By GREG JAFFE

T he biggest shock for Lt. Col. Nick Demas came not from the young men he was leading to their deaths in the Iraqi desert last year. Demas, a Special Forces officer who had trained with troops fighting in Afghanistan, had never been exposed to the chaos of war before.

Demas had never seen such an agonizing appeal to treason. "Some of these people were not even old enough to shave," he said.

President Bush has tried to win public support for the war in Iraq by citing the need to give military commanders on the ground the tools they need to succeed. But the decision to leave behind thousands of troops for longer periods of time has also been a source of concern among new American fighting men.

Demas, who was in Iraq last year when American military operations involved 10,000 troops in the country, is one of many American soldiers who have faced the difficult decision of whether to return to Iraq.

Demas said he was fortunate to have a release from the military, which he sees as his "family." But he added that he had to weigh the risks of going back to Iraq against the benefits of a stable country.

Demas said he had considered joining the military as a way of giving back to his country, but he was unable to find a way to contribute to the mission.

In recent weeks, after the Bush administration resumed the debate about Iraq, the Special Forces Command has been one of the units discussed as a possible alternative to the regular Army.

Demas said he had been approached by the Special Forces Command to consider joining, but he declined.

"I think we are going to be doing it more, much better than we have ever done before," he said. "We need to focus on the needs of the Iraqi people and the needs of the American people."
Futures Shock: Chicago Mercantile Exchange to Buy Board of Trade

Chicago's deal illustrates the incendiary rapid pace at which financial exchanges worldwide are consolidating. In a matter of a few years, the futures exchanges that have long jostled for business in a market dominated by New York-called the "Big Board"-are now public companies. This trend started with the New York Stock Exchange on Dec. 9, when it shook hands on a deal.

The deal calls for a swap of each CBOT 10-year Treasury note option contract for a lira platform. The NYSE wants to use the CBOT's lira platform. The NYSE wants to use the CBOT's lira platform.
**Merger May Set the City’s Status As the Derivatives Shangri-La, Ending a Century-Old Rivalry**

**By STAN CULLY**

B Y STANDING ALONE across the downtown trading pits, both have secured a status as the city’s premier commodities exchange. But together, the Chicago Mercantile Exchange Inc. and the Chicago Board of Trade—two of the world’s oldest commodity trading exchanges—may be able to offer a more flexible approach, raising the stakes in the world’s competitive derivatives market.

The Chicago Mercantile Exchange Inc., parent of the Chicago Board of Trade, would consider buying the New York Mercantile Exchange Inc., home of oil and metals contracts. That move could open the door to new listings, and more complex ways to track the world’s financial performance.

**What Would Be Involved?**

The companies have been in discussions with each other for several months. Last week, they reached an agreement on the terms of a merger, which would create a new entity with a combined equity value of about $10 billion.

The deal would also include a commitment by the new company to maintain both trading floors as viable options for the market.

The consolidation of the two exchanges could also lead to a reduction in fees and a simplification of the trading process, making it easier for traders to navigate the complex world of derivatives.

The Chicago Mercantile Exchange Inc. and the Chicago Board of Trade are currently among the world’s largest exchanges, with a combined market capitalization of $17.75 billion. The New York Mercantile Exchange Inc. has a market capitalization of $1.2548 billion.

The merger would create a new entity with a combined equity value of about $10 billion, making it one of the world’s largest exchanges.

The new company would have a total market capitalization of $18.96 billion, with the Chicago Mercantile Exchange Inc. contributing $17.75 billion and the New York Mercantile Exchange Inc. contributing $1.2548 billion.

The new company would also have a combined trading volume of 12.65 million contracts, with the Chicago Mercantile Exchange Inc. contributing 12.08 million contracts and the New York Mercantile Exchange Inc. contributing 0.57 million contracts.

The new company would have a combined market share of 1.08, with the Chicago Mercantile Exchange Inc. contributing 0.80 and the New York Mercantile Exchange Inc. contributing 0.28.

**What Would Be the Implications?**

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IN ONE CORRAL: THE CME/CBOT DEAL

**Trading, the Chicago Way**

*History of Chicago Board of Trade and the Chicago Mercantile Exchange*

The CME and CBOT announced they would merge, combining two key futures exchanges in the U.S. financial market.

- The deal values the CBOT at $8.2 billion.
- The merged exchange will be headquartered in Chicago.

**CME’s Acquisition of CBOT Will Affect a Huge Number of Investors**

- Both exchanges offer futures and options on a variety of financial instruments.
- The new exchange will have a broader range of products and services.

**Chicago Solidifies Status in Derivatives Market**

- The deal will likely increase competition in the derivatives market.
- The new exchange could have a significant impact on the global financial landscape.

**San Paolo Wins Stake in Bank of Alexandria**

- Italy’s San Paolo will invest $3.7 billion in Egypt’s state-owned Bank of Alexandria.
- The bank plans to use the funds to expand its operations in Egypt.

**Tracking the Numbers: Outside Audit**

- Verizon’s 2006 earnings were $8.4 billion, up 31% from the previous year.
- AT&T’s 2006 earnings were $13.1 billion, up 38% from the previous year.

**Moving the Market**

- The market reaction to the news was mixed, with some investors expressing concern about the potential impact on competition.
- The merged exchange is expected to have a significant impact on the financial industry.

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**Chicago Exchanges Combine in Their 1200 Quest**

Unexpected Rise in Core Inflation

**Sellers Blow Chips Down 30.58; $22 and Nasdaq Also Erase**

By Stephen N. 

The Dow Industrials yielded to their 1200 Quest today after an unexpected rise in core inflation that triggered a sell-off in stocks. The Dow futures and the Dow Jones Industrial Average fell sharply, with the Dow Jones Industrial Average slipping 200 points.

Despite the strong performance of the Dow Industrials, there were some concerns about the economic outlook. Some analysts pointed to the rising core inflation as a potential drag on economic growth. However, others argued that the core inflation was likely to be transitory and would not have a significant impact on the economy.

**Tracking the Numbers**

**Outside Audit**

Verizon Ties CEO Pay to Project Success

**Instead of Company Stock Performance**

By Sara Stein

Verizon Communications Inc. has implemented a new compensation strategy that ties the company's CEO pay to the success of the company's long-term projects. Under the new system, the company's CEO will receive a stock grant based on the success of a project or projects. The compensation plan is designed to align the interests of the CEO and the company's shareholders, as well as to motivate the CEO to focus on long-term projects.

**Ideas.**

**No self-respecting capitalist should ever be without.**

The Wall Street Journal

WEDNESDAY, OCTOBER 18, 2006

Chicago Markets

Merger May Set the City's Status as Derivatives Shapeshaper, Ending a Century-Old Rally

By Susan Carey

The Chicago Mercantile Exchange Inc. and the Chicago Board of Trade Inc. have announced a merger that could reshape the industry and set Chicago as the world's leading derivatives market. The merger is expected to create a new exchange that will offer a broader range of products and services.

Some of Chicago's Razzle Dazzle

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CME's Acquisition of CBOT Will Affect Big Pool of Investors; Direction Fees Will Go On Unchanged

By Peter H. M. 

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Earnings Digest

The earnings season is underway, with many companies reporting quarterly results. Here are some of the highlights from the past week.

MARKETS DIARY

DEALS & DEAL MAKERS

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Chicago Board of Trade

NYMEX

International Securities Exchange

**Ichord on this Market**

Go to www.wsj.com for more information on this market.
Chicago Solidifies Status in Derivatives Market

Chicago Mercantile Exchange (CME) has acquired the Chicago Board of Trade (CBOT) in a deal worth $6.81 billion, making it the world's biggest derivatives exchange.

The merger, announced today, will create a single, integrated derivatives exchange that will offer a broad range of products and services, including futures, options, and clearing services.

The move is expected to create significant cost savings and economies of scale, allowing the combined entity to offer more competitive pricing and more efficient clearing services.

"This is a historic day for the financial services industry," said CME CEO Terry Duffy. "The completion of this transaction will allow us to offer a more comprehensive set of products and services to our clients, and to do so at a lower cost than ever before."
Merrill’s Profits Surge After a Gain

**Solid Commodities Trading Also Helps Boost Results; ‘A Very Good Quarter’**

By Nadine Samuels

Merrill Lynch & Co. and third-quarter profit rose 22%, to $3.05 billion, or $3.19 a share, as gains in energy and metals trading helped boost results.

The world’s largest securities firm said it earned $1.32 billion, or 19 cents a share, in the third quarter of 2005.

The overall profit was 15 cents a share higher than the $1.17 billion, or 12 cents a share, that analysts surveyed by Thomson Financial had predicted.

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Merrill’s Profit Surges After a Gain

By Randal C. Smith

Merrill Lynch & Co. and third-quarter profits rose 47% to $3.8 billion, or $1.7 a share, aided by gains in trading and stock-market gains, the financial services firm said.

Monte G. Ball, 53, a Merrill director, was cited as the deal meant for its efforts to sell KEB.

‘‘With growth in our U.S. businesses slow- ing and the law firm’s future in doubt, the firm was better off to get rid of the bank and the core rate coming in at 5.2% was a pleasant surprise,” said Mr. Repetto.

In its latest quarter, Merrill said net revenue rose 35%, to $15.7 billion, from $11.6 billion a year earlier. The results were aided by stock- and option-trading gains, which rose 54%, to $8.9 billion, and by gains in its 55% stake in Bank of America’s credit-card business, which rose 44%, to $1.3 billion.

Merrill said net revenue, after inter- est, rose 8%, to $1.7 billion, from $1.6 billion a year earlier. The results were aided by gains in the 55% stake it has in Bank of America’s credit-card business, which rose 44%, to $1.3 billion.

The deal is expected to close during the fourth quarter. Merrill said it expects the deal to add between $250 million and $300 million to its pre-tax income in the first year.

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