

NASDAQ OMX GROUP, INC.
Form 10-Q
May 05, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from to

Commission file number: 000-32651

The NASDAQ OMX Group, Inc.

(Exact name of registrant as specified in its charter)

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| | |
|--|--|
| Delaware (State or Other Jurisdiction of Incorporation or Organization) | 52-1165937 (I.R.S. Employer Identification No.) |
| One Liberty Plaza, New York, New York (Address of Principal Executive Offices) | 10006 (Zip Code) |
| +1 212 401 8700 (Registrant's telephone number, including area code) | |

No changes

(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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | |
|--|--|
| Large accelerated filer <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at April 28, 2011 |
|---|--------------------------------------|
| Common Stock, \$.01 par value per share | 176,674,674 shares |

Table of Contents

The NASDAQ OMX Group, Inc.

Form 10-Q

For the Quarterly Period Ended March 31, 2011

INDEX

PART I. FINANCIAL INFORMATION

| | | |
|---------|---|----|
| Item 1. | <u>Financial Statements (unaudited)</u> | 2 |
| | <u>Condensed Consolidated Statements of Income Three Months Ended March 31, 2011 and 2010</u> | 2 |
| | <u>Condensed Consolidated Balance Sheets March 31, 2011 and December 31, 2010</u> | 3 |
| | <u>Condensed Consolidated Statements of Comprehensive Income Three Months Ended March 31, 2011 and 2010</u> | 4 |
| | <u>Condensed Consolidated Statements of Cash Flows Three Months Ended March 31, 2011 and 2010</u> | 5 |
| | <u>Notes to Condensed Consolidated Financial Statements</u> | 6 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 33 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 52 |
| Item 4. | <u>Controls and Procedures</u> | 55 |

PART II. OTHER INFORMATION

| | | |
|----------|--|----|
| Item 1. | <u>Legal Proceedings</u> | 55 |
| Item 1A. | <u>Risk Factors</u> | 55 |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 56 |
| Item 3. | <u>Defaults upon Senior Securities</u> | 56 |
| Item 4. | <u>(Removed and Reserved)</u> | 56 |
| Item 5. | <u>Other Information</u> | 56 |
| Item 6. | <u>Exhibits</u> | 56 |
| | <u>SIGNATURES</u> | 57 |

Table of Contents

About This Form 10-Q

Throughout this Form 10-Q, unless otherwise specified:

NASDAQ OMX, we, us and our refer to The NASDAQ OMX Group, Inc.

The NASDAQ Stock Market and NASDAQ refer to the registered national securities exchange operated by The NASDAQ Stock Market LLC.

OMX AB refers to OMX AB (publ), as that entity operated prior to the business combination with Nasdaq.

Nasdaq refers to The Nasdaq Stock Market, Inc., as that entity operated prior to the business combination with OMX AB.

NASDAQ OMX Nordic refers to collectively, NASDAQ OMX Stockholm, NASDAQ OMX Copenhagen, NASDAQ OMX Helsinki and NASDAQ OMX Iceland.

NASDAQ OMX Baltic refers to collectively, NASDAQ OMX Tallinn, NASDAQ OMX Riga and NASDAQ OMX Vilnius.

FINRA refers to the Financial Industry Regulatory Authority.

SEK or Swedish Krona refers to the lawful currency of Sweden.

NOK or Norwegian Krone refers to the lawful currency of Norway.

This Quarterly Report on Form 10-Q includes market share and industry data that we obtained from industry publications and surveys, reports of governmental agencies and internal company surveys. Industry publications and surveys generally state that the information they contain has been obtained from sources believed to be reliable, but we cannot assure you that this information is accurate or complete. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position are based on the most currently available market data. For market comparison purposes, The NASDAQ Stock Market data in this Quarterly Report on Form 10-Q for initial public offerings, or IPOs, is based on data generated internally by us, which includes best efforts underwritings and closed-end funds; therefore, the data may not be comparable to other publicly-available IPO data. Data in this Quarterly Report on Form 10-Q for new listings of equity securities on The NASDAQ Stock Market is based on data generated internally by us, which includes best efforts underwritings, issuers that switched from other listing venues, closed-end funds and exchange traded funds, or ETFs. Data in this Quarterly Report on Form 10-Q for IPOs and new listings of equities securities on the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic also is based on data generated internally by us. IPOs and new listings data is presented as of period end. While we are not aware of any misstatements regarding industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors. We refer you to the Risk Factors section in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and the Risk Factors section in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 that was filed with the U.S. Securities and Exchange Commission, or SEC, on February 24, 2011.

Table of Contents

Forward-Looking Statements

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This Quarterly Report on Form 10-Q contains these types of statements. Words such as anticipates, estimates, expects, projects, intends, plans, believes and words or terms of similar substance used in connection with any discussion of future expectations as to industry and regulatory developments or business initiatives and strategies, future operating results or financial performance identify forward-looking statements. These include, among others, statements relating to:

our 2011 outlook;

the scope, nature or impact of acquisitions, dispositions, investments or other transactional activities;

the integration of acquired businesses, including accounting decisions relating thereto;

the effective dates for, and expected benefits of, ongoing initiatives;

the impact of pricing changes;

tax benefits;

the cost and availability of liquidity; and

the outcome of any litigation and/or government investigation to which we are a party and other contingencies.

Forward-looking statements involve risks and uncertainties. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements include, among others, the following:

our operating results may be lower than expected;

loss of significant trading volume or listed companies;

economic, political and market conditions and fluctuations, including interest rate and foreign currency risk, inherent in U.S. and international operations;

government and industry regulation;

uncertainties related to our joint proposal with IntercontinentalExchange, Inc. to acquire NYSE Euronext, including our ability to enter into an agreement with NYSE Euronext and the terms of such agreement, as well as our ability and timing to obtain regulatory

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approvals for such acquisition and to consummate such acquisition;

our ability to successfully integrate acquired businesses, including the fact that such integration may be more difficult, time consuming or costly than expected, and our ability to realize synergies from business combinations and acquisitions;

the significant increase in our level of indebtedness if we are successful in our joint acquisition of NYSE Euronext;

covenants in our credit facilities, indentures and other agreements governing our indebtedness which may restrict the operation of our business, including the covenants in any new credit facilities or other financing agreements we would enter into in connection with an acquisition of NYSE Euronext; and

adverse changes that may occur in the securities markets generally.

Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the uncertainty and any risk related to forward-looking statements that we make. These risk factors are discussed under the caption Part II. Item 1A. Risk Factors, in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and more fully described in the Risk Factors section in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 that was filed with the SEC on February 24, 2011. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. You should carefully read this entire Form 10-Q, including Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, and the condensed consolidated financial statements and the related notes. Except as required by the federal securities laws, we undertake no obligation to update any forward-looking statement, release publicly any revisions to any forward-looking statements or report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Table of Contents**The NASDAQ OMX Group, Inc.****PART 1 FINANCIAL INFORMATION****Item 1. Financial Statements.****The NASDAQ OMX Group, Inc.****Condensed Consolidated Statements of Income****(Unaudited)****(in millions, except per share amounts)**

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2011 | 2010 |
| Revenues | | |
| Market Services | \$ 683 | \$ 652 |
| Issuer Services | 91 | 84 |
| Market Technology | 43 | 34 |
| Other | | 1 |
| Total revenues | 817 | 771 |
| Cost of revenues | | |
| Transaction rebates | (309) | (327) |
| Brokerage, clearance and exchange fees | (93) | (84) |
| Total cost of revenues | (402) | (411) |
| Revenues less transaction rebates, brokerage, clearance and exchange fees | 415 | 360 |
| Operating Expenses | | |
| Compensation and benefits | 112 | 98 |
| Marketing and advertising | 5 | 4 |
| Depreciation and amortization | 27 | 25 |
| Professional and contract services | 21 | 19 |
| Computer operations and data communications | 17 | 16 |
| Occupancy | 23 | 22 |
| Regulatory | 9 | 9 |
| Merger and strategic initiatives | 5 | |
| General, administrative and other | 15 | 55 |
| Total operating expenses | 234 | 248 |
| Operating income | 181 | 112 |
| Interest income | 2 | 2 |
| Interest expense | (30) | (25) |
| Dividend and investment income | (1) | |
| Income before income taxes | 152 | 89 |
| Income tax provision | 49 | 29 |

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| | | |
|---|---------------|--------------|
| Net income | 103 | 60 |
| Net loss attributable to noncontrolling interests | 1 | 1 |
| Net income attributable to NASDAQ OMX | \$ 104 | \$ 61 |
| Basic and diluted earnings per share: | | |
| Basic earnings per share | \$ 0.59 | \$ 0.29 |
| Diluted earnings per share | \$ 0.57 | \$ 0.28 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**The NASDAQ OMX Group, Inc.****Condensed Consolidated Balance Sheets**

(in millions, except share and par value amounts)

| | March 31, 2011 (Unaudited) | December 31, 2010 |
|--|----------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 439 | \$ 315 |
| Restricted cash | 60 | 60 |
| Financial investments, at fair value | 283 | 253 |
| Receivables, net | 327 | 298 |
| Deferred tax assets | 8 | 13 |
| Open clearing contracts: | | |
| Derivative positions, at fair value | 2,295 | 4,037 |
| Resale agreements, at contract value | 6,655 | 3,441 |
| Other current assets | 108 | 93 |
| | | |
| Total current assets | 10,175 | 8,510 |
| Non-current restricted cash | 105 | 105 |
| Property and equipment, net | 166 | 164 |
| Non-current deferred tax assets | 358 | 433 |
| Goodwill | 5,339 | 5,127 |
| Intangible assets, net | 1,773 | 1,719 |
| Other assets | 149 | 149 |
| | | |
| Total assets | \$ 18,065 | \$ 16,207 |
| | | |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 151 | \$ 142 |
| Section 31 fees payable to SEC | 70 | 82 |
| Accrued personnel costs | 71 | 122 |
| Deferred revenue | 237 | 122 |
| Other current liabilities | 149 | 119 |
| Deferred tax liabilities | 27 | 26 |
| Open clearing contracts: | | |
| Derivative positions, at fair value | 2,295 | 4,037 |
| Repurchase agreements, at contract value | 6,655 | 3,441 |
| Current portion of debt obligations | 140 | 140 |
| | | |
| Total current liabilities | 9,795 | 8,231 |
| Debt obligations | 2,150 | 2,181 |
| Non-current deferred tax liabilities | 716 | 698 |
| Non-current deferred revenue | 172 | 170 |
| Other liabilities | 195 | 198 |
| | | |
| Total liabilities | 13,028 | 11,478 |

Commitments and contingencies

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Equity

| | | |
|--|------------------|------------------|
| NASDAQ OMX stockholders' equity: | | |
| Common stock, \$0.01 par value, 300,000,000 shares authorized, shares issued: 213,377,707 at March 31, 2011 and 213,370,086 at December 31, 2010; shares outstanding: 176,300,916 at March 31, 2011 and 175,782,683 at December 31, 2010 | 2 | 2 |
| Preferred stock, 30,000,000 shares authorized, series A convertible preferred stock: shares issued: 1,600,000 at March 31, 2011 and December 31, 2010; shares outstanding: none at March 31, 2011 and December 31, 2010 | | |
| Additional paid-in capital | 3,784 | 3,780 |
| Common stock in treasury, at cost: 37,076,791 shares at March 31, 2011 and 37,587,403 shares at December 31, 2010 | (786) | (796) |
| Accumulated other comprehensive loss | (82) | (272) |
| Retained earnings | 2,108 | 2,004 |
| Total NASDAQ OMX stockholders' equity | 5,026 | 4,718 |
| Noncontrolling interests | 11 | 11 |
| Total equity | 5,037 | 4,729 |
| Total liabilities and equity | \$ 18,065 | \$ 16,207 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**The NASDAQ OMX Group, Inc.****Condensed Consolidated Statements of Comprehensive Income****(Unaudited)****(in millions)**

| | Three Months Ended March 31, | |
|---|---|--------------|
| | 2011 | 2010 |
| Net income | \$ 103 | \$ 60 |
| Other comprehensive income (loss): | | |
| Net unrealized holding losses on available-for-sale security: | | |
| Unrealized holding losses arising during the period | (4) | |
| Income tax benefit | 2 | |
| Total | (2) | |
| Foreign currency translation gains (losses): | | |
| Net foreign currency translation gains (losses) | 276 | (56) |
| Income tax (expense) benefit | (84) | 18 |
| Total | 192 | (38) |
| Unrealized losses on cash flow hedges: | | |
| Reclassification adjustment for loss realized in net income on cash flow hedges | | 9 |
| Income tax benefit recognized in net income during the period | | (3) |
| Total | | 6 |
| Total other comprehensive income (loss), net of tax | 190 | (32) |
| Comprehensive income | 293 | 28 |
| Comprehensive loss attributable to noncontrolling interests | 1 | 1 |
| Comprehensive income attributable to NASDAQ OMX | \$ 294 | \$ 29 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**The NASDAQ OMX Group, Inc.****Condensed Consolidated Statements of Cash Flows****(Unaudited)****(in millions)**

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2011 | 2010 |
| Cash flows from operating activities | | |
| Net income | \$ 103 | \$ 60 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 27 | 25 |
| Share-based compensation | 7 | 8 |
| Excess tax benefits related to share-based compensation | (3) | (1) |
| Provision for bad debts | 1 | 1 |
| Charges related to debt refinancing | | 37 |
| Deferred taxes, net | (11) | (9) |
| Asset retirements | | 3 |
| Accretion of debt discounts | 4 | 4 |
| Amortization of debt issuance costs | 2 | 1 |
| Other non-cash items included in net income | | 1 |
| Net change in operating assets and liabilities, net of effects of acquisitions: | | |
| Receivables, net | (26) | (80) |
| Other assets | (9) | (86) |
| Accounts payable and accrued expenses | 9 | 34 |
| Section 31 fees payable to SEC | (12) | (80) |
| Accrued personnel costs | (55) | (54) |
| Deferred revenue | 108 | 117 |
| Other current liabilities | 28 | 17 |
| Other liabilities | (2) | (14) |
| Cash provided by (used in) operating activities | 171 | (16) |
| Cash flows from investing activities | | |
| Purchases of trading securities | (114) | (119) |
| Proceeds from sales and redemptions of trading securities | 100 | 163 |
| Purchases of property and equipment | (10) | (11) |
| Cash provided by (used in) investing activities | (24) | 33 |
| Cash flows from financing activities | | |
| Proceeds from debt obligations, net of debt issuance costs | | 1,678 |
| Payments of debt obligations | (35) | (1,700) |
| Cash paid for repurchase of common stock | | (46) |
| Purchases of noncontrolling interests | | (2) |
| Issuances of common stock, net of treasury stock purchases | 5 | 1 |
| Excess tax benefits related to share-based compensation | 3 | 1 |
| Cash used in financing activities | (27) | (68) |
| Effect of exchange rate changes on cash and cash equivalents | 4 | (8) |

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| | | |
|--|--------|--------|
| Increase (decrease) in cash and cash equivalents | 124 | (59) |
| Cash and cash equivalents at beginning of period | 315 | 594 |
| Cash and cash equivalents at end of period | \$ 439 | \$ 535 |

Supplemental Disclosure Cash Flow Information

Cash paid for:

| | | |
|-----------------------------|-------|-------|
| Interest | \$ 33 | \$ 4 |
| Income taxes, net of refund | \$ 37 | \$ 14 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

The NASDAQ OMX Group, Inc.

Notes to Condensed Consolidated Financial Statements

1. Organization and Nature of Operations

We are a leading global exchange group that delivers trading, clearing, exchange technology, securities listing, and public company services across six continents. Our global offerings are diverse and include trading and clearing across multiple asset classes, market data products, financial indexes, capital formation solutions, financial services and market technology products and services. Our technology powers markets across the globe, supporting cash equity trading, derivatives trading, clearing and settlement and many other functions.

In the U.S., we operate The NASDAQ Stock Market, a registered national securities exchange. The NASDAQ Stock Market is the largest single cash equities securities market in the U.S. in terms of listed companies and in the world in terms of share value traded. As of March 31, 2011, The NASDAQ Stock Market was home to 2,760 listed companies with a combined market capitalization of approximately \$4.8 trillion. In addition, in the U.S. we operate two additional cash equities trading markets, two options markets, a futures market and a derivatives clearinghouse. We also engage in riskless principal trading of over-the-counter, or OTC, power and gas contracts.

In Europe, we operate exchanges in Stockholm (Sweden), Copenhagen (Denmark), Helsinki (Finland), and Iceland as NASDAQ OMX Nordic, and exchanges in Tallinn (Estonia), Riga (Latvia) and Vilnius (Lithuania) as NASDAQ OMX Baltic. Collectively, the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic offer trading in cash equities, bonds, structured products and ETFs, as well as trading and clearing of derivatives and clearing of resale and repurchase agreements. Our Nordic and Baltic operations also offer alternative marketplaces for smaller companies called NASDAQ OMX First North. As of March 31, 2011, the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic, together with NASDAQ OMX First North, were home to 773 listed companies with a combined market capitalization of approximately \$1.2 trillion.

We also operate NASDAQ OMX Armenia. In addition, NASDAQ OMX Commodities operates the world's largest power derivatives exchange, one of Europe's largest carbon exchanges and N2EX, a marketplace for physical U.K. power contracts.

In some of the countries where we operate exchanges, we also provide clearing, settlement and depository services.

We manage, operate and provide our products and services in three business segments: Market Services, Issuer Services and Market Technology.

Market Services

Our Market Services segment includes our U.S. and European Transaction Services businesses, as well as our Market Data and Broker Services businesses. We offer trading on multiple exchanges and facilities across several asset classes, including cash equities, derivatives, debt, commodities, structured products and ETFs. In addition, in some of the countries where we operate exchanges, we also provide clearing, settlement and depository services.

U.S. Transaction Services

In the U.S., we offer trading in cash equity securities, derivatives and ETFs on The NASDAQ Stock Market, The NASDAQ Options Market, NASDAQ OMX PHLX, NASDAQ OMX BX, NASDAQ OMX PSX and NASDAQ OMX Futures Exchange, or NFX, and engage in riskless principal trading of OTC power and gas contracts through NASDAQ OMX Commodities Clearing Company, or NOCC. Our transaction-based platforms in the U.S. provide market participants with the ability to access, process, display and integrate orders and quotes for cash equity securities, derivatives and ETFs. The platforms allow the routing and execution of buy and sell orders, as well as the reporting of transactions for cash equity securities, derivatives and ETFs, providing fee-based revenues.

Cash Equities Trading

The NASDAQ Stock Market is the largest single pool of liquidity for trading U.S.-listed cash equities, matching an average of approximately 16.5% of all U.S. cash equities volume for the three months ended March 31, 2011. With NASDAQ OMX BX and NASDAQ OMX PSX, we offer a second and third quote within the U.S. cash equities marketplace providing our customers enhanced trading choices and pricing flexibility within the U.S. cash equities marketplace. During the three months ended March 31, 2011, NASDAQ OMX BX matched an average

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of approximately 1.8% of all U.S. cash equities volume and NASDAQ OMX PSX matched an average of approximately 0.9% of all U.S. cash equities volume.

Table of Contents

U.S. Derivative Trading and Clearing

In the U.S., we operate The NASDAQ Options Market and NASDAQ OMX PHLX for the trading of equity options, ETF options, index options and currency options. As of March 31, 2011, NASDAQ OMX PHLX was the largest options market in the U.S. NASDAQ OMX PHLX operates a hybrid electronic and floor-based market as a distinct market alongside The NASDAQ Options Market. During the three months ended March 31, 2011, NASDAQ OMX PHLX and The NASDAQ Options Market had an average combined market share of approximately 28.7% in the U.S. equity options market, consisting of approximately 23.5% at NASDAQ OMX PHLX and approximately 5.2% at The NASDAQ Options Market. Together, the combined market share of 28.7% represented the largest share of the U.S. equity and ETF options market. Our options trading platforms provide trading opportunities to both retail investors and high frequency trading firms, who tend to prefer electronic trading, and institutional investors, who typically pursue more complex trading strategies and often prefer to trade on the floor.

In the U.S., we also operate NFX which offers trading for currency futures and other financial futures. Most futures traded on NFX clear at The Options Clearing Corporation, or OCC. In addition, NFX serves as the designated contract market for interest rate swap futures that are cleared through International Derivatives Clearinghouse, LLC, or IDCH.

Through IDCH, our majority-owned subsidiary International Derivatives Clearing Group, or IDCG, brings a centrally-cleared solution to the largest segment of the OTC derivatives marketplace, specifically interest rate derivative products. IDCH acts as the central counterparty, or CCP, for clearing interest rate swap futures contracts. IDCH utilizes NASDAQ OMX matching and clearing technology to clear and settle these interest rate derivative products.

With the purchase of the assets of North American Energy Credit and Clearing Corp. in March 2010 by our subsidiary NOCC, NASDAQ OMX expanded its presence in the OTC energy commodity markets.

European Transaction Services

Nordic Transaction Services

The exchanges that comprise NASDAQ OMX Nordic offer trading for cash equities and bonds, trading and clearing services for derivatives, and beginning September 2010, clearing services for resale and repurchase agreements. Our platform allows the exchanges to share the same trading system which enables efficient cross-border trading and settlement, cross membership and a single source for Nordic market data.

Trading is offered in Nordic securities such as cash equities and depository receipts, warrants, convertibles, rights, fund units, ETFs, bonds and other interest-related products. NASDAQ OMX Stockholm and NASDAQ OMX Copenhagen also offer trading in derivatives, such as stock options and futures, index options and futures, fixed-income options and futures and stock loans. Settlement and registration of cash trading takes place in Sweden, Finland, Denmark and Iceland via the local central securities depositories.

On NASDAQ OMX Stockholm, we offer clearing services for fixed-income options and futures, stock options and futures and index options and futures by serving as the CCP. In doing so, we guarantee the completion of the transaction and market participants can thereby limit their counterparty risk. We also act as the counterparty for certain OTC contracts. Most of our cash equity trades on the exchanges that comprise NASDAQ OMX Nordic are centrally cleared by European Multilateral Clearing Facility N.V., or EMCF, a leading European clearinghouse in which we own a 22% equity stake.

For further discussion of our Nordic clearing operations, see Open Clearing Contracts at NASDAQ OMX Commodities and NASDAQ OMX Stockholm, of Note 13, Fair Value of Financial Instruments.

Baltic Transaction Services

NASDAQ OMX Baltic operations comprise the exchanges in Tallinn (Estonia), Riga (Latvia) and Vilnius (Lithuania). As of March 31, 2011, NASDAQ OMX owns NASDAQ OMX Tallinn and has majority ownerships in NASDAQ OMX Vilnius and NASDAQ OMX Riga. In addition, NASDAQ OMX Tallinn owns the central securities depository in Estonia, NASDAQ OMX Riga owns the central securities depository in Latvia, and NASDAQ OMX Helsinki and NASDAQ OMX Vilnius have an equity interest in the central securities depository in Lithuania.

The exchanges that comprise NASDAQ OMX Baltic offer their members trading, clearing, payment and custody services. Issuers, primarily large local companies, are offered listing and a distribution network for their securities. The securities traded are mainly cash equities, bonds and treasury bills. Clearing, payment and custody services are offered through the central securities depositories in Estonia, Latvia and Lithuania. In addition, in Estonia and Latvia, NASDAQ OMX offers registry maintenance of fund units included in obligatory pension funds, and in Estonia,

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NASDAQ OMX offers the maintenance of shareholder registers for listed companies. The Baltic central securities depositories offer a complete range of cross-border settlement services.

Table of Contents

Pan-European Transaction Services

In the second quarter of 2010, we made a strategic decision to close the business of NASDAQ OMX Europe, or NEURO. We retained our London office and data hub, where we support trading and market data clients, run the U.K. power exchange N2EX and manage our overseas listings operation. As a result of this decision, we recorded a loss of \$6 million in the second quarter of 2010. Our decision to close the business of NEURO will not have a significant impact on our future results of operations.

Commodities Trading and Clearing

NASDAQ OMX Commodities offers derivatives and carbon products, operates a clearing business and offers consulting services to commodities markets globally. With our acquisition of Nord Pool in May 2010, NASDAQ OMX Commodities offering now includes the world's largest power derivatives exchange and one of Europe's largest carbon exchanges.

NASDAQ OMX Commodities has 356 members across a wide range of energy producers and consumers, as well as financial institutions. NASDAQ OMX Commodities offering is designed for banks, brokers, hedge funds and other financial institutions, as well as power utilities, industrial, manufacturing and oil companies. NASDAQ OMX Commodities offers clearing services for energy derivative and carbon product contracts by serving as the CCP. In doing so, we guarantee the completion of the transaction and market participants can thereby limit their counterparty risk. We also act as the counterparty for certain trades on OTC derivative contracts. In January 2011, NASDAQ OMX Commodities launched trading and clearing of futures based on the N2EX spot market.

For further discussion of our NASDAQ OMX Commodities clearing operations, see Derivative Positions, at Fair Value, of Note 13, Fair Value of Financial Instruments.

Access Services

We provide market participants with several alternatives for accessing our markets for a fee. We provide co-location services to market participants whereby firms may lease space for equipment within our data center. These participants are charged monthly fees for cabinet space, connectivity and support. In addition, we earn revenues from annual and monthly exchange membership and registration fees. Access Services revenues also include revenues from FTEN, Inc., or FTEN, which we acquired in December 2010. For further discussion of our acquisition of FTEN, see Note 4, Acquisitions.

Market Data

We earn Market Data revenues from U.S. tape plans and U.S. and European proprietary market data products.

Net U.S. Tape Plans

The NASDAQ Stock Market operates as the exclusive Securities Information Processor of the Unlisted Trading Privileges Plan, or the UTP Plan, for the collection and dissemination of best bid and offer information and last transaction information from markets that quote and trade in NASDAQ-listed securities. The NASDAQ Stock Market, NASDAQ OMX BX and NASDAQ OMX PSX are participants in the UTP Plan and share in the net distribution of revenue according to the plan on the same terms as the other plan participants. In the role as the Securities Information Processor, The NASDAQ Stock Market collects and disseminates quotation and last sale information for all transactions in NASDAQ-listed securities whether traded on The NASDAQ Stock Market or other exchanges. We sell this information to market participants and to data distributors, who then provide the information to subscribers. After deducting costs associated with our role as an exclusive Securities Information Processor, as permitted under the revenue sharing provision of the UTP Plan, we distribute the tape revenues to the respective UTP Plan participants, including The NASDAQ Stock Market, NASDAQ OMX BX and NASDAQ OMX PSX, based on a formula required by Regulation NMS that takes into account both trading and quoting activity. In addition, all quotes and trades in New York Stock Exchange, or NYSE,- and NYSE Amex-listed securities are reported and disseminated in real time, and as such, we share in the tape revenues for information on NYSE- and NYSE Amex-listed securities.

U.S. Market Data Products

Our market data products enhance transparency and provide critical information to professional and non-professional investors. We collect, process and create information and earn revenues as a distributor of our own, as well as select third-party content. We provide varying levels of quote and trade information to market participants and to data distributors, who in turn provide subscriptions for this information. Our systems enable distributors to gain direct access to our market depth, index values, mutual fund valuation, order imbalances, market sentiment and other

analytical data. We earn revenues primarily based on the number of data subscribers and distributors of our data.

Table of Contents

European Market Data Products

The exchanges that comprise NASDAQ OMX Nordic, NASDAQ OMX Baltic and NASDAQ OMX Commodities offer European market data products and services. These data products and services provide critical market transparency to professional and non-professional investors who participate in European marketplaces and, at the same time, give investors greater insight into these markets.

European market data products and services are based on the trading information from the exchanges that comprise NASDAQ OMX Nordic, NASDAQ OMX Baltic and NASDAQ OMX Commodities for four classes of assets: cash equities, bonds, derivatives and commodities. We provide varying levels of quote and trade information to market participants and to data distributors, who in turn provide subscriptions for this information. Revenues from European market data are subscription-based and are generated primarily based on the number of data subscribers and distributors of our data.

Broker Services

Our Broker Services operations offer technology and customized securities administration solutions to financial participants in the Nordic market. Broker Services provide services through a registered securities company which is regulated by the Swedish Financial Supervisory Authority. The primary services consist of flexible back-office systems, which allow customers to entirely or partly outsource their company's back-office functions.

We offer customer and account registration, business registration, clearing and settlement, corporate action handling for reconciliations and reporting to authorities. Available services also include direct settlement with the Nordic central securities depositories, real-time updating and communication via the Society for Worldwide Interbank Financial Telecommunication to deposit banks. Revenues are based on a fixed basic fee for back-office brokerage services, such as administration or licensing, maintenance and operations, and a variable portion that depends on the number of transactions completed.

Issuer Services

Our Issuer Services segment includes our Global Listing Services and Global Index Group businesses.

We operate a variety of listing platforms around the world to provide multiple global capital raising solutions for private and public companies. Our main listing markets are The NASDAQ Stock Market and the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic. We offer a consolidated global listing application to companies to enable them to apply for listing on The NASDAQ Stock Market and the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic, as well as NASDAQ Dubai Limited, or NASDAQ Dubai.

Global Listing Services

Our Global Listing Services business includes our U.S. Listings, European Listings and Corporate Solutions businesses.

U.S. Listings

Companies listed on The NASDAQ Stock Market represent a diverse array of industries including health care, consumer products, telecommunication services, information technology, financial services, industrials and energy. There are three types of fees applicable to companies that list on The NASDAQ Stock Market: an annual renewal fee, a listing of additional shares fee and an initial listing fee. Annual renewal fees for securities listed on The NASDAQ Stock Market are based on total shares outstanding. The fee for listing of additional shares is also based on the total shares outstanding, which we review quarterly, and the initial listing fee for securities listed on The NASDAQ Stock Market includes a listing application fee and a total shares outstanding fee.

European Listings

We also offer listings on our Nordic and Baltic exchanges and NASDAQ OMX First North. Revenues are generated through annual fees paid by companies listed on these exchanges, which are measured in terms of the listed company's market capitalization on a trailing 12-month basis. Our European listing customers are organizations such as companies, funds or governments that issue and list securities on the exchanges of NASDAQ OMX Nordic and NASDAQ OMX Baltic. Customers issue securities in the forms of cash equities, depository receipts, warrants, ETFs, convertibles, rights, options, bonds and fixed-income related products.

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For smaller companies and growth companies, we offer access to the financial markets through the NASDAQ OMX First North alternative marketplaces.

Table of Contents

Corporate Solutions

Our Corporate Solutions business provides customer support services, products and programs to companies, including companies listed on our exchanges. Through our Corporate Solutions offerings, companies gain access to innovative products and services that ease transparency, maximize board efficiency and facilitate better corporate governance.

Global Index Group

We develop and license NASDAQ OMX branded indexes, associated derivatives and financial products as part of our Global Index Group. We believe that these indexes and products leverage, extend and enhance the NASDAQ OMX brand. License fees for our trademark licenses vary by product based on a percentage of underlying assets, dollar value of a product issuance, number of products or number of contracts traded. In addition to generating licensing revenues, these products, particularly mutual funds and ETFs, lead to increased investments in companies listed on our global exchanges, which enhances our ability to attract new listings. We also license cash-settled options, futures and options on futures on our indexes.

Market Technology

The Market Technology segment delivers technology and services to marketplaces, brokers and regulators throughout the world. Market Technology provides technology solutions for trading, clearing, settlement and information dissemination, and also offers facility management integration, surveillance solutions and advisory services to over 70 exchanges, clearing organizations and central securities depositories in more than 50 countries. We serve as a technology partner to some of the world's most prominent exchanges, and we also provide critical technical support to start-ups and new entrants in the exchange space. Revenues are derived from the following primary sources:

license, support and facility management revenues;

delivery project revenues; and

change request, advisory and broker surveillance revenues.

License and support revenues are derived from the system solutions developed and sold by NASDAQ OMX. After we have developed and sold a system solution, the customer licenses the right to use the software and may require post contract support and other services. Facility management revenues are derived when NASDAQ OMX assumes responsibility for the continuous operation of a system platform for a customer.

Delivery project revenues are derived from the installation phase of the system solutions developed and sold by NASDAQ OMX. The majority of our delivery projects involve individual adaptations to the specific requirements of the customer, such as those relating to functionality and capacity.

Change request revenues include customer specific adaptations and modifications of the system solution sold by NASDAQ OMX after delivery has occurred. Advisory services are designed to support our customers' strategies and help them with critical decisions in a highly demanding business environment. Broker surveillance revenues are derived from surveillance solutions targeting brokers and regulators throughout the world.

For further discussion of our segments, see Note 16, Segments.

2. Basis of Presentation and Principles of Consolidation

The condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. The accompanying unaudited condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal recurring nature. The financial statements include the accounts of NASDAQ OMX, its wholly-owned subsidiaries and other entities in which NASDAQ OMX has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation. We consolidate those entities in

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which we are the primary beneficiary of a variable-interest entity, or VIE, and entities where we have a controlling financial interest. We were not the primary beneficiary of any VIE during the three months ended March 31, 2011 and 2010. When NASDAQ OMX is not the primary beneficiary of a VIE or does not have a controlling interest in an entity but exercises significant influence over the entity's operating and financial policies, such investment is accounted for under the equity method of accounting. We recognize our share of earnings or losses of an equity method investee based on our ownership percentage. See Equity Method Investments of Note 6, Investments, for further discussion of our equity method investments.

Table of Contents

As permitted under U.S. GAAP, certain footnotes or other financial information can be condensed or omitted in the interim condensed consolidated financial statements. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in NASDAQ OMX's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Certain prior year amounts have been reclassified to conform to the current year presentation.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

We have evaluated our subsequent events through the issuance date of this Quarterly Report on Form 10-Q. See Note 17, Subsequent Events, for further discussion.

Income Taxes

We use the asset and liability method to provide income taxes on all transactions recorded in the condensed consolidated financial statements. Deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (i.e., temporary differences) and are measured at the enacted rates that will be in effect when these differences are realized. If necessary, a valuation allowance is established to reduce deferred tax assets to the amount that is more likely than not to be realized.

In order to recognize and measure our unrecognized tax benefits, management determines whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the recognition thresholds, the position is measured to determine the amount of benefit to be recognized in the condensed consolidated financial statements. Interest and/or penalties related to income tax matters are recognized in income tax expense.

In the fourth quarter of 2010, we received an appeal from the Finnish Tax Authority in which such authority challenges certain interest expense deductions claimed by NASDAQ OMX in Finland for the years 2009 and 2008. NASDAQ OMX's tax return position with respect to this deduction was previously reviewed and approved by the Finnish Tax Authority. The appeal also demands certain penalties be paid with regards to such tax return filing position. If the Finnish Tax Authority prevails in their challenge, additional tax and penalties for such years would total approximately \$10 million. We expect the Finnish Tax Authority to agree with our position once its review is completed and, as such, believe it is unlikely NASDAQ OMX will be assessed any additional tax and penalties. Through March 31, 2011, we have recorded the tax benefits associated with such filing position.

In June 2009, NASDAQ OMX filed an application for an advance tax ruling with the Swedish Tax Council for Advance Tax Rulings. The application was filed to confirm whether certain interest expense is deductible for Swedish tax purposes under legislation that became effective on January 1, 2009. In June 2010, we received a favorable response from the Swedish Tax Council for Advance Tax Rulings in which all members of the Council agreed that such interest expense is deductible for Swedish tax purposes. The Swedish Tax Agency has appealed such ruling to the Swedish Supreme Administrative Court. We expect the Swedish Supreme Administrative Court to agree with the ruling from the Swedish Tax Council for Advance Tax Rulings. In the first quarter of 2011, we recorded a tax benefit of \$5 million, or \$0.03 per diluted share and in the first quarter of 2010, we recorded a tax benefit of \$5 million, or \$0.02 per diluted share, related to this matter. Since January 1, 2009, we have recorded a tax benefit of \$42 million, or \$0.20 per diluted share, related to this matter.

3. Recently Adopted Accounting Pronouncements

ASC Topic 820 In January 2010, the Financial Accounting Standards Board, or FASB, issued amended guidance relating to FASB Accounting Standards Codification, or ASC, Topic 820, Fair Value Measurements and Disclosures. The amended guidance requires new disclosures as follows:

Amounts related to transfers in and out of Levels 1 and 2 shall be disclosed separately and the reasons for the transfers shall be described.

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In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements on a gross basis.

The guidance also provides amendments that clarify existing disclosures related to the following:

Reporting fair value measurement disclosures for each class of assets and liabilities.

Table of Contents

Providing disclosure surrounding the valuation techniques and inputs used to measure fair value for both Level 2 and Level 3 fair value measurements.

This accounting guidance was effective for us beginning on January 1, 2010, except for the disclosure requirements surrounding the reconciliation of Level 3 fair value measurements, which were effective for us on January 1, 2011. Since this guidance only required additional disclosure, it did not affect our financial position or results of operations.

4. Acquisitions

We completed the following acquisitions in 2010. The results of operations of each transaction are included in our Condensed Consolidated Statements of Income from the dates of each acquisition.

| | Purchase Consideration | Total Net (Liabilities) Assets Acquired | Purchased Intangible Assets | Goodwill |
|--------------------------|---------------------------|---|--------------------------------|----------|
| | (in millions) | | | |
| FTEN ⁽¹⁾ | \$ 110 | \$ (1) | \$ 46 | \$ 65 |
| SMARTS ⁽²⁾ | 77 | (5) | 28 | 54 |
| Nord Pool ⁽³⁾ | 17 | 7 | 2 | 8 |
| Total for 2010 | \$ 204 | \$ 1 | \$ 76 | \$ 127 |

- ⁽¹⁾ In December 2010, we acquired FTEN, a leading provider of Real-Time Risk Management solutions for the financial securities market for \$110 million. FTEN purchase consideration included \$11 million held in escrow to be paid in 2012, in accordance with the purchase agreement. We acquired net assets, at fair value, totaling \$3 million and recorded a current deferred tax liability of \$2 million and a non-current deferred tax liability of \$16 million related to purchased intangible assets, and we also recorded a non-current deferred tax asset of \$14 million related to net operating loss carry forwards, resulting in total net liabilities acquired of \$1 million. The total deferred tax liabilities of \$18 million represent the tax effect of the difference between the estimated assigned fair value of the acquired intangible assets (\$46 million) and the tax basis (\$0) of such assets. The estimated amount of \$18 million is determined by multiplying the difference of \$46 million by FTEN's effective tax rate of 39.55%. The purchased intangible assets of \$46 million consisted of \$23 million in customer relationships, \$12 million in technology, \$9 million for the FTEN trade name and \$2 million related to non-compete agreements.
- ⁽²⁾ In August 2010, we acquired SMARTS Group Holdings Pty Ltd, or SMARTS, a leading technology provider of surveillance solutions to exchanges, regulators and brokers to diversify our Market Technology business and enter the broker surveillance and compliance market. We completed our acquisition of SMARTS for \$77 million, which included a \$75 million initial purchase price, as well as a \$2 million working capital adjustment. SMARTS purchase consideration also included \$2 million held in escrow that was paid in the first quarter of 2011 and \$12 million held in escrow to be paid in 2012, in accordance with the purchase agreement. We acquired net assets, at fair value, totaling \$3 million and recorded a current deferred tax liability of \$1 million and a non-current deferred tax liability of \$7 million related to purchased intangible assets, resulting in total net liabilities acquired of \$5 million. The total deferred tax liabilities of \$8 million represent the tax effect of the difference between the estimated assigned fair value of the acquired intangible assets (\$28 million) and the tax basis (\$0) of such assets. The estimated amount of \$8 million is determined by multiplying the difference of \$28 million by SMARTS' effective tax rate of 30%. The purchased intangible assets of \$28 million consisted of \$11 million in technology and \$17 million in customer relationships.
- ⁽³⁾