, in contracts)(4)	16,135	34,506	81,895	16,190	30,473
Open interest at period-end (contracts)	6,412	8,021	15,039	10,424	15,196
Notional value of trading volume (in trillions)	\$ 138.3	\$ 155.0	\$ 293.9	\$ 66.4	\$ 86.4

(1)

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For the year ended December 31, 2001 and the three months ended March 31, 2002, net revenues represent revenues, net of securities lending interest expense. Securities lending transactions began in June 2001.

- (2) Earnings per share is presented as if the common stock issued on December 3, 2001 had been outstanding for all periods presented. Diluted loss per share is not presented for the year ended December 31, 2000, because shares issuable for stock options, which would be included as part of the calculation, would have an anti-dilutive effect.
- (3) Increases in cash performance bonds and security deposits, as well as the implementation of our securities lending program in June 2001, affect both current assets and current liabilities. A significant portion of the recent increase in current assets and current liabilities results from these two factors. For example, cash performance bonds and security deposits increased \$699.2 million from December 31, 2000 to December 31, 2001 and securities lending assets and liabilities totaled \$882.6 million at December 31, 2001.
- (4) A round turn represents a matched buy and sell.

5

RISK FACTORS

You should carefully consider the risks below before making an investment decision. The risks described below are not the only ones facing our company. Additional risks not presently known to us or that we currently deem immaterial may also impair our operations.

Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our Class A common stock could decline due to any of these risks, and you may lose all or part of your investment.

Risks Related to Our Business

We only recently began operating as a for-profit company and have a limited operating history as a for-profit company.

While we have an established operating history, we have only operated as a for-profit company with private ownership interests since November 13, 2000. We have a limited operating history as a for-profit business on which you can evaluate our management decisions, business strategy and financial results. As a result, our historical financial and business results may not be representative of what they may be in the future. We are subject to risks, uncertainties, expenses and difficulties associated with changing and implementing our business strategy that are not typically encountered by established for-profit companies. The major U.S. futures exchanges have operated historically as mutual, membership organizations, so there is little history or experience in operating an exchange as a for-profit corporation upon which we can draw to guide our operations or business strategy. Our initiatives that are designed to increase our revenues, make us profitable and create operating efficiencies as a for-profit company may not yield the benefits or efficiencies we expect. As a result, we may not be able to operate effectively as a for-profit corporation. It is possible that we may incur significant operating losses in the future and that we may not be able to achieve or sustain long-term profitability.

Our business is subject to the impact of domestic and international market and economic conditions, many of which are beyond our control and could significantly harm our business.

We generate revenues primarily from our trade execution services, clearing services and market data and information services and expect to continue to do so for the foreseeable future. Each of these revenue sources is substantially dependent on the trading volume in our markets. Our trading volume is directly affected by U.S. domestic and international factors that are beyond our control, including economic, political and market conditions, broad trends in industry and finance, changes in levels of trading activity, price levels and price volatility in the derivatives markets and in underlying fixed-income, equity, foreign exchange and commodity markets, legislative and regulatory changes, competition, changes in government monetary policies, foreign exchange rates, consolidation in our customer base or within our industry and inflation. Any one or more of these factors may contribute to reduced activity in our markets. The future economic environment will be subject to periodic downturns, including possible recession and lower volatility in financial markets, and may not be as favorable as it has been in recent years. As a result, period-to-period comparisons of our financial results are not necessarily meaningful. Trends less favorable than those of recent periods could result in decreased trading volume, decreased capital formation and a more difficult business environment for us. For these reasons, decreases in trading volume could have a material adverse effect on our business, financial condition and operating results. Our competitors with more diversified business lines might more easily withstand these decreases.

6

Our operating results are subject to significant fluctuations, including as a result of seasonality.

The seasonality of the futures business and other factors beyond our control may contribute to substantial fluctuations in our operating results particularly in our quarterly results. In the three years prior to 2001, we experienced relatively higher volume during the first and second quarters, and we generally expect that the third quarter will have lower trading volume. This trend was not evident in 2001 in part because of the volatility of interest rates and U.S. equities and economic and political factors present in the third quarter. As a result of this seasonality and the factors described in the preceding risk factor, you will not be able to rely on our operating results in any particular period as an indication of our future performance. If we fail to meet securities analysts' expectations regarding our operating performance, the price of our Class A common stock could decline substantially.

Our cost structure is largely fixed, which could limit our ability to adjust our cost structure if our revenues decline.

Our cost structure, with the exception of stock-based compensation, is largely fixed and is based on historical and expected levels of demand for our products and services. If demand for our products and services and our resulting revenues decline, we may not be able to adjust our cost structure on a timely basis, which could have a material adverse effect on our operating results and financial condition.

The global trend toward electronic trading may divert volume away from our open outcry trading facilities. Our business will be adversely affected if we experience reductions in our open outcry trading volume that are not offset by increases in our electronic trading volume.

Both newly formed organizations and established exchanges are increasingly employing electronic trading systems that provide fast, low-cost execution of trades by matching buyers and sellers electronically. These organizations are attracting order flow away from some traditional open outcry trading markets. Many market participants believe that these electronic trading systems represent a threat to the continued viability of the open outcry method of trading. Some major European and Asian futures exchanges have closed their traditional open outcry trading facilities and replaced them entirely with electronic systems. Although we offer an electronic trading system, the principal source of our revenue at present is open outcry trading. Reductions in our open outcry trading volume that are not offset by increases in our electronic trading volume would have a material adverse effect on our operating results.

The future success of our business depends in large part on our ability to create interactive electronic marketplaces in a wide range of derivatives products. Historically, our markets have operated through open outcry trading execution facilities. While a significant portion of our current overall volume is generated through electronic trading of our E-mini S&P 500 and E-mini Nasdaq-100 products, during the first three months of 2002, approximately 73% of our volume and 56% of our revenue was generated through our open outcry trading facilities. We have not yet completed the development of new electronic functionality that will accommodate the complex trading strategies typically used for trading our Eurodollar contracts. Accordingly, our electronic trading facilities for these products have met with limited success. If we are unable to develop our electronic trading systems to include more products and markets, or if we are unable to compete successfully in a new environment dominated by electronic trading, our business may be significantly harmed.

We maintain the simultaneous operation of open outcry trading and electronic trade execution facilities, which may, over time, adversely affect our business.

At present, we have elected to preserve both our open outcry trade execution facilities and our electronic trade execution facilities. For some products, we maintain side-by-side trading facilities for both open outcry and electronic trading. We have committed, through the inclusion of provisions in our

certificate of incorporation, to maintain the operation of our open outcry trading facilities until the trading volumes in them are insubstantial. If we continue to operate both trading facilities for the same product, liquidity of markets on each may be less than the liquidity of competing markets on a unified trading platform. In addition, it may be expensive to continue operating two trading systems for the same product. Substantial expenses may be incurred and delays may be caused by efforts to create trading links between the separate trading platforms in order to facilitate trading on both systems. Any loss of efficiency or increase in time to market of new or improved products could be detrimental to our business in a highly competitive market. In addition, we may be required to expend resources on the maintenance of our open outcry facilities that could be more efficiently used in developing our capacity and reducing our costs in the increasingly competitive market for

electronic trading facilities.

Our trading and clearing members, who may have interests that differ from or conflict with those of other shareholders, own substantially all of our voting stock, account for 16 of the 20 directors on our board and will continue to exert substantial influence on us, including through specific rights of the holders of our Class B common stock to limit changes relating to our open outcry trading operations and to elect directors.

Immediately after we complete this offering, our trading and clearing members will, in the aggregate, own shares representing approximately % of our outstanding Class A common stock. As a result, our trading and clearing members, if they act together, will significantly influence our general management and affairs and will control all matters submitted to our shareholders for approval, including electing directors and approving changes in control. As of the date of this prospectus, 16 of the 20 directors on our board also are members of our exchange. Our trading and clearing members may have interests that differ from or conflict with yours and those of other shareholders.

In addition, under the terms of our certificate of incorporation, our Class B shareholders, most of whom are members of our exchange, have the ability to preserve their rights to trade on our exchange by means of special approval rights over changes to the operation of our business, including our ability to move from open outcry trade execution to electronic trade execution. In particular, these provisions include a grant to the holders of our Class B common stock of the right to approve any changes to the trading floor rights, access rights and privileges that a member has, including the circumstances under which we can determine that an existing open outcry-traded product will no longer be traded by means of open outcry. For a more detailed description of the approval rights of our Class B shareholders, see the section of this prospectus entitled "Description of Capital Stock." Our Class B shareholders are also entitled to elect six of the 20 directors on our board. As the transfer restrictions on shares of Class A common stock held by Class B shareholders terminate over time, Class B shareholders will continue to have board representation rights, even if their ownership interest is very small.

The share ownership of Class B shareholders in combination with their board representation rights and charter provision protections could be used to block our board and management from changing or developing our business in order to compete more effectively and to enhance shareholder value, including the value of our Class A common stock.

The development of our electronic trading facilities exposes us to risks inherent in operating in the new and evolving market for electronic transaction services.

As we continue to develop our electronic trading facilities, our business will continue to be subject to risks, expenses and uncertainties encountered by companies in the rapidly evolving market for electronic transaction services. These risks include our failure or inability to:

provide services to our customers that are reliable and cost-effective;

8

develop, in a timely manner, the required functionality to support electronic trading in some of our key products in a manner that is competitive with the functionality supported by other electronic markets;

match fees of our competitors that offer only electronic trading facilities;

increase the number of devices (trading and order routing terminals) capable of sending orders to our floor and to our electronic trading system;

attract independent software vendors to write front-end software that will effectively access our electronic trading system and automated order routing system; and

respond to technological developments or service offerings by competitors.

We expect to incur substantial capital expenses for the foreseeable future in connection with the development of our electronic trading facilities. If we are not successful in developing our electronic systems capacity, or our current or potential customers do not accept them, our

business, financial condition and operating results will suffer.

Our market data fees may be reduced or eliminated by the growth of electronic trading and electronic order entry systems.

Electronic trading systems do not usually impose separate charges for supplying market data to trading terminals. If we follow that business strategy, and trading terminals with access to our markets become widely available, we can expect to lose quote fee revenue from those who have access to trading terminals. We may experience a reduction in our revenues if we are unable to recover that lost revenue through terminal usage fees or transaction fees.

Our recent change to a for-profit company may diminish the loyalty of our members to us and negatively impact the liquidity of our markets and our trading volume.

We changed the role of our members in the operation of our business when we became a for-profit company. We eliminated many member-dominated committees or converted them into advisory bodies. We gave our professional staff greater decision-making responsibilities. Our management is charged with making decisions that are designed to enhance shareholder value, which may lead to decisions or outcomes with which our members disagree. These changes may make us less attractive to our current members and encourage them to conduct their business at, or seek membership in, another exchange or to trade in equivalent products among themselves on a private, bilateral basis. A loss or material decrease in member trading activity would negatively impact liquidity and trading volume in our products. A loss or material reduction in the number of our clearing member firms and the capital they provide to guarantee their trades and the trades of their customers would diminish the strength and attractiveness of our clearing house and our markets. This could have a material adverse effect on our business and operations.

Our trading volume, and consequently our business, could be adversely affected if we are unable to retain our current customers or attract new customers to our exchange.

The success of our business depends, in part, on our ability to maintain and increase our trading volume by maintaining and expanding our product offerings, our customer base and our alternatives for trade execution facilities. Our success also depends on our ability to offer competitive prices and services in an increasingly price sensitive business, as well as on our ability to increase the base of individual customers who trade our products. We cannot assure you that we will be able to continue to expand our product lines, or that we will be able to retain our current customers or attract new customers to our markets, products and services. We also cannot assure you that we will not lose customers to low-cost competitors with comparable or potentially superior products, services or trade

execution facilities. If we fail to expand our product lines or execution facilities, or lose a substantial number of our current customers, or are unable to attract new customers, our business will be adversely affected.

We face intense competition from other companies, including some of our member firms. If we are not able to successfully compete, our business will not survive.

The derivatives, securities and financial services industries are highly competitive, and we expect that competition will intensify in the future, particularly as a result of the passage of the Commodity Futures Modernization Act of 2000, or CFMA. Our current and prospective competitors, both domestically and around the world, are numerous and include securities and securities option exchanges, futures exchanges, over-the-counter, or OTC, markets, clearing organizations, market data and information vendors, electronic communications networks, crossing systems and similar entities, consortia of large customers, consortia of some of our clearing member firms and electronic brokerage and dealing facilities. We believe we may also face competition from large computer software companies and media and technology companies. The number of businesses providing Internet-related financial services is rapidly growing, and other companies have entered into or are forming joint ventures or consortia to provide services similar to those provided by us. Others may also acquire the capabilities necessary to compete with us through acquisitions. Recent changes in federal law also allow institutions that have been major participants on our exchange to trade the same or similar products among themselves without utilizing any exchange or trading system. Other U.S. exchanges are in the process of or have recently completed demutualization, which may also intensify competition. Many of our competitors and potential competitors have greater financial, marketing, technological and personnel resources than we do. These factors may enable them to develop similar products, to provide lower transaction costs and better execution to their customers and to carry out their business strategies more quickly and efficiently than we can. In addition, our competitors may:

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respond more quickly to competitive pressures due to their corporate governance structures, which may be more flexible and efficient than our corporate governance structure;

develop similar products that are preferred by our customers;

develop risk transfer products that compete with our products;

price their products and services more competitively;

develop and expand their network infrastructure and service offerings more efficiently;

utilize better, more user-friendly and more reliable technology;

take greater advantage of acquisitions, alliances and other opportunities;

more effectively market, promote and sell their products and services;

better leverage existing relationships with customers and alliance partners or exploit better recognized brand names to market and sell their services; and

exploit regulatory disparities between traditional, regulated exchanges and alternative markets that benefit from a reduced regulatory burden and lower-cost business model.

If our products, markets and services are not competitive, our business, financial condition and operating results will be materially harmed. In addition, even if new entrants do not significantly erode our market share, we may be required to reduce our fees significantly to remain competitive, which could have a material adverse effect on our profitability. For more information concerning the competitive nature of our industry and the challenges we face, see the section of this prospectus entitled "Business Competition."

If we are not able to keep up with rapid technological changes, our business will be materially harmed.

To remain competitive, we must continue to enhance and improve the responsiveness, functionality, accessibility and other features of our software, network distribution systems and technologies. The markets in which we compete are characterized by rapidly changing technology, changes in customer demand and uses of our products and services, frequent product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render our existing technology and systems obsolete. Our future success will depend in part on our ability to anticipate and adapt to technological advancements and changing standards in a timely, cost-efficient and competitive manner. We cannot assure you that we will successfully implement new technologies or adapt our technology to customer and competitive requirements or emerging industry standards.

Any significant decline in the trading volume of our Eurodollar, S&P 500 or Nasdaq-100 futures and options on futures contracts or in privately negotiated foreign exchange transactions using our clearing house could significantly harm our business.

We are substantially dependent on trading volume from three product offerings for a significant portion of our trading-related revenue and profits. The combined trading-related revenue attributable to transactions in our Eurodollar futures and options on futures contracts, our principal stock index contracts, namely our S&P 500 and Nasdaq-100 contracts, and privately negotiated foreign exchange transactions using our clearing house was approximately 69% and 65% of our total trading-related revenue during 2001 and the three months ended March 31, 2002, respectively. Any significant decline in our trading volume in any of these product offerings would negatively impact our business, financial condition and operating results.

While, today, our Eurodollar product enjoys global benchmark status, we cannot assure you that, in the future, other products may not serve as a preferred alternative to the Eurodollar contracts as a means of managing interest rate risk. We also cannot assure you that competitors will not enter the Eurodollar market, or that our members will not trade Eurodollars in privately negotiated bilateral transactions without the use of our clearing house, either of which could reduce our trading volume.

Our rights to the Standard & Poor's and Nasdaq products were obtained through licensing arrangements. Our license agreement with Standard & Poor's provides that the S&P 500 Index futures products will be exclusive until December 31, 2008 and non-exclusive from December 31, 2008 until December 31, 2013. Our license with Nasdaq will be exclusive for each calendar year until expiration, provided the aggregate average daily trading volume in Nasdaq-100 futures contracts and options on Nasdaq-100 futures contracts remains above 5,000 contracts per day. The agreement terminates in April 2006, subject to our mutual agreement to extend the agreement, and does not preclude Nasdaq from allowing Nasdaq-100 futures contracts to be traded on a market owned by Nasdaq or some of its affiliates. We cannot assure you that others will not succeed in creating stock index futures based on information similar to that which we have obtained by license or that Nasdaq will not directly or indirectly offer competitive futures contracts. We also cannot assure you that our S&P 500 and Nasdaq-100 products will continue to enjoy global benchmark status. Any of these events could have an adverse effect on our business, financial condition and operating results.

Our clearing house may be adversely affected if we are not responsive to the needs of our clearing members.

Our largest clearing members have increasingly stressed the importance to them of maximizing the efficient use of the capital they commit to support the operations of our clearing house and expanding the opportunities to offset market and credit risks arising from positions cleared in multiple clearing houses. Many clearing members have also expressed the view that clearing members should control the governance of clearing houses or that clearing houses should be operated as utilities rather than as

11

for-profit enterprises. Our inability to satisfactorily address these concerns and other needs of our clearing members may lead these members to establish, or seek to use, alternative clearing houses, as well as trade execution facilities, that compete with us. Any such development would have a material adverse effect on the operations of our clearing house and our business as a whole.

Our clearing house operations expose us to the potential for significant liability.

Our clearing house acts as the counterparty to all trades consummated on or through our exchange. As a result, we are exposed to significant credit risk of third parties, including our clearing member firms and, indirectly, the customers of our clearing member firms. These parties may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. A substantial part of our working capital is at risk if a clearing member defaults on its obligations to our clearing house and its margin and security deposits are insufficient to meet all of its obligations. Although we have policies and procedures to help assure that our clearing members can satisfy their obligations, these policies and procedures may not succeed in detecting problems or preventing defaults. We also have in place various measures intended to enable us to cover any default and maintain liquidity. However, we cannot assure you that these measures will be sufficient to protect us from a default or that we will not be materially and adversely affected in the event of a significant default. For a more detailed discussion of our clearing house operations, see the section of this prospectus entitled "Business Clearing."

If we experience systems failures or capacity constraints, our ability to conduct our operations would be materially harmed.

We are heavily dependent on the capacity and reliability of the computer and communications systems supporting our operations. We receive and/or process a large portion of our trade orders through electronic means, such as through public and private communications networks. Our systems, or those of our third party providers, may fail or operate slowly, causing one or more of the following to occur:

unanticipated disruptions in service to our customers;

slower response times;

delays in our customers' trade execution;

failed settlement of trades;

incomplete or inaccurate accounting, recording or processing of trades;

financial losses;

litigation or other customer claims; and

regulatory sanctions.

We cannot assure you that we will not experience systems failures from power or telecommunications failure, acts of God, war or terrorism, human error, natural disasters, fire, power loss, sabotage, hardware or software malfunctions or defects, computer viruses, intentional acts of vandalism or similar events. If any of our systems do not operate properly or are disabled, including as a result of customer error or misuse of our systems, we could suffer financial loss, liability to customers, regulatory intervention or reputational damage. We have experienced system errors and failures that have led to transactions that were not authorized by any customer. These transactions expose us to risk of loss, which can be material. Adverse movements in the prices of the contracts involved in these transactions before they are liquidated can increase this risk.

12

Our status as a Commodity Futures Trading Commission, or CFTC, registrant requires that our trade execution and communications systems be able to handle anticipated present and future peak trading volume. Heavy use of our computer systems during peak trading times or at times of unusual market volatility could cause our systems to operate slowly or even to fail for periods of time. We constantly monitor system loads and performance and regularly implement system upgrades to handle estimated increases in trading volume. However, we cannot assure you that our estimates of future trading volume will be accurate or that our systems will always be able to accommodate actual trading volume without failure or degradation of performance. System failure or degradation could lead our customers to file formal complaints with industry regulatory organizations, file lawsuits against us or cease doing business with us or could lead the CFTC or other regulators to initiate inquiries or proceedings for failure to comply with applicable laws and regulations.

We will need to continue to upgrade and expand our systems as our business grows. Although many of our systems are designed to accommodate additional volume without redesign or replacement, we will need to continue to make significant investments in additional hardware and software to accommodate increased volume. The inability of our systems to accommodate an increasing volume of transactions could constrain our ability to expand our businesses.

We depend on third party suppliers for a number of services that are important to our business.

We depend on a number of suppliers, such as banking, clearing and settlement organizations, telephone companies, online service providers, data processors, and software and hardware vendors for elements of our trading, clearing and other systems, as well as communications and networking equipment, computer hardware and software and related support and maintenance. We cannot assure you that any of these providers will be able to continue to provide these services in an efficient, cost-effective manner or that they will be able to adequately expand their services to meet our needs. An interruption in or the cessation of service by any service provider and our inability to make alternative arrangements in a timely manner, or at all, could have a material adverse effect on our business, financial condition and operating results.

Our networks and those of our third party service providers may be vulnerable to security risks.

We expect the secure transmission of confidential information over public networks to continue to be a critical element of our operations. Our networks and those of our third party service providers, our member firms and our customers may be vulnerable to unauthorized access, computer viruses and other security problems. Persons who circumvent security measures could wrongfully use our information or cause interruptions or malfunctions in our operations, any of which could have a material adverse effect on our business, financial condition and operating results. We may be required to expend significant resources to protect against the threat of security breaches or to alleviate problems, including reputational harm and litigation, caused by any breaches. Although we intend to continue to implement industry-standard security measures, these measures may prove to be inadequate and result in system failures and delays that could lower trading volume and have an adverse effect on our business, financial condition and operating results.

Use of the Internet to access our services could expose us to risks of failure of Internet performance and adverse customer reaction.

Our business has traditionally been conducted with our customers through the use of proprietary networks for the execution of trades and the communication of information. We are working to move a portion of our business from our proprietary networks to non-proprietary networks and the Internet in order to achieve better economies of distribution or to improve the delivery of our services to our customers. For example, we have recently begun to offer our lower volume customers a Web-based virtual private network, which we call GLOBEX Trader-Internet, as an alternative means to access our

13

electronic trading platform. As part of our business strategy, we expect to do business with online and traditional futures commission merchants. We expect to enable these firms to provide their clients with Internet access to our futures products. Our business could be adversely impacted if Internet usage does not continue to grow. Internet usage may be inhibited for a number of reasons, including:

access costs;

inadequate network infrastructure;

security concerns;

uncertainty of legal, regulatory and tax issues concerning the use of the Internet;

concerns regarding ease of use, accessibility and reliability;

service interruptions due to outages or other delays in the Internet network infrastructure or otherwise inconsistent quality of service; and

lack of availability of cost-effective, high-speed service.

Even if Internet usage continues to grow, online trading in our product lines may not be accepted by retail customers. This could negatively affect the growth of our business.

We operate in a heavily regulated environment that imposes significant costs and competitive burdens.

Although the CFMA significantly reduced our regulatory burdens, we remain extensively regulated by the CFTC. Our international operations may be subject to similar regulations in specific jurisdictions. We have registered in the United Kingdom as a recognized foreign exchange. We may be required to register or become subject to regulation in other jurisdictions in order to accept business from customers in those jurisdictions.

Many aspects of our operations are subject to oversight and regulation by the CFTC, and our activities relating to single stock and narrow-based stock index futures products will also be subject to oversight by the Securities and Exchange Commission, or SEC. Our operations are subject to ongoing review and oversight, including:

the security and soundness of our order routing and trading systems;

record keeping and record retention procedures;

the licensing of our members and many of their employees; and

the conduct of our directors, officers, employees and affiliates.

If we fail to comply with applicable laws, rules or regulations, we may be subject to censure, fines, cease-and-desist orders, suspension of our business, removal of personnel or other sanctions, including revocation of our designation as a contract market. Changes in laws, regulations or governmental policies could have a material adverse effect on us.

The CFTC has broad powers to investigate and enforce compliance and punish non-compliance with its rules and regulations. We cannot assure you that we and/or our directors, officers and employees will be able to fully comply with these rules and regulations and will not be subject to claims or actions by the CFTC or other agencies.

Demutualization and utilization of electronic trading systems by traders from remote locations will, among other developments, impact our ability to continue the traditional forms of "self-regulation" that have been an integral part of the CFTC regulatory program. The CFTC is reviewing that impact, and it is unclear at this time whether the CFTC will make modifications to its regulations that will adversely affect our business, financial condition and operating results.

14

From time to time it is proposed in Congress that federal financial markets regulators should be consolidated, including a possible merger between the CFTC and the SEC. While those proposals have not been adopted to date, the perceived convergence of product lines offered on the securities and commodity exchanges could make adoption more likely. To the extent the regulatory environment following such consolidation is less beneficial for us, our business, financial condition and operating results could be negatively affected.

From time to time it is proposed in the President's budget that a transaction tax be imposed on futures and options on futures transactions. While those proposals have not been adopted to date, the imposition of any such tax could increase the cost of using our products and, consequently, our business, financial condition and operating results could be negatively affected.

The statute under which we have operated since 1974 was amended on December 21, 2000, in a manner that will permit unregulated competitors and competitors in other regulated industries to duplicate our markets and trade our products.

Our industry has been subject to several fundamental regulatory changes, including changes in the statute under which we have operated since 1974. The Commodity Exchange Act, or CEA, generally required all futures contracts to be executed on an exchange that has been approved by the CFTC. The exchange trading requirement was modified by CFTC regulations and interpretations to permit privately negotiated swap contracts to be transacted in the OTC market. The CFTC exemption under which the OTC derivatives market operated precluded the OTC market from using exchange-like electronic transaction systems and clearing facilities. These barriers to competition from the OTC market were largely repealed by the CFMA. It is possible that the chief beneficiaries of the CFMA will be OTC dealers and competitors that operate or intend to open electronic trading facilities or to conduct their futures business directly among themselves on a bilateral basis. The customers who may access such trading facilities or engage in such bilateral private transactions are the same customers who conduct the vast majority of their financial business on regulated exchanges. The CFMA also permits banks, broker-dealers and some of their affiliates to engage in foreign exchange futures transactions for or with retail customers without being subject to regulation under the CEA.

The CFMA also permits SEC-regulated and bank clearing organizations to clear a broad array of derivatives products in addition to the products that such clearing organizations have traditionally cleared. This allocation of jurisdiction may be advantageous to competing clearing organizations.

In the future, our industry may become subject to new laws or regulations or changes in the interpretation or enforcement of existing laws or regulations. We cannot predict the extent to which any future regulatory changes may adversely affect our business.

Our compliance and risk management methods might not be effective.

Generally, the CFTC has broad enforcement powers to censure, fine, issue cease-and-desist orders, prohibit us from engaging in some of our businesses or suspend or revoke our designation as a contract market or the registration of any of our officers or employees who violate applicable laws or regulations. Our ability to comply with applicable laws and rules is largely dependent on our establishment and maintenance of compliance, audit and reporting systems, as well as our ability to attract and retain qualified compliance and other risk management personnel. We face the risk of significant intervention by regulatory authorities, including extensive examination and surveillance activity. In the

case of non-compliance or alleged non-compliance with applicable laws or regulations, we could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits, including by customers, for damages, which can be substantial. Any of these outcomes could adversely affect our business, our reputation, our financial condition and operating results and, in extreme cases, our ability to conduct our business or portions thereof.

Our policies and procedures to identify, monitor and manage our risks may not be fully effective. Some of our risk management methods depend upon evaluation of information regarding markets, customers or other matters that are publicly available or otherwise accessible by us. That information may not in all cases be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events. We cannot assure you that our policies and procedures will always be effective or that we will always be successful in monitoring or evaluating the risks to which we are or may be exposed.

As a financial services provider, we are subject to significant litigation risk and potential securities law liability.

Many aspects of our business involve substantial liability risks. While we enjoy governmental immunity for some of our market-related activities, we could be exposed to substantial liability under federal and state laws and court decisions, as well as rules and regulations promulgated by the SEC and the CFTC. These risks include, among others, potential liability from disputes over terms of a trade, the claim that a system failure or delay caused monetary losses to a customer, that we entered into an unauthorized transaction or that we provided materially false or misleading statements in connection with a transaction. Dissatisfied customers frequently make claims regarding quality of trade execution, improperly settled trades, mismanagement or even fraud against their service providers. We may become subject to these claims as the result of failures or malfunctions of systems and services provided by us. We could incur significant legal expenses defending claims, even those without merit. In addition, an adverse resolution of any future lawsuit or claim against us could have a material adverse effect on our business.

We could be harmed by employee misconduct or errors that are difficult to detect and deter.

There have been a number of highly publicized cases involving fraud or other misconduct by employees of financial services firms in recent years. Misconduct by our employees, including employees of GFX Corporation, or GFX, our wholly owned subsidiary that engages in proprietary trading in foreign exchange futures, could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of customers or improper use of confidential information. Employee misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Our employees also may commit errors that could subject us to financial claims for negligence, or otherwise, as well as regulatory actions.

We may not be able to maintain our self-regulatory responsibilities.

Some financial services regulators have publicly stated their concerns about the ability of a financial exchange, organized as a for-profit corporation, to discharge adequately its self-regulatory responsibilities. We believe our regulatory programs and capabilities contribute significantly to our brand name and reputation. Although we believe we will retain these responsibilities, we cannot assure you that we will not be required to modify or restructure our regulatory functions in order to address these concerns. If we are required to rely on a third party to perform regulatory and oversight functions, we may incur substantial expenses and suffer severe harm to our reputation if the regulatory services are inadequate.

We may not effectively manage our growth, which could materially harm our business.

We expect that our business will continue to grow and that this growth may place a significant strain on our management, personnel, systems and resources. We must continue to improve our operational and financial systems and managerial controls and procedures, and we will need to

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continue to expand, train and manage our technology workforce. We must also maintain close coordination among our technology, compliance, accounting, finance, marketing and sales organizations. We cannot assure you that we will manage our growth effectively. If we fail to do so, our business could be materially harmed.

Our continued growth will require increased investment by us in facilities, personnel, and financial and management systems and controls. It also will require expansion of our procedures for monitoring and assuring our compliance with applicable regulations, and we will need to integrate, train and manage a growing employee base. The expansion of our existing businesses, our expansion into new businesses and the resulting growth of our employee base increase our need for internal audit and monitoring processes that are more extensive and broader in scope than those we have historically required. We may not be successful in implementing all of the processes that are necessary