

NASDAQ OMX GROUP, INC.

Form 10-Q

November 06, 2009

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2009

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)

Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

**Delaware**  
(State or Other Jurisdiction of

**52-1165937**  
(I.R.S. Employer

**Incorporation or Organization)**

**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 ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if smaller reporting company.)

Smaller reporting company ☐

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

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

**Class**  
Common Stock, \$.01 par value per share

**Outstanding at October 30, 2009**  
211,072,230 shares

**Table of Contents**

**The NASDAQ OMX Group, Inc.**

**Form 10-Q**

**For the Quarterly Period Ended September 30, 2009**

**INDEX**

**PART I. FINANCIAL INFORMATION**

|         |  |    |
|---------|--|----|
| Item 1. | <u>Financial Statements (unaudited)</u>  | 2  |
|         | <u>Condensed Consolidated Statements of Income Three and Nine Months Ended September 30, 2009 and 2008</u> | 2  |
|         | <u>Condensed Consolidated Balance Sheets September 30, 2009 and December 31, 2008</u>                      | 3  |
|         | <u>Condensed Consolidated Statements of Cash Flows Nine Months Ended September 30, 2009 and 2008</u>       | 4  |
|         | <u>Notes to Condensed Consolidated Financial Statements</u>  | 5  |
| 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>  | 54 |
| Item 4. | <u>Controls and Procedures</u>   | 57 |

**PART II. OTHER INFORMATION**

|          |  |    |
|----------|--|----|
| Item 1.  | <u>Legal Proceedings</u>   | 58 |
| Item 1A. | <u>Risk Factors</u>  | 58 |
| Item 2.  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 58 |
| Item 3.  | <u>Defaults upon Senior Securities</u>                             | 58 |
| Item 4.  | <u>Submission of Matters to a Vote of Security Holders</u>         | 58 |
| Item 5.  | <u>Other Information</u>   | 58 |
| Item 6.  | <u>Exhibits</u>  | 58 |
|          | <u>SIGNATURES</u>  | 59 |

**Table of Contents**

**About This Form 10-Q**

The NASDAQ OMX Group, Inc. is a holding company created by the business combination of The Nasdaq Stock Market, Inc. and OMX AB (publ) which was completed on February 27, 2008. Under the purchase method of accounting, Nasdaq was treated as the accounting and legal acquirer in this business combination. As such, Nasdaq is the predecessor reporting entity of NASDAQ OMX and the results of operations of OMX are only included in NASDAQ OMX's consolidated results of operations beginning February 27, 2008.

Throughout this Form 10-Q, unless otherwise specified:

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

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

The NASDAQ Exchange, 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.

OMX refers to OMX AB (publ) subsequent to the business combination with Nasdaq.

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.

PHLX refers to the Philadelphia Stock Exchange, Inc. and its subsidiaries, as that entity operated prior to its acquisition by NASDAQ OMX.

NASDAQ OMX PHLX refers to NASDAQ OMX PHLX, Inc. subsequent to its acquisition by NASDAQ OMX.

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 provided by Thomson Financial, which does not include best efforts underwritings, and we have chosen to exclude 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 secondary offerings for The NASDAQ Stock

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

Market also is based on data provided by Thomson Financial. 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 and issuers that switched from other listing venues, closed-end funds and exchange traded funds, or ETFs. OMX data in this Quarterly Report on Form 10-Q for IPOs and new listings of equity securities on the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic also is based on data generated internally by us. IPOs, secondary offerings 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 undertake no obligation to update any industry data, except as may be required by the federal securities laws. We refer you to the

Risk Factors section in this Quarterly Report on Form 10-Q, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009 that was filed with the Securities and Exchange Commission, or SEC, on August 7, 2009, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009 that was filed with the SEC on May 8, 2009 and our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 that was filed with the SEC on February 27, 2009.

**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 operating results or financial performance identify forward-looking statements. These include, among others, statements relating to:*

*our 2009 or 2010 outlook;*

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

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

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

*the impact of pricing changes;*

*future 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:*

*that our operating results may be lower than expected;*

*our ability to successfully integrate our recently 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;*

*loss of significant trading volume or listed companies;*

*covenants in our credit facilities, indentures and other agreements governing our indebtedness which may restrict the operation of our business;*

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

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

*global economic and credit conditions;*

*government and industry regulation; 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, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009 that was filed with the SEC on August 7, 2009, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009 that was filed with the SEC on May 8, 2009 and more fully described in the Risk Factors section in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 that was filed with the SEC on February 27, 2009. 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 1. 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, report events or to 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)**

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |              |
|--|---|-------------|--|--------------|
|  | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b>  |
| <b>Revenues</b>  |   |             |  |              |
| Market Services  | \$ 691                                      | \$ 869      | \$ 2,243                                   | \$ 2,275     |
| Issuer Services  | 80  | 89          | 241  | 258          |
| Market Technology  | 36  | 29          | 100  | 84           |
| Other  | 3   | 3           | 9  | 8            |
| Total revenues   | 810   | 990         | 2,593                                      | 2,625        |
| <b>Cost of revenues</b>  |   |             |  |              |
| Liquidity rebates  | (329)                                       | (484)       | (1,167)                                    | (1,216)      |
| Brokerage, clearance and exchange fees   | (132)                                       | (107)       | (342)                                      | (352)        |
| Total cost of revenues   | (461)                                       | (591)       | (1,509)                                    | (1,568)      |
| <b>Revenues less liquidity rebates, brokerage, clearance and exchange fees</b> | <b>349</b>                                  | <b>399</b>  | <b>1,084</b>                               | <b>1,057</b> |
| <b>Operating expenses</b>  |   |             |  |              |
| Compensation and benefits  | 99  | 106         | 302  | 294          |
| Marketing and advertising  | 3   | 7           | 7  | 13           |
| Depreciation and amortization  | 27  | 28          | 78   | 66           |
| Professional and contract services   | 20  | 17          | 56   | 53           |
| Computer operations and data communications                                    | 14  | 16          | 42   | 42           |
| Occupancy  | 19  | 19          | 55   | 48           |
| Regulatory   | 10  | 7           | 29   | 22           |
| Merger expenses  | 5   | 9           | 16   | 16           |
| General, administrative and other  | 21  | 18          | 44   | 43           |
| Total operating expenses   | 218   | 227         | 629  | 597          |
| Operating income   | 131   | 172         | 455  | 460          |
| Interest income  | 3   | 9           | 10   | 28           |
| Interest expense   | (26)  | (29)        | (77)                                       | (63)         |
| Dividend and investment income   | 1   | 2           | 2  | 5            |
| Loss on sale of investment security  |   |             | (5)  |              |
| Income (loss) from unconsolidated investees, net                               |   |             | (20)                                       | 27           |
| Debt conversion expense  | (25)  |             | (25)                                       |              |



# Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Asset impairment charges                                   |         | (7)     |         | (7)     |
| Loss on foreign currency contracts, net                    |         | (51)    |         | (11)    |
| Income before income taxes                                 | 84      | 96      | 340     | 439     |
| Income tax provision                                       | 25      | 38      | 119     | 159     |
| <b>Net income</b>  | 59      | 58      | 221     | 280     |
| Net (income) loss attributable to noncontrolling interests | 1       |         | 2       | (1)     |
| <b>Net income attributable to NASDAQ OMX</b>               | \$ 60   | \$ 58   | \$ 223  | \$ 279  |
| <b>Basic and diluted earnings per share:</b>               |         |         |         |         |
| Basic  | \$ 0.30 | \$ 0.29 | \$ 1.10 | \$ 1.49 |
| Diluted  | \$ 0.28 | \$ 0.27 | \$ 1.05 | \$ 1.40 |

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)

|  | September 30,<br>2009<br>(Unaudited) | December 31,<br>2008 |
|--|--------------------------------------|----------------------|
| <b>Assets</b>  |                                      |                      |
| Current assets:  |                                      |                      |
| Cash and cash equivalents  | \$ 311                               | \$ 374               |
| Restricted cash  | 155                                  | 141                  |
| Financial investments, at fair value   | 257                                  | 227                  |
| Receivables, net   | 379                                  | 339                  |
| Deferred tax assets  | 43                                   | 27                   |
| Market value, outstanding derivative positions   | 3,569                                | 4,122                |
| Other current assets   | 198                                  | 198                  |
| Total current assets   | 4,912                                | 5,428                |
| Non-current restricted cash  | 50                                   | 50                   |
| Property and equipment, net  | 165                                  | 183                  |
| Non-current deferred tax assets  | 403                                  | 659                  |
| Goodwill   | 4,922                                | 4,492                |
| Intangible assets, net   | 1,675                                | 1,583                |
| Other assets   | 215                                  | 357                  |
| Total assets   | \$ 12,342                            | \$ 12,752            |
| <b>Liabilities</b>   |                                      |                      |
| Current liabilities:   |                                      |                      |
| Accounts payable and accrued expenses  | \$ 229                               | \$ 242               |
| Section 31 fees payable to SEC   | 41                                   | 49                   |
| Accrued personnel costs  | 112                                  | 157                  |
| Deferred revenue   | 137                                  | 98                   |
| Other accrued liabilities  | 90                                   | 165                  |
| Deferred tax liabilities   | 24                                   | 19                   |
| Market value, outstanding derivative positions   | 3,569                                | 4,122                |
| Current portion of debt obligations  | 169                                  | 225                  |
| Total current liabilities  | 4,371                                | 5,077                |
| Debt obligations   | 1,920                                | 2,299                |
| Non-current deferred tax liabilities   | 726                                  | 696                  |
| Non-current deferred revenue   | 159                                  | 155                  |
| Other liabilities  | 180                                  | 222                  |
| Total liabilities  | 7,356                                | 8,449                |
| <b>Commitments and contingencies</b>   |                                      |                      |
| Series A convertible preferred stock   | 15                                   |                      |
| <b>Equity</b>  |                                      |                      |
| NASDAQ OMX stockholders' equity:   |                                      |                      |
| Common stock, \$0.01 par value, 300,000,000 shares authorized, shares issued: 211,376,687 at September 30, 2009 and 202,188,144 at December 31, 2008; shares outstanding: 211,059,532 at | 2                                    | 2                    |

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

September 30, 2009 and 201,896,700 at December 31, 2008

Preferred stock, 30,000,000 shares authorized, series A convertible preferred stock: shares issued and outstanding: 1,600,000 at September 30, 2009 (classified above as temporary equity) and none at December 31, 2008

|   |               |               |
|---|---------------|---------------|
| Additional paid-in capital  | 3,723         | 3,569         |
| Common stock in treasury, at cost: 317,155 shares at September 30, 2009 and 291,444 shares at December 31, 2008 | (11)          | (10)          |
| Accumulated other comprehensive loss  | (331)         | (619)         |
| Retained earnings   | 1,567         | 1,344         |
| <br>Total NASDAQ OMX stockholders' equity   | <br>4,950     | <br>4,286     |
| Noncontrolling interests  | 21            | 17            |
| <br>Total equity  | <br>4,971     | <br>4,303     |
| <br>Total liabilities, series A convertible preferred stock and equity  | <br>\$ 12,342 | <br>\$ 12,752 |

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)**

|   | <b>Nine Months<br/>Ended September 30,</b> |                |
|---|--|----------------|
|   | <b>2009</b>                                | <b>2008</b>    |
| <b>Cash flows from operating activities</b>   |  |                |
| Net income  | \$ 221                                     | \$ 280         |
| Net (income) expense attributable to noncontrolling interests   | 2  | (1)            |
| Net income attributable to NASDAQ OMX   | 223  | 279            |
| Adjustments to reconcile net income to cash provided by operating activities:                             |  |                |
| Depreciation and amortization   | 78   | 66             |
| Share-based compensation  | 25   | 18             |
| Excess tax benefits related to share-based compensation   | (4)  | (5)            |
| Provision for bad debts   | 2  | (3)            |
| Gain on early extinguishment of debt  | (4)  |                |
| Loss on foreign currency contracts, net   |  | 11             |
| Asset retirements and impairment charges  | 11   | 7              |
| Deferred taxes, net   | 3  | (65)           |
| Loss on sale of investment security   | 5  |                |
| (Income) loss from unconsolidated investees, net  | 20   | (27)           |
| Debt conversion expense   | 25   |                |
| Accretion of 2.50% convertible senior notes   | 10   | 8              |
| Other non-cash items included in net income   | (1)  | 2              |
| Net change in operating assets and liabilities, net of effects of acquisitions:                           |  |                |
| Receivables, net  | (40)                                       | 18             |
| Other assets  | (8)  | (412)          |
| Accounts payable and accrued expenses   | (3)  | 27             |
| Section 31 fees payable to SEC  | (8)  | (89)           |
| Accrued personnel costs   | (51)                                       | (47)           |
| Deferred revenue  | 33   | 34             |
| Other accrued liabilities   | (73)                                       | (2)            |
| Other liabilities   | (15)                                       | (9)            |
| <b>Cash provided by (used in) operating activities</b>  | <b>228</b>                                 | <b>(189)</b>   |
| <b>Cash flows from investing activities</b>   |  |                |
| Purchases of trading securities   | (307)                                      | (72)           |
| Proceeds from sales and redemptions of trading securities   | 305  |                |
| Proceeds from sale of available-for-sale investments  | 25   | 14             |
| Proceeds from sale of equity method investment  | 54   |                |
| Purchases of foreign currency contracts   |  | (13)           |
| Settlement of foreign currency contracts  |  | 67             |
| Acquisitions of businesses, net of cash and cash equivalents acquired and purchase accounting adjustments | (20)                                       | (2,740)        |
| Purchases of property and equipment   | (46)                                       | (39)           |
| <b>Cash provided by (used in) investing activities</b>  | <b>11</b>                                  | <b>(2,783)</b> |

|  |              |              |
|--|--------------|--------------|
| <b>Cash flows from financing activities</b>                  |              |              |
| Proceeds from contributions of noncontrolling interests      | 7            |              |
| Proceeds from debt obligations, net of debt issuance costs   |              | 2,426        |
| Payments of debt obligations                                 | (341)        | (390)        |
| Cash inducement payment                                      | (9)          |              |
| Issuances of common stock, net of treasury stock purchases   | 7            | 5            |
| Excess tax benefits related to share-based compensation      | 4            | 5            |
| <b>Cash provided by (used in) financing activities</b>       | <b>(332)</b> | <b>2,046</b> |
| Effect of exchange rate changes on cash and cash equivalents | 30           | (17)         |
| Decrease in cash and cash equivalents                        | (63)         | (943)        |
| Cash and cash equivalents at beginning of period             | 374          | 1,325        |
| Cash and cash equivalents at end of period                   | \$ 311       | \$ 382       |
| <b>Supplemental Disclosure Cash Flow Information</b>         |              |              |
| Cash paid for:   |              |              |
| Interest   | \$ 58        | \$ 37        |
| Income taxes, net of refund                                  | \$ 154       | \$ 216       |

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**

On February 27, 2008, Nasdaq and OMX AB combined their businesses and Nasdaq was renamed The NASDAQ OMX Group, Inc. We are a leading global exchange group that delivers trading, exchange technology, securities listing, and public company services across six continents. Our global offerings are diverse and include trading 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 electronic cash equity securities market in the world in terms of share value traded. As of September 30, 2009, The NASDAQ Stock Market was home to 2,836 listed companies with a combined market capitalization of approximately \$4 trillion. In addition, in the U.S. we operate NASDAQ OMX PHLX, which is the third largest U.S. options market, The NASDAQ Options Market, a second options market, NASDAQ OMX BX, a second cash equities trading market, NASDAQ OMX Futures Exchange, or NFX, a futures market, and International Derivatives Clearing Group, or IDCG, a derivatives clearinghouse.

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. In addition, we operate NASDAQ OMX Europe (London), a marketplace for pan-European blue chip securities trading, NASDAQ OMX Commodities (Norway), an offering for trading and clearing commodities, and the Armenian Stock Exchange.

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. Our Nordic and Baltic operations also offer alternative marketplaces for smaller companies called NASDAQ OMX First North. As of September 30, 2009, the exchanges within NASDAQ OMX Nordic and NASDAQ OMX Baltic were home to 800 listed companies with a combined market capitalization of approximately \$859 billion.

We also operate two registered broker-dealers: Nasdaq Execution Services and NASDAQ Options Services. Nasdaq Execution Services is a wholly-owned subsidiary of The NASDAQ Stock Market. It has no customers, accepts orders from one user, The NASDAQ Stock Market, and currently operates solely as the routing broker for The NASDAQ Stock Market. Nasdaq Execution Services is distinguished from most broker-dealers in that it is a facility of The NASDAQ Stock Market. NASDAQ Options Services is also a wholly-owned subsidiary of The NASDAQ Stock Market. It performs a comparable function to Nasdaq Execution Services with respect to routing of orders from The NASDAQ Options Market.

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 equities, derivatives, debt, commodities, structured products and ETFs.

##### ***U.S. Transaction Services***

In the U.S., we offer trading in equity securities, derivatives and ETFs on The NASDAQ Stock Market, NASDAQ OMX PHLX, The NASDAQ Options Market, NASDAQ OMX BX and NFX. 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 equities and derivatives. 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.

## **Table of Contents**

### ***European Transaction Services***

#### **Nordic Transaction Services**

The exchanges that comprise NASDAQ OMX Nordic offer trading for equities and bonds and trading and clearing services for derivatives. Our platform allows the exchanges to share the same trading system which enables efficient cross-border trading, cross membership, and one source for Nordic market data.

Cash trading is offered in Nordic securities such as equities and depository receipts, warrants, convertibles, rights, fund units, ETFs, bonds and other interest-related products. NASDAQ OMX Nordic also offers trading in derivatives, such as stock options and futures, index options and futures, fixed-income options and futures and stock loans.

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 central counterparty, or 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 over-the-counter, or OTC, contracts. The transactions are reported electronically prior to CCP clearing and we thereby guarantee the completion of the transaction. Following the completion of a transaction, settlement takes place between parties with the exchange of the securities and funds. The transfer of ownership is registered and the securities are stored on the owner's behalf. Settlement and registration of cash trading takes place in Sweden, Finland, Denmark and Iceland via the local central securities depositories. Beginning in October 2009, most of our 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.

#### **Baltic Transaction Services**

NASDAQ OMX holds a 62% ownership stake in NASDAQ OMX Tallinn (Estonia) and holds a 93% ownership stake in both NASDAQ OMX Riga (Latvia) and NASDAQ OMX Vilnius (Lithuania). In addition, we own the central securities depositories in Estonia and Latvia, and 40% of 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 companies, are offered listing and a distribution network for their securities. The securities traded are mainly 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, 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.

#### **Pan-European Transaction Services**

NASDAQ OMX Europe is a marketplace designed for high performance trading of the most actively traded European stocks. It is the first platform to connect European liquidity pools with pan-European routing. As of September 30, 2009, NASDAQ OMX Europe traded 995 securities including constituents of the main European indices, ETFs and other highly liquid securities.

#### **Commodities Trading and Clearing**

NASDAQ OMX Commodities, together with third party partner Nord Pool ASA, or Nord Pool, provides access to the world's largest power derivatives markets and one of Europe's largest carbon markets. NASDAQ OMX Commodities offers international derivatives and carbon products, operates a clearing business and offers consulting services to commodities markets globally. Nord Pool is responsible for exchange operations and trading activities, including ownership of Nordic derivatives products. NASDAQ OMX Commodities and Nord Pool have 388 members from 22 countries 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 trades on the OTC derivative market subject to our approval on a case-by-case basis. Trading on the contracts can take place up until the delivery period which can occur over a period of up to six years.

### ***Access Services***

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

We provide market participants with several alternatives for accessing our markets for a fee. We also earn revenues from annual and monthly exchange membership and registration fees.



## **Table of Contents**

### ***Market Data***

Market Data revenues are earned from U.S. tape plans and proprietary U.S. and European 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 also is a participant in the UTP Plan and shares 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 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 fees to the respective UTP Plan participants, including The NASDAQ Stock Market, 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 fees 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 market data. 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.

#### **European Market Data Products**

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

Information products and services are based on trading information from the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic for three classes of securities: equities, bonds and derivative instruments. 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 and in the United Kingdom. Broker Services provide services through a registered securities company which is regulated by the Swedish and United Kingdom Financial Supervisory Authorities. The primary services include 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.

### ***Global Listing Services***

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

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

### U.S. Listings

In the U.S., 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

## **Table of Contents**

types of fees applicable to companies that list on The NASDAQ Stock Market: an annual renewal fee, a listing of additional shares fees 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 the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic. 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 and include issuers from a diverse range of industries, including industrials, financial services and consumer products. Customers issue securities in the forms of equities, depository receipts, warrants, ETFs, convertibles, rights, options, bonds and fixed-income related products.

### **Corporate Services**

In addition, our Global Listing Services business includes revenues generated through our Corporate Services business. Our Corporate Services business provides customer support services, products and programs to companies, including companies listed on our exchanges. Through our Corporate Services offerings, companies gain access to innovative products and services that facilitate transparency, mitigate risk, maximize board efficiency and inspire 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. 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 throughout the world. Market Technology provides technology solutions for trading, clearing and settlement, and information dissemination, as well as offering facility management integration and advisory services to 70 exchanges in 50 countries across five continents. 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 three primary sources: license, support and project revenues, facility management services revenues and other revenues. License, support and project 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. In addition, license revenues include the amortization of the deferred revenue related to our contribution of technology licenses to NASDAQ Dubai and advisory services. See The combination with OMX AB and strategic partnership with Borse Dubai Limited, of Note 4, Acquisitions and Strategic Initiatives, for further discussion of our NASDAQ Dubai transaction. Facility management services revenues are derived when NASDAQ OMX assumes responsibility for the continuous operation of a system platform for a customer and receives facility management services revenues. Other revenues include advisory services.

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 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 which we are the primary beneficiary of a variable-interest entity, or VIE, and entities where we have a controlling financial interest. As of September 30, 2009 and December 31, 2008, we were not the primary beneficiary of any VIE. 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. For certain equity method investments for which financial information is not sufficiently timely for us to apply the equity method of accounting currently, we record our share of the earnings or losses of an investee

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

from the most recent available financial statements on a lag. See Note 6, Equity Method Investments, for further discussion of our equity method investments.

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

## **Table of Contents**

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, 2008.

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.

### **Income Taxes**

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 June 2009, NASDAQ OMX filed an application for an advance tax ruling with the Swedish Tax Council for Advanced 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. We expect to receive a favorable response from the Swedish Tax Council for Advance Tax Rulings by the end of the first quarter of 2010. We recorded the Swedish tax benefit as described above in our condensed consolidated financial statements. In the third quarter of 2009, we recorded a tax benefit of \$5 million. For the first nine months of 2009, we recorded a tax benefit of \$14 million. We expect to record recurring quarterly tax benefits of \$4 million to \$5 million with respect to this issue for the foreseeable future.

### **3. Recent Accounting Pronouncements**

#### **Recently Adopted Accounting Pronouncements**

**ASC Topic 105** - In June 2009, the Financial Accounting Standards Board, or FASB, issued the FASB Accounting Standards Codification, or ASC, Topic 105, Generally Accepted Accounting Principles, as the single source of authoritative nongovernmental U.S. GAAP. The provisions in this guidance do not change current U.S. GAAP, but are intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents were superseded and all other accounting literature that is not included in the FASB Codification is considered non-authoritative. This guidance is effective for interim and annual periods ending after September 15, 2009 and, accordingly, was effective for our interim period ended September 30, 2009. The adoption of this guidance did not have an impact on our financial condition or results of operations but will impact our financial reporting process by eliminating all references to pre-codification standards.

**ASC Topic 805** - On January 1, 2009, we adopted on a prospective basis ASC Topic 805, Business Combinations. This recently issued guidance significantly changed how business acquisitions were accounted for and will impact financial statements both on the acquisition date and in subsequent periods requiring:

More assets acquired and liabilities assumed to be measured at fair value as of the acquisition date;

Liabilities related to contingent consideration to be remeasured at fair value in each subsequent reporting period; and

An acquirer to expense acquisition-related costs (e.g., deal fees for attorneys, accountants, investment bankers).

The adoption of this guidance did not have a material impact on our condensed consolidated financial statements as of September 30, 2009.

**ASC Topic 810** - On January 1, 2009, we adopted recently issued accounting guidance contained within ASC Topic 810, Consolidations, which changed the accounting and reporting for minority interests, which are now characterized as noncontrolling interests and classified as a component of equity. This recently issued guidance requires retroactive adoption of the presentation and disclosure requirements for existing

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

noncontrolling interests. All other requirements under the new guidance have been applied prospectively. Noncontrolling interests were \$21 million as of September 30, 2009 and \$17 million as of December 31, 2008.

**ASC Topic 815** - On January 1, 2009, we adopted recently issued accounting guidance contained within ASC Topic 815 Derivatives and Hedging, which enhanced the disclosure requirements about our derivative instruments and hedging activities, thereby improving the transparency of financial reporting. The adoption of this guidance did not have an impact on our financial condition or results of operations but will impact disclosures of our derivative instruments and hedging activities. The additional disclosures required under this guidance are included in Note 14, Derivative Financial Instruments and Hedging Activities.

**Table of Contents**

**ASC Topic 470.20** - On January 1, 2009, we adopted ASC Topic 470.20, Debt: Debt with Conversion and Other Options, which is applicable to our 2.50% convertible senior notes due 2013. This guidance requires us to separately account for the liability and equity components of a convertible debt instrument in a manner that reflects our nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The guidance also requires bifurcation of a component of the debt, classification of that component in equity and then accretion of the resulting discount on the debt as part of interest expense being reflected in the income statement.

We have adjusted all periods presented to reflect the reclassification of a portion of the carrying value of the 2.50% convertible senior notes from debt to equity and the accretion of the debt discount as part of interest expense. The incremental effect of adopting the provisions under this guidance on our Condensed Consolidated Statements of Income was additional interest expense of \$3 million for the three months ended September 30, 2008 and \$8 million for the nine months ended September 30, 2008. The resulting tax benefit was \$1 million for the three months ended September 30, 2008 and \$3 million for the nine months ended September 30, 2008. The incremental effects of adopting the provisions under this guidance on our Condensed Consolidated Balance Sheets at December 31, 2008 are presented in the following table (in millions).

|                                       | Before Adoption of<br>ASC 470.20 | Effect of Adopting<br>ASC 470.20 | After Adoption of<br>ASC 470.20 |
|---------------------------------------|----------------------------------|----------------------------------|---------------------------------|
| Deferred tax liabilities              | \$ 14                            | \$ 5                             | \$ 19                           |
| Non-current deferred tax liabilities  | 672                              | 24                               | 696                             |
| Total debt obligations                | 2,598                            | (74) <sup>(1)</sup>              | 2,524                           |
| Total liabilities                     | 8,494                            | (45)                             | 8,449                           |
| Additional paid-in capital            | 3,518                            | 51 <sup>(2)</sup>                | 3,569                           |
| Retained earnings                     | 1,350                            | (6)                              | 1,344                           |
| Total NASDAQ OMX stockholders' equity | 4,241                            | 45                               | 4,286                           |

<sup>(1)</sup> As of December 31, 2008, the unamortized debt discount on the 2.50% convertible senior notes included in debt obligations in the Condensed Consolidated Balance Sheets was \$74 million. This amount will be accreted as part of interest expense through the maturity date of the convertible debt of August 15, 2013.

<sup>(2)</sup> As of December 31, 2008, the equity component of the 2.50% convertible senior notes included in additional paid-in capital in the Condensed Consolidated Balance Sheets was \$51 million. This amount is calculated as follows: \$85 million of excess principal of the 2.50% convertible senior notes over the carrying amount less \$34 million of deferred taxes. The deferred tax liability is determined by multiplying the \$85 million of excess principal of the 2.50% convertible senior notes over the carrying amount by the U.S. marginal tax rate of 39.55%.

See Note 8, Debt Obligations, for further discussion of our 2.50% convertible senior notes.

**ASC Topic 825** - On April 1, 2009, we adopted recently issued accounting guidance contained within ASC Topic 825, Financial Instruments, which requires disclosure about fair value of financial instruments in interim as well as in annual financial statements. This recently issued guidance, which was effective for us in our interim financial reporting period ended June 30, 2009, did not have a material impact on our financial position, results of operations, and disclosures. The additional disclosures required by this guidance are included in Note 13, Fair Value of Financial Instruments.

**ASC Topic 855** - In June 2009, we adopted ASC Topic 855, Subsequent Events, which provides guidance to establish general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance requires entities to disclose the date through which subsequent events were evaluated as well as the basis for why that date was selected. The guidance, which was effective for us in our interim financial reporting period ended June 30, 2009, did not have a material impact on our financial position, results of operations, and disclosures. See Note 18, Subsequent Events, for further discussion of subsequent events that occurred after September 30, 2009.

**Recently Issued Accounting Pronouncements**

**ASC Topic 715** - In December 2008, the FASB issued new accounting guidance contained within ASC Topic 715, Compensation - Retirement Benefits. This guidance requires that information about pension and other post-retirement benefit plan assets be disclosed, on an annual basis, based on the fair value disclosure requirements of ASC Topic 820, Fair Value Measurements and Disclosures. We will be required to separate plan assets into three fair value hierarchy levels and provide a rollforward of the changes in fair value of plan assets classified as Level 3, if any. For further information on the three fair value hierarchy levels, see Note 13, Fair Value of Financial Instruments. This guidance will be effective

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

for NASDAQ OMX's fiscal year end 2009. Since the new provisions of this guidance require only additional disclosures about our pension and other post-retirement benefit plan assets, the adoption of the new provisions will not affect our financial position or results of operations.



## **Table of Contents**

### **4. Acquisitions and Strategic Initiatives**

During 2008, we completed the following acquisitions and strategic initiatives:

***The combination with OMX AB and strategic partnership with Borse Dubai Limited.*** On February 27, 2008, Nasdaq and OMX AB combined their businesses pursuant to an agreement with Borse Dubai Limited, a Dubai company, or Borse Dubai. The purchase price of OMX AB was \$4.4 billion, consisting of an equity component and a cash component. Our business combination with OMX AB created a premier global exchange company, bringing together complementary businesses, diversifying our operations, enhancing our existing product offerings and solidifying our leadership in global exchange technology.

Concurrently with the business combination with OMX AB, we also acquired 33 1/3% of the equity of the Dubai International Financial Exchange, or DIFX, in exchange for a contribution of \$50 million in cash and the entry into certain technology and trademark licensing agreements. DIFX, which has been renamed NASDAQ Dubai, is an international financial exchange serving the region between Western Europe and East Asia. In November 2008, we listed our common stock on NASDAQ Dubai.

***The acquisition of the Philadelphia Stock Exchange.*** In July 2008, we completed our acquisition of PHLX, expanding our presence in the derivatives market. The acquisition of PHLX provided us with the third largest options market in the U.S. and with increased exposure to a fast growing asset class and diversification into an area adjacent to our core equity trading business. PHLX, renamed NASDAQ OMX PHLX, Inc., operates as a distinct market alongside The NASDAQ Options Market, our options platform that was launched in March 2008. With the acquisition of PHLX and the launch of The NASDAQ Options Market, we have substantially increased our footprint in global derivatives.

***The acquisition of the Boston Stock Exchange.*** We completed our acquisition of the Boston Stock Exchange, Incorporated, or BSX, in August 2008. The BSX acquisition provided us with an additional license for trading both equities and options and a clearing license. We used the BSX license to create a second U.S. cash equities market, called NASDAQ OMX BX, which was launched in January 2009. With NASDAQ OMX BX, we offer a second quote within the U.S. equities marketplace, providing our customers enhanced trading choices and price flexibility. We have been able to leverage our INET trading system, which runs The NASDAQ Stock Market, to operate NASDAQ OMX BX, providing customers an additional fast and efficient cash equities market.

***The acquisition of certain businesses from Nord Pool.*** In October 2008, we acquired Nord Pool's clearing, international derivatives and consulting subsidiaries. As a result of the acquisition, we launched NASDAQ OMX Commodities, which offers energy and carbon derivatives products. NASDAQ OMX Commodities, together with third party partner Nord Pool, provides access to the world's largest power derivatives markets and one of Europe's largest carbon markets.

***The acquisition of a majority interest in International Derivatives Clearing Group.*** In December 2008, we acquired a majority interest in IDCG, and IDCG became an independently operated subsidiary of NASDAQ OMX. IDCG, through its clearinghouse subsidiary, International Derivatives Clearinghouse, LLC, operates a central clearinghouse that has been granted approval by the U.S. Commodity Futures Trading Commission to clear and settle interest rate swap futures contracts and other fixed income derivatives contracts. NFX is serving as the designated contract market for trading of these interest rate swap futures products. In June 2009, The Bank of New York Mellon Corporation made a strategic noncontrolling investment in IDCG.

***Investment in Agora-X.*** During 2008, we acquired a 20% aggregate equity interest in Agora-X, LLC (13.3% in March 2008 and an additional 6.7% in December 2008) which is accounted for under the equity method of accounting. Agora-X has launched an electronic communications network designed to enable institutional traders to efficiently negotiate OTC transactions in agricultural swaps and swaptions, as well as swaps and options on ethanol. The platform provides a more liquid and transparent marketplace for price discovery and negotiation.

The financial results of each acquisition and strategic initiative are included in our condensed consolidated financial statements from the date of each acquisition and strategic initiative.

**Table of Contents****Pro Forma Results**

The condensed consolidated financial statements for the three and nine months ended September 30, 2009 include the financial results of OMX AB, PHLX, BSX, certain businesses of Nord Pool, IDCG and Agora-X. Unaudited pro forma combined historical results for the three and nine months ended September 30, 2008 are included in the table below. The unaudited pro forma combined results for the three months ended September 30, 2008 include the historical Condensed Consolidated Statements of Income of NASDAQ OMX and PHLX giving effect to the PHLX acquisition as if it had occurred at the beginning of the period presented. The historical results for the three months ended September 30, 2008 have not been adjusted for the OMX AB business combination as this transaction occurred on February 27, 2008, and therefore, is already included in the financial results. The unaudited pro forma combined results for the nine months ended September 30, 2008 include the historical Condensed Consolidated Statements of Income of Nasdaq, OMX AB and PHLX giving effect to the OMX AB business combination and PHLX acquisition as if they had occurred at the beginning of the period presented. As stated above, we also acquired BSX in August 2008, certain businesses of Nord Pool in October 2008, IDCG in December 2008 and a 20% equity interest in Agora-X during 2008, but have not included their results prior to their respective acquisition dates in these pro forma results as these acquisitions were not considered significant.

|   | Three Months Ended<br>September 30, 2008 | Nine Months Ended<br>September 30, 2008 |
|---|--|---|
|   | (in millions, except per share amounts)  |   |
| Revenues  | \$ 1,003                                 | \$ 2,828                                |
| Revenues less liquidity rebates, brokerage, clearance and exchange fees | 411                                      | 1,250                                   |
| Net income  | 59                                       | 272                                     |
| Net income attributable to NASDAQ OMX                                   | 59                                       | 271                                     |
| Basic earnings per share  | \$ 0.29                                  | \$ 1.36                                 |
| Diluted earnings per share  | \$ 0.28                                  | \$ 1.27                                 |

The pro forma results for the three months ended September 30, 2008 primarily include adjustments for amortization of the intangible assets acquired in the acquisition of PHLX, the elimination of PHLX's non-recurring expenses related to the acquisition, additional interest expense on our credit facilities and related tax adjustments.

The pro forma results for the nine months ended September 30, 2008 primarily include adjustments for amortization of the intangible assets acquired in the business combination with OMX AB, the elimination of OMX AB's historical amortization expense, additional interest expense on our credit facilities and the 2.50% convertible senior notes, elimination of OMX AB's historical interest expense related to OMX AB's debt that was refinanced, elimination of interest income related to the net cash received from the sale of our investment in the London Stock Exchange Group plc, elimination of the non-recurring gain on the contribution of the Nasdaq trade name in the NASDAQ Dubai transaction discussed above, the adjustments related to the PHLX acquisition described above and related tax adjustments.

**5. Goodwill and Purchased Intangible Assets****Goodwill**

The following table presents the changes in goodwill by business segment during the nine months ended September 30, 2009:

|   | Market<br>Services | Issuer<br>Services | Market<br>Technology | Total    |
|---|--------------------|--------------------|----------------------|----------|
|   | (in millions)      |                    |                      |          |
| Balance at December 31, 2008            | \$ 4,159           | \$ 255             | \$ 78                | \$ 4,492 |
| Purchase accounting adjustments         | 38                 | 1                  | 9                    | 48       |
| Foreign currency translation adjustment | 343                | 24                 | 15                   | 382      |
| Balance at September 30, 2009           | \$ 4,540           | \$ 280             | \$ 102               | \$ 4,922 |

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

The purchase accounting adjustments for Market Services primarily consist of a reduction in the fair value of certain assets acquired, additional working capital adjustments, severance costs and additional sublease loss reserves related to the PHLX acquisition. The purchase accounting adjustments for Market Technology, which were made in the first quarter of 2009, consist of changes in estimates of customer contracts and technology write-downs related to the business combination with OMX AB. Goodwill is allocated to the reporting units based on the assignment of the fair values of each reporting unit of the acquired company. In the first quarter of 2009, we finalized the allocation of the purchase price for the OMX AB business combination and in the third quarter of 2009, we finalized the allocation of the purchase price for the PHLX and BSX acquisitions. The purchase price allocation for our other 2008 acquisitions discussed in Note 4, Acquisitions and Strategic Initiatives, will be finalized within one year from the acquisition dates.

**Table of Contents**

As of September 30, 2009, the amount of goodwill that is expected to be deductible for tax purposes in future periods is \$122 million. Our methodology for allocating the purchase price relating to purchase acquisitions is determined through established valuation techniques. Goodwill is measured as the excess of the cost of an acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. We perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances for each reporting period. We considered the need to update our most recent annual goodwill impairment test as of September 30, 2009 and concluded that none of the impairment indicators triggered a revised impairment analysis. As such, we concluded the assumptions used during the year end assessment remained appropriate. There was no impairment of goodwill for the nine months ended September 30, 2009 and 2008. Although there is no impairment as of September 30, 2009, events such as continued economic weakness and unexpected significant declines in operating results of reporting units, may result in our having to perform a goodwill impairment test for some or all of our reporting units prior to the required annual assessment. These types of events and the resulting analysis could result in goodwill impairment charges in the future. We have elected to make the first day of the fourth quarter the annual impairment assessment date for goodwill, and we are currently in the process of performing our annual test.

**Purchased Intangible Assets**

The following table presents details of our total purchased intangible assets, both finite- and indefinite-lived:

|   | September 30, 2009    |                          |                       |   |                       | December 31, 2008        |                       |   |  |
|---|-----------------------|--------------------------|-----------------------|---|-----------------------|--------------------------|-----------------------|---|--|
|   | Gross Carrying Amount | Accumulated Amortization | Net Intangible Assets | Weighted-Average Useful Life (in Years) | Gross Carrying Amount | Accumulated Amortization | Net Intangible Assets | Weighted-Average Useful Life (in Years) |  |
|   | (in millions)         |                          |                       |   |                       | (in millions)            |                       |   |  |
| <i>Finite-Lived Intangible Assets</i>     |                       |                          |                       |   |                       |                          |                       |   |  |
| Technology                                | \$ 65                 | \$ (35)                  | \$ 30                 | 4                                       | \$ 82                 | \$ (37)                  | \$ 45                 | 4                                       |  |
| Customer relationships                    | 814                   | (100)                    | 714                   | 21                                      | 818                   | (76)                     | 742                   | 22                                      |  |
| Other                                     | 5                     | (2)                      | 3                     | 9                                       | 7                     | (3)                      | 4                     | 7                                       |  |
| Foreign currency translation adjustment   | (44)                  | 4                        | (40)                  |   | (94)                  |                          | (94)                  |   |  |
| Total finite-lived intangible assets      | \$ 840                | \$ (133)                 | \$ 707                |   | \$ 813                | \$ (116)                 | \$ 697                |   |  |
| <i>Indefinite-Lived Intangible Assets</i> |                       |                          |                       |   |                       |                          |                       |   |  |
| Exchange and clearing registrations       | \$ 790                | \$                       | \$ 790                |   | \$ 790                | \$                       | \$ 790                |   |  |
| Trade names                               | 173                   |                          | 173                   |   | 173                   |                          | 173                   |   |  |
| Licenses                                  | 76                    |                          | 76                    |   | 76                    |                          | 76                    |   |  |
| Foreign currency translation adjustment   | (71)                  |                          | (71)                  |   | (153)                 |                          | (153)                 |   |  |
| Total indefinite-lived intangible assets  | \$ 968                | \$                       | \$ 968                |   | \$ 886                | \$                       | \$ 886                |   |  |
| Total intangible assets                   | \$ 1,808              | \$ (133)                 | \$ 1,675              |   | \$ 1,699              | \$ (116)                 | \$ 1,583              |   |  |

Amortization expense for purchased finite-lived intangible assets was \$17 million for the three months ended September 30, 2009 and \$44 million for the nine months ended September 30, 2009 compared to \$14 million for the three months ended September 30, 2008 and \$34 million for the nine months ended September 30, 2008. The increase from the three months ended September 30, 2008 to the three months ended September 30, 2009 was primarily due to intangible asset amortization expense on identifiable finite-lived intangible assets purchased in connection with the acquisitions of PHLX and certain businesses of Nord Pool from the date of each acquisition. The increase from the nine months ended September 30, 2008 to the nine months ended September 30, 2009 was primarily due to intangible asset amortization expense on identifiable finite-lived intangible assets purchased in connection with the OMX AB business combination and the acquisitions of PHLX and certain businesses of Nord Pool from the date of each acquisition.

In the third quarter 2008, due to a current period operating loss and a projection of future cash flow losses due to lower contract rates for Carpenter Moore, our insurance agency business, which was part of Corporate Services within our Issuer Services segment, we evaluated the ongoing value of the intangible assets associated with this business. Based on this evaluation, we determined that



**Table of Contents**

finite-lived intangible assets, consisting primarily of customer relationships and technology, with a carrying value of approximately \$7 million, were no longer recoverable and were in fact impaired, and wrote them down to their estimated fair value of zero. The risk-adjusted discount rates used to compute the present value of the expected net cash flows of individual intangible assets were based on Carpenter Moore's weighted average cost of capital, which ranged from 14.5% to 16.9%. These discount rates were determined after consideration of Carpenter Moore's rate of return on debt and equity and the weighted-average return on invested capital. We recorded the impairment loss in asset impairment charges in the Condensed Consolidated Statements of Income for the three months and nine months ended September 30, 2008.

The estimated future amortization expense (excluding the impact of future foreign exchange rate changes) of purchased intangible assets as of September 30, 2009 is as follows:

|                     | (in millions) |
|---------------------|---------------|
| 2009 <sup>(1)</sup> | \$ 16         |
| 2010                | 58            |
| 2011                | 45            |
| 2012                | 43            |
| 2013                | 43            |
| 2014 and thereafter | 542           |
| Total               | \$ 747        |

<sup>(1)</sup> Represents the estimated amortization to be recognized for the remaining three months of 2009.

**6. Equity Method Investments**

The equity method of accounting is used when we own less than 50% of the outstanding voting stock, but exercise significant influence over the operating and financial policies of a company.

We have \$152 million of equity interest in our equity method investments, which consists primarily of an equity interest in NASDAQ Dubai, included in other assets in the Condensed Consolidated Balance Sheets as of September 30, 2009. NASDAQ Dubai is a related party, as NASDAQ Dubai is primarily owned by Borse Dubai, our largest stockholder.

During the second quarter of 2009, we made a strategic decision to sell our investment in Orc Software AB, or Orc, demonstrating our intent to no longer hold this investment. We sold our shares in Orc, representing 25.25% of the share capital of Orc, to a group of Swedish and other international investors for \$54 million in cash. As a result of the sale, we recognized a \$19 million loss, which is net of costs directly related to the sale, primarily broker fees. The loss is included in income (loss) from unconsolidated investees, net for the nine months ended September 30, 2009 in the Condensed Consolidated Statements of Income.

Income (loss) from unconsolidated investees, net was a net loss of \$20 million for the nine months ended September 30, 2009 primarily due to the sale of Orc shares. Income from unconsolidated investees, net was \$27 million for the nine months ended September 30, 2008 primarily due to the NASDAQ Dubai transaction. We contributed intangible assets and \$50 million in cash to NASDAQ Dubai in exchange for a 33 1/3% equity ownership in NASDAQ Dubai. One of the intangible assets contributed was the Nasdaq trade name, which had a zero carrying value on Nasdaq's books and records prior to the transfer. As a result, we recognized a \$26 million gain for the difference between Nasdaq's carrying value and the fair value of the contributed asset on this non-monetary exchange. Income (loss) recognized from our equity method investments is included in income (loss) from unconsolidated investees, net in the Condensed Consolidated Statements of Income.

**Table of Contents****7. Deferred Revenue**

At September 30, 2009, we have estimated that our deferred revenue, primarily related to Global Listing Services and Market Technology fees, will be recognized in the following years:

|                     | Initial<br>Listing<br>Fees | Listing of<br>Additional<br>Shares Fees | Annual<br>Renewal Fees<br>and Other<br>(in millions) | Market<br>Technology <sup>(2)</sup> | Total  |
|---------------------|----------------------------|---|--|-------------------------------------|--------|
| Fiscal year ended:  |                            |   |  |                                     |        |
| 2009 <sup>(1)</sup> | \$ 5                       | \$ 9                                    | \$ 51  | \$ 17                               | \$ 82  |
| 2010                | 16                         | 30                                      | 1  | 23                                  | 70     |
| 2011                | 12                         | 20                                      |  | 22                                  | 54     |
| 2012                | 8                          | 10                                      |  | 22                                  | 40     |
| 2013                | 4                          | 3                                       |  | 22                                  | 29     |
| 2014 and thereafter | 2                          |   |  | 19                                  | 21     |
|                     | \$ 47                      | \$ 72                                   | \$ 52  | \$ 125                              | \$ 296 |

<sup>(1)</sup> Represents deferred revenue that is anticipated to be recognized over the remaining three months of 2009.

<sup>(2)</sup> The timing of recognition of our deferred Market Technology revenues is dependent upon when significant modifications are made pursuant to existing contracts. As such, as it relates to these fees, the timing represents our best estimate.

Our deferred revenue for the nine months ended September 30, 2009 and 2008 is reflected in the following table.

|                               | Initial<br>Listing<br>Fees | Listing of<br>Additional<br>Shares Fees | Annual<br>Renewal Fees<br>and Other<br>(in millions) | Market<br>Technology <sup>(3)</sup> | Total  |
|-------------------------------|----------------------------|---|--|-------------------------------------|--------|
| Balance at January 1, 2009    | \$ 57                      | \$ 74                                   | \$ 22  | \$ 100                              | \$ 253 |
| Additions <sup>(1)</sup>      | 5                          | 26                                      | 169  | 92                                  | 292    |
| Amortization <sup>(1)</sup>   | (15)                       | (28)                                    | (139)  | (68)                                | (250)  |
| Translation adjustment        |                            |   |  | 1                                   | 1      |
| Balance at September 30, 2009 | \$ 47                      | \$ 72                                   | \$ 52  | \$ 125                              | \$ 296 |
| Balance at January 1, 2008    | \$ 71                      | \$ 79                                   | \$ 4   | \$                                  | \$ 154 |
| Additions <sup>(1) (2)</sup>  | 7                          | 29                                      | 184  | 138                                 | 358    |
| Amortization <sup>(1)</sup>   | (17)                       | (31)                                    | (135)  | (21)                                | (204)  |
| Balance at September 30, 2008 | \$ 61                      | \$ 77                                   | \$ 53  | \$ 117                              | \$ 308 |

<sup>(1)</sup> The additions and amortization for initial listing fees, listing of additional shares fees and annual renewal fees and other primarily reflect Issuer Services revenues from U.S. listing fees.

<sup>(2)</sup> Includes OMX's beginning balances since the date of the business combination, as well as Market Technology deferred revenue related to the contribution of technology licenses to NASDAQ Dubai. See The combination with OMX AB and strategic partnership with Borse Dubai Limited, of Note 4, Acquisitions and Strategic Initiatives, for further discussion of our NASDAQ Dubai transaction.

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

- (3) Market Technology deferred revenues include revenues from delivered client contracts in the support phase charged during the period. Under contract accounting, where customization and significant modifications to the software are made to meet the needs of our customers, total revenues as well as costs incurred, are deferred until significant modifications are completed and delivered. Once delivered, deferred revenue and the related deferred costs are recognized over the post contract support period. We have included the deferral of costs in other assets in the Condensed Consolidated Balance Sheets. The amortization of Market Technology deferred revenue includes revenues earned from client contracts recognized during the period and from the technology licenses contributed to NASDAQ Dubai.



**Table of Contents****8. Debt Obligations**

The following table presents the changes in our debt obligations during the nine months ended September 30, 2009:

|   | December 31,<br>2008 | Additions | Payments,<br>Conversions,<br>Accretion and Other<br>(in millions) | September 30,<br>2009 |
|---|----------------------|-----------|---|-----------------------|
| 3.75% convertible notes due October 22, 2012 (net of discount) <sup>(1)</sup>   | \$ 119               | \$        | \$ (119)  | \$                    |
| 2.50% convertible senior notes due August 15, 2013 <sup>(2) (3)</sup>   | 401                  |           | (30)  | 371                   |
| \$2,000 million senior secured term loan facility credit agreement due February 27, 2013 (average interest rate of 3.05% <sup>(4)</sup> for the nine months ended September 30, 2009) | 1,925                |           | (225)   | 1,700                 |
| Debt obligations assumed from the Nord Pool transaction <sup>(5)</sup>  | 79                   |           | (61)  | 18                    |
| <b>Total debt obligations</b>   | <b>2,524</b>         |           | <b>(435)</b>  | <b>2,089</b>          |
| Less current portion  | (225)                |           | 56  | (169)                 |
| <b>Total long-term debt obligations</b>   | <b>\$ 2,299</b>      | <b>\$</b> | <b>\$ (379)</b>   | <b>\$ 1,920</b>       |

- (1) In September 2009, most holders of our outstanding 3.75% convertible notes converted their outstanding positions into common stock. As of September 30, 2009, approximately \$0.5 million aggregate principal amount of the 3.75% convertible notes remains outstanding. For further discussion, see *Conversion of 3.75% Convertible Notes*, of *3.75% Convertible Notes* below.
- (2) As adjusted for ASC 470.20. For further discussion, see *Adoption of ASC 470.20*, of *2.50% Convertible Senior Notes* below.
- (3) The decrease of \$30 million is comprised of the repurchase of \$47 million principal amount of the notes (cash payment of \$40 million), offset by accretion of debt discount of \$10 million, as well as a \$7 million reduction in the unamortized debt discount due to the early extinguishment of these notes. For further discussion, see *Adoption of ASC 470.20* and *Early Extinguishment of Debt*, of *2.50% Convertible Senior Notes* below.
- (4) In 2008, \$200 million was swapped to a fixed rate using float-to-fixed interest rate swaps. For the nine months ended September 30, 2009, taking into account these swaps, the average effective interest rate on this debt was 3.05%. For further discussion, see *Interest Rate Swaps*, of *Credit Facilities* below.
- (5) Our debt obligations assumed in the Nord Pool transaction are denominated in NOK and totaled 550 million NOK at December 31, 2008, of which 450 million NOK was a vendor note issued to the previous owners of Nord Pool and 100 million NOK was subordinated debt. In the second quarter of 2009, we paid in full the vendor note of 450 million NOK, or \$71 million. The decrease of \$61 million is comprised of the \$71 million payment, partially offset by foreign currency translation adjustments.

**3.75% Convertible Notes**

The 3.75% convertible notes were originally issued to Hellman & Friedman, or H&F, (\$300 million), Silver Lake Partners, or SLP, (\$141 million) and other holders (\$4 million) in order to finance the acquisition of INET. These notes were convertible into our common stock at a price of \$14.50 per share, representing 30,689,655 shares subject to adjustment, in general for any stock split, dividend, combination, recapitalization or similar event. We also issued warrants to purchase shares of our common stock at a price of \$14.50 per share to H&F (3,400,000 shares), SLP (1,523,325 shares) and other holders (39,175 shares). The warrants became exercisable on April 22, 2006 and expired on December 8, 2008. During 2007, H&F converted all of their 3.75% convertible notes into common stock and exercised all of their outstanding warrants prior to expiration. During 2007 and 2008, SLP and other holders converted a portion of their 3.75% convertible notes into common stock and exercised all of their outstanding warrants prior to expiration. As of December 31, 2008, approximately \$120 million (\$119 million related to SLP and \$1 million related to other holders) in aggregate principal amount of the 3.75% convertible notes remained outstanding. In September 2009, SLP and another holder, or Holders, converted their remaining outstanding 3.75% convertible notes into common stock in accordance with the terms of the notes. See *Conversion of 3.75% Convertible Notes* below for further discussion.

**Conversion of 3.75% Convertible Notes**

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

In September 2009, we entered into a conversion agreement with the Holders relating to approximately \$120 million aggregate principal amount of our outstanding 3.75% convertible notes. The Holders agreed to convert their remaining outstanding 3.75%

## Table of Contents

convertible notes into common stock in accordance with the terms of the notes, which resulted in the issuance of an aggregate of 8,246,680 shares of our common stock.

As an inducement for conversion of the 3.75% convertible notes, we agreed to pay the Holders and certain of their affiliates an aggregate amount of \$9 million in cash and issue to the Holders shares of our series A convertible preferred stock, with an aggregate initial liquidation preference amount of \$16 million. See Note 17, Series A Convertible Preferred Stock, for further discussion.

In the third quarter of 2009, as a result of the conversion, we recognized debt conversion expense of \$25 million in the Condensed Consolidated Statements of Income, which included the cash inducement of \$9 million, the present value of the series A convertible preferred stock of \$15 million, and debt issuance and other costs of \$1 million. We also paid the Holders \$0.8 million in accrued interest payments on the 3.75% convertible notes through September 30, 2009.

### 2.50% Convertible Senior Notes

During the first quarter of 2008, in connection with the business combination with OMX AB, we completed the offering of \$475 million aggregate principal amount of 2.50% convertible senior notes due 2013. The interest rate on the notes is 2.50% per annum payable semi-annually in arrears on February 15 and August 15, beginning August 15, 2008. The notes will mature on August 15, 2013.

The notes are convertible in certain circumstances specified in the indenture for the notes. Upon conversion, holders will receive, at the election of NASDAQ OMX, cash, common stock or a combination of cash and common stock. It is our current intent and policy to settle the principal amount of the notes in cash. The conversion rate will initially be 18.1386 shares of common stock per \$1,000 principal amount of notes, which is equivalent to a conversion price of approximately \$55.13 per share of common stock. At September 30, 2009, the 2.50% convertible senior notes are convertible into 7,757,283 shares of our common stock, subject to adjustment upon the occurrence of specified events. Subject to certain exceptions, if we undergo a fundamental change as described in the indenture, holders may require us to purchase their notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

### Adoption of ASC 470.20

On January 1, 2009, we adopted ASC 470.20 which is applicable to our 2.50% convertible senior notes since the settlement structure of the notes permits settlement in cash upon conversion. The guidance requires us to separately account for the liability and equity components of the convertible debt in a manner that reflects our nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The guidance requires bifurcation of a component of the debt, classification of that component in equity and then accretion of the resulting discount on the debt as part of interest expense being reflected in the income statement. The guidance requires retrospective application to all periods presented. See ASC Topic 470.20, of Note 3, Recent Accounting Pronouncements, for the incremental effects of adopting ASC 470.20.

The changes in the liability and equity components of our 2.50% convertible senior notes during the nine months ended September 30, 2009 are as follows:

|                              | Liability Component<br>(in millions) |                              |                        | Equity Component<br>(in millions) |                   | Net                 |
|------------------------------|--------------------------------------|------------------------------|------------------------|-----------------------------------|-------------------|---------------------|
|                              | Principal<br>Balance                 | Unamortized Debt<br>Discount | Net Carrying<br>Amount | Gross Equity<br>Component         | Deferred<br>Taxes | Equity<br>Component |
| December 31, 2008            | \$ 475                               | \$ 74                        | \$ 401                 | \$ 85                             | \$ 34             | \$ 51               |
| Accretion of debt discount   |                                      | (10)                         | 10                     |                                   |                   |                     |
| Early extinguishment of debt | (47)                                 | (7)                          | (40)                   | (4)                               | (2)               | (2)                 |
| September 30, 2009           | \$ 428                               | \$ 57                        | \$ 371                 | \$ 81                             | \$ 32             | \$ 49               |

The unamortized debt discount on the convertible debt as of September 30, 2009 was \$57 million and is included in debt obligations in the Condensed Consolidated Balance Sheets. This amount will be accreted as part of interest expense through the maturity date of the convertible debt of August 15, 2013. Interest expense recognized in the Condensed Consolidated Statements of Income for the three months ended September 30, 2009 was \$6 million and is comprised of \$3 million of accretion of debt discount and \$3 million of contractual interest. Interest expense recognized in the Condensed Consolidated Statements of Income for the nine months ended September 30, 2009 was \$19 million and is

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

comprised of \$10 million of accretion of debt discount and \$9 million of contractual interest. The effective annual interest rate on the 2.50% convertible senior notes was 6.53% for the three and nine months ended September 30, 2009, which includes the accretion of the debt discount in addition to the annual contractual interest rate of 2.50%.

As of September 30, 2009, the equity component of the convertible debt included in additional paid-in capital in the Condensed Consolidated Balance Sheets was \$49 million. This amount is calculated as follows: \$81 million of excess principal of the convertible debt over the carrying amount less \$32 million of deferred taxes. The deferred tax liability is determined by multiplying the \$81 million of excess principal of the convertible debt over the carrying amount by the U.S. marginal tax rate of 39.55%.

## **Table of Contents**

### ***Early Extinguishment of Debt***

In 2009, we repurchased \$47 million principal amount of the 2.50% convertible senior notes for a cash payment of \$40 million. For the first nine months of 2009, we recognized a pre-tax gain on the early extinguishment of debt of \$4 million (net of debt issuance and other costs of \$0.8 million) which is recorded in general, administrative and other expense in the Condensed Consolidated Statements of Income. The aggregate principal amount outstanding on these notes as of December 31, 2008 was \$475 million, excluding the unamortized debt discount of \$74 million. As a result of the \$47 million repurchase, the remaining aggregate principal amount outstanding on these notes as of September 30, 2009 was \$428 million. See *Adoption of ASC 470.20* above for further discussion.

### ***Debt Issuance Costs***

In 2008, in conjunction with the issuance of the 2.50% convertible senior notes, we incurred debt issuance costs of \$10 million. These costs, which are capitalized and included in other assets in the Condensed Consolidated Balance Sheets, are being amortized over the life of the debt obligation. In connection with the early extinguishment of a portion of these notes, we recorded a pre-tax charge of \$0.8 million in the first nine months of 2009 for debt issuance costs. See *Early Extinguishment of Debt* above for further discussion. Amortization expense, which is recorded as additional interest expense for these costs, was immaterial for the three and nine months ended September 30, 2009 and 2008.

### ***Credit Facilities***

In connection with the business combination with OMX AB, on February 27, 2008, NASDAQ OMX entered into a credit agreement which provides for up to \$2,075 million of senior secured loans, which include (i) a five-year, \$2,000 million senior secured term loan facility, or the Term Loan Facility, which consists of (a) a \$1,050 million term loan facility allocated to the OMX AB business combination; (b) a \$650 million term loan facility allocated to the acquisition of PHLX, and (c) a \$300 million term loan facility allocated to the Nord Pool transaction, and (ii) a five-year, \$75 million senior secured revolving credit facility, with a letter of credit subfacility and swingline loan subfacility, or the Revolving Credit Facility, and together with the Term Loan Facility, the Credit Facilities. The Revolving Credit Facility was undrawn as of September 30, 2009.

In addition, NASDAQ OMX may request that prospective additional lenders under the Credit Facilities agree to make available incremental term loans and incremental revolving commitments from time to time in an aggregate amount not to exceed \$200 million.

In addition to financing the business combination with OMX AB, the acquisition of PHLX and the Nord Pool transaction, we used the debt financing under the Credit Facilities to pay fees and expenses incurred in connection with such transactions and repay certain indebtedness of OMX AB.

Borrowings under the Credit Facilities (other than swingline loans) bear interest at (i) the base rate (the higher of the prime rate announced by the Bank of America, N.A. and the federal funds effective rate plus 0.50%), plus an applicable margin, or (ii) the LIBO rate (set by the British Bankers Association LIBOR Rate), plus an applicable margin. The interest rate on swingline loans made under the Credit Facilities is the base rate, plus an applicable margin.

NASDAQ OMX's obligations under the Credit Facilities (i) are guaranteed by each of the existing and future direct and indirect material wholly-owned domestic subsidiaries of NASDAQ OMX, subject to certain exceptions, and (ii) are secured, subject to certain exceptions, by all the capital stock of each of our present and future subsidiaries (limited, in the case of foreign subsidiaries, to 65.0% of the voting stock of such subsidiaries) and all of the present and future property and assets (real and personal) of NASDAQ OMX and the guarantors.

The Credit Facilities contain customary negative covenants applicable to NASDAQ OMX and its subsidiaries, including the following:

limitations on the payment of dividends and redemptions of NASDAQ OMX's capital stock;

limitations on changes in NASDAQ OMX's business;

limitations on amendment of subordinated debt agreements;

limitations on prepayments, redemptions and repurchases of debt;

limitations on liens and sale-leaseback transactions;

limitations on business combinations, recapitalizations, acquisitions and asset sales;

limitations on transactions with affiliates;

limitations on restrictions on liens and other restrictive agreements; and

limitations on loans, guarantees, investments, incurrence of debt and hedging arrangements.

In addition, the Credit Facilities contain financial covenants, specifically, maintenance of a minimum interest expense coverage ratio and a maximum total leverage ratio, as defined in the Credit Facilities.

## **Table of Contents**

The Credit Facilities also contain customary affirmative covenants, including access to financial statements, notice of defaults and certain other material events, maintenance of business and insurance, and events of default, including cross-defaults to our material indebtedness.

NASDAQ OMX is permitted to repay borrowings under the Credit Facilities at any time in whole or in part, without penalty. We also are required to repay loans outstanding under the Credit Facilities (i) with net cash proceeds from sales of property and assets of NASDAQ OMX and its subsidiaries (excluding inventory sales and other sales in the ordinary course of business) and casualty and condemnation proceeds, in each case subject to exceptions and thresholds to be agreed and subject to reinvestment rights; (ii) with net cash proceeds from the issuance or incurrence of additional indebtedness other than indebtedness permitted by the Credit Facilities; and (iii) with a percentage of our excess cash flow, and the percentage of such excess cash flow required to be used for repayments varies depending on our leverage ratio at the end of the year for which cash flow is calculated, with the maximum repayment percentage set at 50.0% of excess cash flow.

### ***Principal Amortization Payment***

During 2009, we repaid \$225 million of principal on our Credit Facility. This amount includes payments required under our Credit Facility agreement of \$169 million through September 30, 2009, as well as a prepayment of our fourth quarter principal amortization payment of \$56 million.

### ***Interest Rate Swaps***

Under the provisions of our Credit Facilities, we are required to maintain approximately 30% of our debt structure on a fixed rate basis for two years from the date of the credit agreement. As such, in August 2008, we entered into interest rate swap agreements that effectively converted \$200 million of funds borrowed under our Credit Facilities, which is floating rate debt, to a fixed rate basis through August 2011. The interest rate swaps were fixed to a base rate of 3.73% plus the current credit spread of 200 basis points as of September 30, 2009. The credit spread (not to exceed 200 basis points) is subject to change based upon the leverage ratio in accordance with the Credit Facilities.

### ***Debt Issuance Costs***

In 2008, in conjunction with our Credit Facilities, we incurred debt issuance costs of \$44 million. These costs, which are capitalized and included in other assets in the Condensed Consolidated Balance Sheets, are being amortized over the life of the debt obligation. Amortization expense, which is recorded as additional interest expense for these costs, was \$2 million for both the three months ended September 30, 2009 and 2008, \$7 million for the nine months ended September 30, 2009 and \$5 million for the nine months ended September 30, 2008.

### ***Other Credit Facilities***

We have other credit facilities related to our clearinghouses in order to meet liquidity and regulatory requirements. These credit facilities, which are available in multiple currencies, primarily Swedish Krona and U.S. dollar, totaled \$538 million (\$260 million which is available to be pledged as collateral and \$278 million to satisfy regulatory requirements), of which \$0.1 million was drawn at September 30, 2009. At December 31, 2008, these facilities totaled \$246 million, of which \$4 million was drawn. Amounts drawn are included in other accrued liabilities in the Condensed Consolidated Balance Sheets.

### ***Debt Covenants***

At September 30, 2009, we were in compliance with the covenants of all of our debt obligations.

## **9. Employee Benefits**

We maintain a non-contributory, defined-benefit pension plan named The NASDAQ OMX Group, Inc. Pension Plan, or Pension Plan, and a non-qualified supplemental executive retirement plan, or SERP, for certain senior executives and other benefit plans for eligible employees in the U.S., or collectively, the NASDAQ OMX Benefit Plans.

We also provide subsidized medical benefits to a closed group of retirees and their eligible dependents, as well as life insurance in the fixed amount of \$5,000, to all retirees who meet eligibility requirements through our post-retirement benefit plans.

### **Benefit Plans Assumed from PHLX**

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

Upon completion of our acquisition of PHLX on July 24, 2008, we assumed the obligations related to a non-contributory, defined-benefit pension plan, named the NASDAQ OMX PHLX, Inc. Employees' Pension Plan, or the NASDAQ OMX PHLX Pension Plan, a supplemental executive retirement plan named the NASDAQ OMX PHLX, Inc. SERP, or the NASDAQ OMX PHLX SERP, for certain key executives and a post-retirement benefit plan, which provides certain health care and life insurance benefits for retired employees, referred to collectively as the NASDAQ OMX PHLX Benefit Plans.



**Table of Contents**

The NASDAQ OMX PHLX SERP, which is an unfunded, non-qualified plan, was frozen on July 24, 2008. Future service and salary for the NASDAQ OMX PHLX SERP plan participants do not count toward an accrual of benefits under the NASDAQ OMX PHLX SERP after July 24, 2008. In addition, effective December 31, 2008, the NASDAQ OMX PHLX Pension Plan was frozen. Future service and salary for all participants will not count toward an accrual of benefits under the NASDAQ OMX PHLX Pension Plan after December 31, 2008.

**Components of Net Periodic Benefit Cost**

The following table sets forth the components of net periodic pension, SERP and post-retirement benefits cost for both the NASDAQ OMX Benefit Plans and the NASDAQ OMX PHLX Benefit Plans recognized in compensation and benefits expense in the Condensed Consolidated Statements of Income. The NASDAQ OMX PHLX benefit costs are reflected in the three and nine months ended September 30, 2008 from the date of acquisition:

|  | Three Months Ended<br>September 30,<br>2009 |               | September 30,<br>2008 |               |
|--|---|---------------|-----------------------|---------------|
|  |   |               | 2009                  |               |
|  |   |               | 2008                  |               |
|  |   |               | (in millions)         |               |
| <b>Components of net periodic benefit cost</b> |   |               |                       |               |
| Service cost                                   | \$ 0.2                                      | \$ 1.0        | \$ 0.5                | \$ 1.0        |
| Interest cost                                  | 1.7   | 1.4           | 5.1                   | 3.0           |
| Expected return on plan assets                 | (1.0)                                       | (1.0)         | (2.7)                 | (2.3)         |
| Recognized net actuarial (gain) loss           | (0.4)                                       | 0.2           | 0.1                   | 0.4           |
| Prior service cost recognized                  |   | 0.1           |                       | 0.1           |
| <b>Benefit cost</b>                            | <b>\$ 0.5</b>                               | <b>\$ 1.7</b> | <b>\$ 3.0</b>         | <b>\$ 2.2</b> |

**Non-U.S. Benefit Plans**

Most employees outside the U.S. are covered by local retirement plans or by applicable social laws. Benefits under social laws are generally expensed in the periods in which the costs are incurred. These costs are included in compensation and benefits expense in the Condensed Consolidated Statements of Income.

As part of the Nord Pool transaction, we assumed the obligation for several pension plans providing benefits for their employees. The benefit cost for these plans included in compensation and benefits expense in the Condensed Consolidated Statements of Income was \$2 million for the nine months ended September 30, 2009.

**Defined Contribution Savings Plan**

We sponsor a voluntary defined contribution savings plan, or 401(k) Plan, for U.S. employees. Employees are immediately eligible to make contributions to the plan and are also eligible for an employer contribution match at an amount equal to 100.0% of the first 4.0% of eligible employee contributions. Savings plan expense included in compensation and benefits expense in the Condensed Consolidated Statements of Income was \$1 million for both the three months ended September 30, 2009 and 2008, and \$3 million for both the nine months ended September 30, 2009 and 2008.

PHLX also sponsored a voluntary defined contribution savings plan for former PHLX employees. This plan was merged into the NASDAQ OMX 401(k) Plan effective January 1, 2009.

We have a profit-sharing contribution feature to our 401(k) plan which allows eligible U.S. employees to receive employer retirement contributions, or ERCs, when we meet our annual corporate goals. In addition, we have a supplemental ERC for select highly compensated employees whose ERCs are limited by the annual Internal Revenue Service compensation limit. Included in compensation and benefits expense in the Condensed Consolidated Statements of Income was ERC expense of \$1 million for both the three months ended September 30, 2009 and 2008, and \$3 million for both the nine months ended September 30, 2009 and 2008.

**10. Share-Based Compensation**

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

We have a share-based compensation program that provides our board of directors broad discretion in creating employee equity incentives. Grants of stock options, restricted stock, which includes awards and units, and performance share units, or PSUs, are designed to reward employees for their long-term contributions to us and provide incentives for them to remain with us. For accounting purposes, we consider PSUs to be a form of restricted stock. Restricted stock is generally time-based and vests over two to five-year periods beginning on the date of the grant. Stock options are also generally time-based. Stock option awards granted prior to January 1, 2005 generally vested 33% on each annual anniversary of the grant date over three years and expire ten years from the grant date. Stock option awards granted after January 1, 2005 generally included performance based accelerated vesting features based on us achieving specific levels of performance and expire ten years from the grant date. If we achieve the applicable performance parameters, 100% of the grant would vest on the fourth anniversary of the grant date. If we exceed the applicable performance

## Table of Contents

parameters, the grant would vest on the third anniversary of the grant date and if we did not meet the applicable performance parameters, the grant would be extended to vest on the fifth anniversary of the grant date.

The following table shows the total share-based compensation expense resulting from equity awards and the 15.0% discount provided to employees under the NASDAQ OMX 2000 Employee Stock Purchase Plan, or ESPP, for the three and nine months ended September 30, 2009 and 2008 in the Condensed Consolidated Statements of Income:

|  | Three Months Ended<br>September 30,<br>2009 |      | Nine Months Ended<br>September 30,<br>2009 |       |
|--|---|------|--|-------|
|  | 2008  | 2008 | 2009                                       | 2008  |
|  | (in millions)                               |      |  |       |
| Total share-based compensation expense before income taxes | \$ 8  | \$ 7 | \$ 25                                      | \$ 18 |
| Income tax benefit   | (3)   | (3)  | (10)                                       | (7)   |
| Total share-based compensation expense after income taxes  | \$ 5  | \$ 4 | \$ 15                                      | \$ 11 |

We estimated the fair value of share-based option awards using the Black-Scholes valuation model with the following weighted-average assumptions:

|   | Three Months Ended<br>September 30,<br>2009 |         | Nine Months Ended<br>September 30,<br>2009 |          |
|---|---|---------|--|----------|
|   | 2008  |         | 2008                                       |          |
| Expected life (in years)                  | 5   | 5       | 5  | 5        |
| Weighted-average risk free interest rate  | 2.39%                                       | 3.23%   | 2.53%                                      | 2.73%    |
| Expected volatility                       | 36.0%                                       | 35.0%   | 36.0%                                      | 35.0%    |
| Dividend yield                            |   |         |  |          |
| Weighted-average fair value at grant date | \$ 6.93                                     | \$ 9.61 | \$ 7.41                                    | \$ 13.42 |

Our computation of expected life is based on historical exercise patterns. The interest rate for periods within the expected life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. Our computation of expected volatility is based on a combination of historical and market-based implied volatility. Our Credit Facilities restrict our ability to pay dividends. Before our Credit Facilities were in place, it was not our policy to declare or pay cash dividends on our common stock.

A summary of stock option activity for the nine months ended September 30, 2009 is as follows:

|                                   | Stock<br>Options | Weighted-<br>Average<br>Exercise Price | Weighted-<br>Average<br>Remaining<br>Contractual Term<br>(in years) | Aggregate<br>Intrinsic Value<br>(in millions) |
|-----------------------------------|------------------|--|---|---|
| Outstanding at January 1, 2009    | 10,726,905       | \$ 18.08                               | 6.5   | \$ 109  |
| Grants <sup>(1)</sup>             | 1,005,964        | 21.14                                  |   |   |
| Exercises                         | (727,927)        | 7.89                                   |   |   |
| Forfeitures or expirations        | (629,897)        | 32.23                                  |   |   |
| Outstanding at September 30, 2009 | 10,375,045       | \$ 18.23                               | 6.2   | \$ 76   |
| Exercisable at September 30, 2009 | 6,278,604        | \$ 10.34                               | 4.6   | \$ 76   |

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

<sup>(1)</sup> In June 2009, our chief executive officer received a grant of 900,000 non-qualified stock options, which will vest 50% on December 31, 2011 and 50% on December 31, 2012.

We received net cash proceeds of \$1 million from the exercise of approximately 0.1 million stock options for the three months ended September 30, 2009 and received net cash proceeds of \$6 million from the exercise of approximately 0.7 million stock options for the nine months ended September 30, 2009. We received net cash proceeds of \$3 million from the exercise of approximately 0.3 million stock options for the three months ended September 30, 2008 and received net cash proceeds of \$6 million from the exercise of approximately 0.5 million stock options for the nine months ended September 30, 2008. We present excess tax benefits from the exercise of stock options, if any, as financing cash flows.

The September 30, 2009 aggregate intrinsic value in the above table represents the total pre-tax intrinsic value (i.e., the difference between our closing stock price on September 30, 2009 of \$21.05 and the exercise price, times the number of shares) based on stock options with an exercise price less than NASDAQ OMX's closing price of \$21.05 as of September 30, 2009, which would have been received by the option holders had the option holders exercised their stock options on that date. This amount changes based on the fair market value of our common stock. The total number of in-the-money stock options exercisable as of September 30, 2009 was 5.7 million.

A summary of restricted stock and PSU activity for the nine months ended September 30, 2009 is as follows:

The following outlines the components of comprehensive income (loss), net of tax:

45

# Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

|  |        |       |        |        |
|--|--------|-------|--------|--------|
| Total comprehensive income   | 328    | 26    | 509    | 248    |
| Total comprehensive (income) loss attributable to noncontrolling interests | 1      |       | 2      | (1)    |
| Total comprehensive income attributable to NASDAQ OMX                      | \$ 329 | \$ 26 | \$ 511 | \$ 247 |

- (1) The amounts represent unrealized losses on our long-term available-for-sale investment in the Oslo Børs exchange, or Oslo. During the second quarter of 2009, we made a strategic decision to sell this investment demonstrating our intent to no longer hold this investment. This investment was held by a non-U.S. subsidiary and the losses were not deductible for tax purposes.
- (2) As indicated in footnote 1 above, in the second quarter of 2009, we sold our available-for-sale investment in Oslo and reclassified the holding loss associated with this investment into earnings. See Reclassification From Accumulated Other Comprehensive Income to Earnings below for further discussion. This investment was held by a non-U.S. subsidiary and the loss was not deductible for tax purposes.

## Table of Contents

- (3) The amounts represent the change in fair value of our cash flow hedge, net of tax, which we entered into in the third quarter of 2008 to effectively convert a portion of our floating rate debt to a fixed rate basis. See Note 8, Debt Obligations, and Note 14, Derivative Financial Instruments and Hedging Activities, for further discussion.
- (4) The amounts include gains and losses on foreign currency translation adjustments from non-U.S. subsidiaries for which the functional currency is other than the U.S. dollar, net of deferred tax liability of \$170 million for the third quarter of 2009 and \$227 million for the first nine months of 2009.

### Reclassification From Accumulated Other Comprehensive Income to Earnings

In connection with our business combination with OMX AB, we acquired a long-term available-for-sale investment in Oslo. In the second quarter of 2009, we sold this investment and recognized a \$5 million loss which is recorded in loss on sale of investment security in the Condensed Consolidated Statements of Income. The unrealized holding loss associated with this investment, which was recorded in other comprehensive income (loss), has been reclassified into earnings.

## 12. Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per share:

|  | Three Months Ended<br>September 30,               |             | Nine Months Ended<br>September 30, |             |
|--|---|-------------|------------------------------------|-------------|
|  | 2009  | 2008        | 2009                               | 2008        |
|  | (in millions, except share and per share amounts) |             |                                    |             |
| <b>Numerator:</b>  |   |             |                                    |             |
| <b>Net income attributable to NASDAQ OMX:</b>  |   |             |                                    |             |
| Net income for basic earnings per share  | \$ 60   | \$ 58       | \$ 223                             | \$ 279      |
| Interest impact of 3.75% convertible notes, net of tax                                 | 1   | 1           | 2                                  | 2           |
| Net income for diluted earnings per share  | \$ 61   | \$ 59       | \$ 225                             | \$ 281      |
| <b>Denominator:</b>  |   |             |                                    |             |
| Weighted-average common shares outstanding for basic earnings per share <sup>(1)</sup> | 203,311,334                                       | 199,977,325 | 202,526,588                        | 186,940,225 |
| Weighted-average effect of dilutive securities:  |   |             |                                    |             |
| Employee stock options and awards  | 3,886,753   | 5,102,123   | 3,991,080                          | 4,926,016   |
| 3.75% convertible notes assumed converted into common stock                            | 7,832,973   | 8,281,162   | 8,099,916                          | 8,281,169   |
| Warrants   |   | 791,143     |                                    | 913,421     |
| Denominator for diluted earnings per share   | 215,031,060                                       | 214,151,753 | 214,617,584                        | 201,060,831 |
| <b>Basic and diluted earnings per share:</b>   |   |             |                                    |             |
| Basic earnings per share   | \$ 0.30   | \$ 0.29     | \$ 1.10                            | \$ 1.49     |
| Diluted earnings per share   | \$ 0.28   | \$ 0.27     | \$ 1.05                            | \$ 1.40     |

(1) The nine months ended September 30, 2008 amount includes 60,561,515 shares of common stock issued to Borse Dubai and the Borse Dubai Nasdaq Share Trust in conjunction with the business combination with OMX AB on a weighted-average basis from the closing date of the business combination.

Options to purchase 10,375,045 shares of common stock and 2,959,237 shares of restricted stock and PSUs were outstanding at September 30, 2009. For the three months ended September 30, 2009, we included 5,688,572 of the outstanding options and 1,315,648 shares of restricted stock and PSUs in the computation of diluted earnings per share, on a weighted-average basis, as their inclusion was dilutive. The remaining options

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

and shares of restricted stock and PSUs are antidilutive, and as such, they were properly excluded. For the nine months ended September 30, 2009, we also included 5,688,572 of the outstanding options and 1,235,648 shares of restricted stock and PSUs in the computation of diluted earnings per share, on a weighted-average basis, as their inclusion was dilutive. The remaining options and shares of restricted stock and PSUs are antidilutive, and as such, they were properly excluded.

In September 2009, most of the holders of our outstanding 3.75% convertible notes converted their remaining outstanding notes into common stock in accordance with the terms of the notes, which resulted in the issuance of an aggregate of 8,246,680 shares of our common stock. The 3.75% convertible notes were accounted for under the if-converted method, as we settled the convertible notes in shares of our common stock. For the three and nine months ended September 30, 2009, all of the shares underlying the outstanding 3.75% convertible notes, including the notes that were converted into shares of common stock in September 2009, were included in the computation of diluted earnings per share, on a weighted-average basis, as their inclusion was dilutive. See Note 8, Debt Obligations, and Note 17, Series A Convertible Preferred Stock, for further discussion of the conversion of our 3.75% convertible notes.



## Table of Contents

The 2.50% convertible senior notes are accounted for under the treasury stock method as it is our intent and policy to settle the principal amount of the notes in cash. Based on the settlement structure of the 2.50% convertible senior notes, which permits the principal amount to be settled in cash and the conversion premium to be settled in shares of our common stock or cash, we will reflect the impact of the convertible spread portion of the convertible notes in the diluted calculation using the treasury stock method. For the three and nine months ended September 30, 2009, the conversion spread of our 2.50% convertible senior notes was out of the money, and as such, they were properly excluded from the computation of diluted earnings per share.

Options to purchase 9,573,859 shares of common stock, 1,449,497 shares of restricted stock and PSUs, 3.75% convertible notes convertible into 8,281,162 shares of common stock and warrants exercisable into 1,539,489 shares of common stock were outstanding at September 30, 2008. For the three months ended September 30, 2008, we included 6,610,129 of the outstanding options, 629,952 shares of restricted stock and PSUs, all of the shares underlying the 3.75% convertible notes and all of the shares underlying the warrants in the computation of diluted earnings per share, on a weighted-average basis, as their inclusion was dilutive. The remaining options and shares of restricted stock and PSUs were antidilutive, and the conversion spread of our 2.50% convertible senior notes was out of the money, and as such, they were properly excluded. For the nine months ended September 30, 2008, we included 6,705,089 of the outstanding options, 1,002,201 shares of restricted stock and PSUs, all of the shares underlying the 3.75% convertible notes, including the 3.75% convertible notes that were converted into 2,000 shares of common stock during the first nine months of 2008, and all of the shares underlying the warrants in the computation of diluted earnings per share, on a weighted-average basis, as their inclusion was dilutive. The remaining options and shares of restricted stock and PSUs were antidilutive, and the conversion spread of our 2.50% convertible senior notes was out of the money, and as such, they were properly excluded.

### 13. Fair Value of Financial Instruments

#### Fair Value Measurement Definition and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants at the measurement date. Fair value measurement establishes a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect NASDAQ OMX's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Instruments whose significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The following table presents for each of the above hierarchy levels, our financial assets and liabilities that are measured at fair value on a recurring basis at September 30, 2009.

|  | Balance as of<br>September 30, 2009 | Fair Value Measurements<br>(Level 1) (Level 2) (Level 3)<br>(in millions) |          |    |
|--|-------------------------------------|---|----------|----|
| <b><u>Financial Assets Measured at Fair Value on a Recurring Basis</u></b> |                                     |   |          |    |
| Market value, outstanding derivative positions <sup>(1)</sup>              | \$ 3,569                            | \$  | \$ 3,569 | \$ |
| Financial investments, at fair value <sup>(2)</sup>                        | 257                                 | 257   |          |    |

# Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

|  |    |       |        |          |    |
|--|----|-------|--------|----------|----|
| Total  | \$ | 3,826 | \$ 257 | \$ 3,569 | \$ |
| <b>Financial Liabilities Measured at Fair Value on a Recurring Basis</b> |    |       |        |          |    |
| Market value, outstanding derivative positions <sup>(1)</sup>            | \$ | 3,569 | \$     | \$ 3,569 | \$ |
| Other liabilities <sup>(3)</sup>   |    | 11    |        | 11       |    |
| Total  | \$ | 3,580 | \$     | \$ 3,580 | \$ |

- (1) Represents net amounts associated with our clearing operations in the derivatives markets of NASDAQ OMX Commodities and NASDAQ OMX Stockholm. See Market Value, Outstanding Derivative Positions, of Note 14, Derivative Financial Instruments and Hedging Activities, for further discussion.
- (2) Primarily comprised of Swedish government debt securities. These securities are classified as trading securities and \$140 million are restricted assets to meet regulatory capital requirements for NASDAQ OMX Stockholm's clearing operations.
- (3) Primarily includes our interest rate swaps included in other liabilities in the Condensed Consolidated Balance Sheets. See Cash Flow Hedges, of Note 14, Derivative Financial Instruments and Hedging Activities, for further discussion.

**Table of Contents**

The following table presents for each of the above hierarchy levels, our financial assets and liabilities that are measured at fair value on a recurring basis at December 31, 2008.

|   | Balance as of<br>December 31, 2008 | Fair Value Measurements<br>(Level 1) (Level 2) (Level 3)<br>(in millions) |          |    |
|---|------------------------------------|---|----------|----|
| <b><u>Financial Assets Measured at Fair Value on a Recurring Basis</u></b>      |                                    |   |          |    |
| Market value, outstanding derivative positions <sup>(1)</sup>                   | \$ 4,122                           | \$  | \$ 4,122 | \$ |
| Financial investments, at fair value <sup>(2)</sup>                             | 227                                | 227   |          |    |
| Other assets <sup>(3)</sup>   | 33                                 | 29  | 4        |    |
| Total   | \$ 4,382                           | \$ 256  | \$ 4,126 | \$ |
| <b><u>Financial Liabilities Measured at Fair Value on a Recurring Basis</u></b> |                                    |   |          |    |
| Market value, outstanding derivative positions <sup>(1)</sup>                   | \$ 4,122                           | \$  | \$ 4,122 | \$ |
| Other liabilities <sup>(4)</sup>  | 24                                 | 3   | 21       |    |
| Total   | \$ 4,146                           | \$ 3  | \$ 4,143 | \$ |

(1) Represents net amounts associated with our clearing operations in the derivatives markets of NASDAQ OMX Commodities and NASDAQ OMX Stockholm. See Market Value, Outstanding Derivative Positions, of Note 14, Derivative Financial Instruments and Hedging Activities, for further discussion.

(2) Financial investments, at fair value are primarily comprised of Swedish government debt securities. These securities, which are classified as trading securities, are restricted assets to meet regulatory capital requirements for NASDAQ OMX Stockholm's clearing operations.

(3) Primarily includes our long-term available-for-sale investment securities included in other assets in the Condensed Consolidated Balance Sheets.

(4) Primarily includes our interest rate swaps included in other liabilities in the Consolidated Balance Sheets and our foreign currency option and forward contracts used to partially or fully economically hedge our Market Technology contracts included in other accrued liabilities in the Condensed Consolidated Balance Sheets. See Cash Flow Hedges and Derivatives Not Designated as Hedges, of Note 14, Derivative Financial Instruments and Hedging Activities, for further discussion.

We also consider our debt obligations to be financial instruments. The fair value of our debt obligations was estimated using discounted cash flow analyses based on our assumed incremental borrowing rates for similar types of borrowing arrangements and a Black-Scholes valuation technique that is utilized to calculate the convertible option value for the 3.75% convertible notes and the 2.50% convertible senior notes. At September 30, 2009, the carrying value of our debt obligations, before the \$57 million unamortized debt discount resulting from the adoption of ASC 470.20, was approximately \$39 million more than fair value, primarily due to a decrease in fair value on the 2.50% convertible senior notes that have a convertible option feature equivalent to a conversion price of approximately \$55.13 as compared to the closing price of \$21.05 at September 30, 2009. At December 31, 2008, the carrying value of our debt obligations was approximately \$13 million more than fair value primarily due to a decrease in fair value on the 2.50% convertible senior notes that have a convertible option feature equivalent to a conversion price of approximately \$55.13 as compared to the closing price of \$24.71 at December 31, 2008, partially offset by stock appreciation on the 3.75% convertible notes' convertible option feature from \$14.50 at the time of issuance to \$24.71 at December 31, 2008. For further discussion of our debt obligations, see Note 8, Debt Obligations.

**Financial Instruments Not Measured at Fair Value on a Recurring Basis**

Some of our financial instruments are not measured at fair value on a recurring basis but are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include: cash and cash equivalents, restricted cash, receivables, net, certain other current assets, accounts payable and accrued expenses, Section 31 fees payable to SEC, accrued personnel costs, and certain other current liabilities.

**14. Derivative Financial Instruments and Hedging Activities**

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

In the ordinary course of business, we may enter into various types of derivative transactions. These derivative transactions include:

*Futures and foreign currency forward contracts* which are commitments to buy or sell at a future date a financial instrument, commodity or currency at a contracted price and may be settled in cash or through delivery.

*Interest rate swap contracts* which are agreements between two parties to exchange one stream of future interest payments for another based on a specified principal amount over a set period of time.

## **Table of Contents**

*Foreign currency option contracts* which give the purchaser, for a fee, the right, but not the obligation, to buy or sell within a limited time a financial instrument or currency at a contracted price that may also be settled in cash, based on differentials between specified indices or prices.

NASDAQ OMX may use these derivative financial instruments to manage exposure to various market risks, primarily foreign currency exchange rate fluctuations and changes in interest rates on our variable rate debt, and are an integral component of our market risk and related asset/liability management strategy and processes.

### **Fair Value Hedges**

Depending on market conditions, we may use foreign currency future, forward and option contracts to limit our exposure to foreign currency exchange rate fluctuations on contracted revenue streams (hedged item) relating to our Market Technology sales. When the contracted revenue streams meet the definition of a firm commitment, these derivative contracts may be designated as fair value hedges if the applicable hedge criteria is met. Changes in fair value on the derivatives and the related hedged items are recognized in the Condensed Consolidated Statements of Income. As of September 30, 2009, there were no outstanding fair value hedges.

### **Cash Flow Hedges**

In the third quarter of 2008, we entered into interest rate swap agreements that effectively converted \$200 million of our Credit Facilities, which is floating rate debt, to a fixed rate basis through August 2011, thus reducing the impact of interest rate changes on future interest expense.

All derivative contracts used to manage interest rate risk are measured at fair value and reported in other current assets or other accrued liabilities as appropriate with the offset in accumulated other comprehensive income (loss) within NASDAQ OMX stockholders' equity in the Condensed Consolidated Balance Sheets. Any ineffectiveness would impact earnings through interest expense. There was no material ineffectiveness recorded in earnings for the three and nine months ended September 30, 2009 and 2008.

### **Net Investment Hedges**

Net assets of our foreign subsidiaries are exposed to volatility in foreign currency exchange rates. We may utilize net investment hedges to offset the translation adjustment arising from remeasuring our investment in foreign subsidiaries. As of September 30, 2009, there were no outstanding net investment hedges.

### **Derivatives Not Designated as Hedges**

NASDAQ OMX may also enter into economic hedges that either do not qualify or are not designated for hedge accounting treatment. This type of hedge is undertaken when hedge accounting requirements cannot be achieved or management decides not to apply hedge accounting.

In order to economically hedge the foreign currency exposure on our business combination with OMX AB, we entered into foreign currency option and forward contracts beginning at the time of the announcement of the proposed combination. A derivative used to hedge exposure related to an anticipated business combination does not qualify for specialized hedge accounting, and as such, was marked to market through the income statement in gain (loss) on foreign currency contracts each reporting period. In the first quarter of 2008, we entered into a forward contract for the Nord Pool transaction. See below for further discussion of these contracts. For additional discussion of the business combination with OMX AB and the Nord Pool transaction, see The combination with OMX AB and strategic partnership with Borse Dubai Limited, and The acquisition of certain businesses from Nord Pool, of Note 4, Acquisitions and Strategic Initiatives.

In 2008, we also entered into foreign currency contracts, primarily foreign currency option and forward contracts, to partially or fully economically hedge foreign currency transactions and non-U.S. dollar cash flow exposures on our Market Technology contracts. These hedges generally matured within one year and changes in fair value of these derivatives were recognized in gain (loss) on foreign currency contracts, net in the Condensed Consolidated Statements of Income.

The following table presents the realized and unrealized gain/(loss) on each forward contract recognized in the Condensed Consolidated Statements of Income for three months ended September 30, 2008 related to our foreign currency forward contracts.

**Table of Contents**

|                           | Realized<br>Gain<br>(Loss) | Unrealized<br>Loss<br>(in millions) | Total<br>Loss for<br>the Three<br>Months Ended<br>September 30,<br>2008 |
|---------------------------|----------------------------|-------------------------------------|---|
| NOK 2008 Forward Contract | \$ 2                       | \$ (47)                             | \$ (45)   |
| Other <sup>(1)</sup>      | (2)                        | (4)                                 | (6)   |
| <b>Total</b>              | <b>\$</b>                  | <b>\$ (51)</b>                      | <b>\$ (51)</b>  |

<sup>(1)</sup> Primarily represents market technology forward currency contracts used to limit our exposure to foreign currency exchange rate fluctuations on contracted revenue streams which do not qualify for hedge accounting.

In the first quarter of 2008 we entered into a forward contract to hedge the NOK cash payment for the Nord Pool transaction. We agreed to purchase certain businesses of Nord Pool for approximately \$320 million. We entered into a forward contract to buy NOK and sell U.S. dollars at an exchange rate of 5.2129. The closing of the Nord Pool transaction occurred on October 21, 2008 and this contract was settled at closing. As shown in the table above, in the third quarter of 2008 we recorded an unrealized loss of approximately \$45 million related to the NOK forward contract.

In addition, as shown in the below two tables, for the nine months ended September 30, 2008 we recognized a loss of \$4 million related to forward contracts and recognized a loss of \$7 million related to option contracts for a net loss of \$11 million.

The following table presents the realized and unrealized gain/(loss) recognized in the Condensed Consolidated Statements of Income for the nine months ended September 30, 2008 related to our foreign currency forward contracts.

|                            | Realized<br>Gain | Unrealized<br>Loss<br>(in millions) | Total<br>Gain/(loss)<br>for the Nine<br>Months Ended<br>September 30,<br>2008 |
|----------------------------|------------------|-------------------------------------|---|
| SEK 2008 Forward Contracts | \$ 34            | \$                                  | \$ 34   |
| NOK 2008 Forward Contract  | 1                | (40)                                | (39)  |
| Other <sup>(1)</sup>       | 8                | (7)                                 | 1   |
| <b>Total</b>               | <b>\$ 43</b>     | <b>\$ (47)</b>                      | <b>\$ (4)</b>   |

<sup>(1)</sup> Represents Market Technology forward currency contracts used to limit our exposure to foreign currency exchange rate fluctuations on contracted revenue streams which do not qualify for hedge accounting.

In the first quarter of 2008, we entered into forward contracts to hedge the SEK cash payment made in connection with the business combination with OMX AB and recorded a gain of \$34 million at the closing of the business combination relating to the cash payments for the SEK forward contracts.

Also, as discussed above, in the first quarter of 2008 we entered into a forward contract to hedge the NOK cash payment for the Nord Pool transaction and recorded a net loss of \$39 million for the nine months ended September 30, 2008.

The following table presents the cumulative realized gain/(loss) on each option contract and the total loss recognized in the Condensed Consolidated Statements of Income for the nine months ended September 30, 2008 related to our foreign currency option contracts.



## Table of Contents

|   | Purchase | Sale/<br>Expiration | Cumulative<br>Realized<br>Gain<br>(Loss)<br>(in millions) | Change<br>in<br>Unrealized<br>(Loss) | Total Gain/<br>(Loss) for<br>the Nine<br>Months<br>Ended<br>September 30,<br>2008 |
|---|----------|---------------------|---|--------------------------------------|---|
| SEK 2007 Option Contract <sup>(1)</sup> | \$ 39    | \$ 67               | \$ 28   | \$ (22)                              | \$ 6  |
| SEK 2008 Option Contract <sup>(2)</sup> | 13       |                     | (13)  |                                      | (13)  |
| Total                                   | \$ 52    | \$ 67               | \$ 15   | \$ (22)                              | \$ (7)  |

<sup>(1)</sup> This contract, which was originally purchased in October 2007 to economically hedge the foreign currency exposure on our business combination with OMX AB, had a fair value at December 31, 2007 of \$61 million. On January 7, 2008, we sold the SEK 2007 option contract for \$67 million and recorded a gain of \$6 million.

<sup>(2)</sup> On January 7, 2008, we purchased a new contract for \$13 million which expired out-of-the-money in February 2008 and we recorded a loss for the purchase amount of \$13 million.

The following table presents the fair value amounts and balance sheet location of our derivative instruments prior to netting:

|  | September 30, 2009 |           | December 31, 2008 |                  |    |                   |    |
|--|--------------------|-----------|-------------------|------------------|----|-------------------|----|
|  | Fair Value         |           | Fair Value        |                  |    |                   |    |
|  | Asset              | Liability | Asset             | Liability        |    |                   |    |
|  | (in millions)      |           |                   |                  |    |                   |    |
| <i>Derivatives Designated as Hedging Instruments</i>     |                    |           |                   |                  |    |                   |    |
| Cash flow hedges   |                    |           |                   |                  |    |                   |    |
| Interest rate swaps                                      | \$                 | \$        | 10 <sup>(1)</sup> | \$               | \$ | 11 <sup>(1)</sup> |    |
| <i>Derivatives Not Designated as Hedging Instruments</i> |                    |           |                   |                  |    |                   |    |
| Foreign exchange contracts                               |                    |           | 1 <sup>(2)</sup>  | 1 <sup>(3)</sup> |    | 10 <sup>(2)</sup> |    |
| Interest rate futures                                    |                    |           |                   |                  |    | 3 <sup>(2)</sup>  |    |
| Total derivatives not designated as hedging instruments  |                    |           | 1                 | 1                |    | 13                |    |
| Total derivatives  | \$                 | \$        | 11                | \$               | 1  | \$                | 24 |

<sup>(1)</sup> Included in other liabilities in the Condensed Consolidated Balance Sheets.

<sup>(2)</sup> Included in other accrued liabilities in the Condensed Consolidated Balance Sheets.

<sup>(3)</sup> Included in other current assets in the Condensed Consolidated Balance Sheets.

### Other Derivative Positions at NASDAQ OMX Commodities and NASDAQ OMX Stockholm

#### NASDAQ OMX Commodities

NASDAQ OMX Commodities enters into energy derivative and carbon product contracts as the contractual counterparty. In doing so, NASDAQ OMX Commodities guarantees the completion of the transaction and market participants can thereby limit their counterparty risk. Market participants must provide collateral to cover the daily margin call, which is in addition to the initial collateral placed when signing the clearing membership agreement. Acceptable collateral is cash on a pledged bank account and/or an on-demand guarantee. We also act as the counterparty



## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

for trades on the OTC derivative market subject to our approval on a case-by-case basis. Trading on the contracts can take place up until the delivery period which can occur over a period of up to six years.

### ***NASDAQ OMX Stockholm***

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, exposing us to counterparty risk. We also act as the counterparty for certain OTC contracts. The transactions are reported electronically prior to CCP clearing and we thereby guarantee the completion of the transaction. Following the completion of a transaction, settlement takes place between parties with the exchange of the securities and funds. The transfer of ownership is registered and the securities are stored on the owner's behalf. Settlement and registration of cash trading takes place in Sweden and Finland via the local central securities depositories.

The counterparty risks are measured using models that are agreed with the financial inspection authority of the country in question which requires us to provide minimum guarantees and maintain certain levels of regulatory capital.

**Table of Contents****Market Value, Outstanding Derivative Positions**

Through our clearing operations in the derivative markets with NASDAQ OMX Commodities and NASDAQ OMX Stockholm, we are the legal counterparty for each derivative position traded and thereby guarantee the fulfillment of each contract. The derivatives are not used by NASDAQ OMX Commodities or NASDAQ OMX Stockholm for the purpose of trading on their own behalf. As a legal counterparty of each transaction, NASDAQ OMX Commodities and NASDAQ OMX Stockholm bear the counterparty risk.

The structure and operations of NASDAQ OMX Commodities and NASDAQ OMX Stockholm differ from other clearinghouses. NASDAQ OMX Commodities and NASDAQ OMX Stockholm are not member owned organizations, do not maintain a guarantee fund to which members contribute and do not enforce loss sharing assessments amongst members. In addition, unlike other clearinghouses, they do not record any margin deposits and guarantee funds on the Condensed Consolidated Balance Sheets, as all risks and rewards of collateral ownership, including interest, belongs to the counterparty.

As such, the market value of the above mentioned derivative contracts for NASDAQ OMX Commodities and NASDAQ OMX Stockholm are reported gross on the balance sheet as a receivable pertaining to the purchasing party and a payable pertaining to the selling party. Such receivables and liabilities attributable to outstanding derivative positions have been netted to the extent that such a legal offset right exists and, at the same time, that it is our intention to settle these items. At September 30, 2009, our market value of outstanding derivative positions in the Condensed Consolidated Balance Sheets was \$3.6 billion. See Guarantees Issued, Credit Facilities Available and Collateral Received for Clearing Operations of Note 15, Commitments, Contingencies and Guarantees, for further discussion of our guarantees on the fulfillment of these contracts and collateral received.

The following table presents the fair value of our outstanding derivative positions at September 30, 2009 and December 31, 2008 prior to netting.

|                                  | September 30, 2009 |           | December 31, 2008 |           |
|----------------------------------|--------------------|-----------|-------------------|-----------|
|                                  | Asset              | Liability | Asset             | Liability |
|                                  | (in millions)      |           |                   |           |
| Forwards and options             | \$ 3,116           | \$ 3,116  | \$ 3,306          | \$ 3,306  |
| Stock options and futures        | 208                | 208       | 515               | 515       |
| Index options and futures        | 207                | 207       | 239               | 239       |
| Fixed-income options and futures | 192                | 192       | 460               | 460       |
| Total                            | \$ 3,723           | \$ 3,723  | \$ 4,520          | \$ 4,520  |

**15. Commitments, Contingencies and Guarantees****Brokerage Activities**

Nasdaq Execution Services and NASDAQ Options Services provide guarantees to securities clearinghouses and exchanges under their standard membership agreements, which require members to guarantee the performance of other members. If a member becomes unable to satisfy its obligations to the clearinghouses, other members would be required to meet its shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral as well as meet certain minimum financial standards. Nasdaq Execution Services and NASDAQ Options Services maximum potential liability under these arrangements cannot be quantified. However, we believe that the potential for Nasdaq Execution Services and NASDAQ Options Services to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability is recorded in the Condensed Consolidated Balance Sheets for these arrangements.

**Guarantees Issued, Credit Facilities Available and Collateral Received for Clearing Operations**

Through our clearing operations in the derivative markets with NASDAQ OMX Commodities, NASDAQ OMX Stockholm and IDCG, we are the legal counterparty for each derivative position traded and thereby guarantee the fulfillment of each contract. We are required to pledge collateral for commitments with other clearinghouses. The amount of these commitments is calculated on the gross exposure between the clearinghouses. As collateral for these obligations, we have obtained financial guarantees and credit facilities which are guaranteed by us through counter indemnities. At September 30, 2009, financial guarantees pledged as collateral totaled \$482 million. Credit facilities available to be pledged as collateral totaled \$260 million, of which \$0.1 million was utilized as of September 30, 2009.

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

In addition, we obtained credit facilities to satisfy regulatory requirements totaling \$278 million, none of which was utilized as of September 30, 2009. See Other Credit Facilities, of Note 8, Debt Obligations, for further discussion.

We require our customers to pledge collateral and meet certain minimum financial standards to mitigate the risk if they become unable to satisfy their obligations. At September 30, 2009, total customer pledged collateral with NASDAQ OMX Commodities and NASDAQ OMX Stockholm was \$6.6 billion. This pledged collateral is held by a custodian bank. Since these funds are not held by NASDAQ OMX Commodities and NASDAQ OMX Stockholm and they are not available for our use, we do not receive any interest income on these funds. Customer pledged cash collateral held by IDCG was \$3 million at September 30, 2009 and is included in

## **Table of Contents**

restricted cash with an offsetting liability included in other accrued liabilities in the Condensed Consolidated Balance Sheets, as the risks and rewards of collateral ownership, including interest, belongs to IDCG. Non-cash margin and guaranty fund deposits pledged to IDCG are not reflected in the Condensed Consolidated Balance Sheets as IDCG does not take legal ownership.

We believe that the potential for us to be required to make payments under these arrangements is mitigated through the pledged collateral, our risk management policies and, in the case of NASDAQ OMX Commodities, a default insurance policy. Accordingly, no contingent liability is recorded in the Condensed Consolidated Balance Sheets for these arrangements.

### **Other Guarantees**

We have provided other guarantees as of September 30, 2009 of \$31 million, primarily related to obligations for our rental and leasing contracts. In addition, for certain Market Technology contracts, we have provided performance guarantees of \$10 million related to the delivery of software technology and support services. We have received financial guarantees from various financial institutions to support the above guarantees.

### **Leases**

We lease some of our office space and equipment under non-cancelable operating leases with third parties and sublease office space to third parties. Some of our leases contain renewal options and escalation clauses based on increases in property taxes and building operating costs.

### **Litigation**

We may be subject to claims arising out of the conduct of our business. We are not currently a party to any litigation that we believe could have a material adverse effect on our business, financial condition, or operating results. However, from time to time, we have been threatened with, or named as a defendant in, lawsuits, or involved in regulatory proceedings.

## **16. Segments**

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

Our Market Services segment includes our U.S. and European Transaction Services businesses and our Market Data business, which are interrelated because the Transaction Services businesses generate the quote and trade information that we sell to market participants and data distributors. Market Services also includes our Broker Services business.

Our Issuer Services segment includes our Global Listing Services and Global Index Group businesses. The companies listed on The NASDAQ Stock Market and the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic represent a diverse array of industries. This diversity of companies listed on NASDAQ OMX markets allows us to develop industry-specific and other indexes that we use to develop and license NASDAQ OMX branded indexes, associated derivatives and index products as part of our Global Index Group. The Global Listing Services business also includes our Corporate Services business, which generates revenues through our insurance agency business, shareholder, directors, newswire and other services. Our Corporate Services business provides customer support services, products and programs to companies, including companies listed on our exchanges. In October 2009, we entered into agreements to sell substantially all of our insurance agency business. See Note 18, Subsequent Events, for further discussion.

Through our Market Technology segment, we provide technology solutions for trading, clearing and settlement, and information dissemination, and also offer facility management integration and advisory services. Our management allocates resources, assesses performance and manages these businesses as three separate segments.

We evaluate the performance of our segments based on several factors, of which the primary financial measure is income before income taxes. Results of individual businesses are presented based on our management accounting practices and our management structure. Certain amounts are allocated to corporate items in our management reports based on the decision that those activities should not be used to evaluate the segment's operating performance, including amounts related to the business combination with OMX AB and the Nord Pool transaction. See below for further discussion. The following table presents certain information regarding these operating segments for the three and nine months ended September 30, 2009 and 2008.



## Table of Contents

|   | Market<br>Services | Issuer<br>Services | Market<br>Technology<br>(in millions) | Corporate<br>Items and<br>Eliminations | Consolidated |
|---|--------------------|--------------------|---------------------------------------|--|--------------|
| <b>Three months ended September 30, 2009</b>                            |                    |                    |                                       |  |              |
| Total revenues  | \$ 691             | \$ 80              | \$ 36                                 | \$ 3                                   | \$ 810       |
| Cost of revenues  | (461)              |                    |                                       |  | (461)        |
| Revenues less liquidity rebates, brokerage, clearance and exchange fees | 230                | 80                 | 36                                    | 3                                      | 349          |
| Income (loss) before income taxes                                       | \$ 84              | \$ 26              | \$ (3) <sup>(1)</sup>                 | \$ (23) <sup>(2)</sup>                 | \$ 84        |
| <b>Three months ended September 30, 2008</b>                            |                    |                    |                                       |  |              |
| Total revenues  | \$ 869             | \$ 89              | \$ 29                                 | \$ 3                                   | \$ 990       |
| Cost of revenues  | (591)              |                    |                                       |  | (591)        |
| Revenues less liquidity rebates, brokerage, clearance and exchange fees | 278                | 89                 | 29                                    | 3                                      | 399          |
| Income (loss) before income taxes                                       | \$ 134             | \$ 15              | \$ (9)                                | \$ (44) <sup>(3)</sup>                 | \$ 96        |
| <b>Nine months ended September 30, 2009</b>                             |                    |                    |                                       |  |              |
| Total revenues  | \$ 2,243           | \$ 241             | \$ 100                                | \$ 9                                   | \$ 2,593     |
| Cost of revenues  | (1,509)            |                    |                                       |  | (1,509)      |
| Revenues less liquidity rebates, brokerage, clearance and exchange fees | 734                | 241                | 100                                   | 9                                      | 1,084        |
| Income (loss) before income taxes                                       | \$ 310             | \$ 72              | \$ 4 <sup>(1)</sup>                   | \$ (46) <sup>(4)</sup>                 | \$ 340       |
| <b>Nine months ended September 30, 2008</b>                             |                    |                    |                                       |  |              |
| Total revenues  | \$ 2,275           | \$ 258             | \$ 84                                 | \$ 8                                   | \$ 2,625     |
| Cost of revenues  | (1,568)            |                    |                                       |  | (1,568)      |
| Revenues less liquidity rebates, brokerage, clearance and exchange fees | 707                | 258                | 84                                    | 8                                      | 1,057        |
| Income (loss) before income taxes                                       | \$ 369             | \$ 60              | \$ (10)                               | \$ 20 <sup>(5)</sup>                   | \$ 439       |

(1) The three and nine months ended September 30, 2009 amounts include expense of \$6 million related to asset retirements.

(2) The three months ended September 30, 2009 amount primarily includes debt conversion expense of \$25 million related to an inducement for the conversion of our 3.75% convertible notes completed in September 2009.

(3) The three months ended September 30, 2008 amount primarily includes a loss of \$45 million on foreign currency contracts, which were purchased to hedge the foreign exchange exposure in connection with our acquisition of Nord Pool's clearing, international derivatives and

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

- consulting subsidiaries. See Note 14, Derivative Financial Instruments and Hedging Activities, for further discussion.
- (4) The nine months ended September 30, 2009 amount primarily includes:

debt conversion expense of \$25 million related to an inducement for the conversion of our 3.75% convertible notes completed in September 2009;

loss of \$19 million on the sale of our 25.25% share capital in Orc; and

loss of \$5 million on the sale of an available-for-sale investment in Oslo, which was acquired as part of our business combination with OMX AB.

## **Table of Contents**

(5) The nine months ended September 30, 2008 amount primarily includes:

income from unconsolidated investees, net of \$27 million, primarily related to our \$26 million gain on the non-monetary contribution of the Nasdaq trade name to obtain an equity interest in NASDAQ Dubai; offset by a

loss on foreign currency contracts, net of \$11 million, primarily comprised of a loss of \$39 million on foreign currency contracts, which were purchased to hedge the foreign exchange exposure in connection with our acquisition of Nord Pool's clearing, international derivatives and consulting subsidiaries, partially offset by a \$27 million net gain from foreign currency option and forward contracts purchased to hedge the business combination with OMX. See Note 14, Derivative Financial Instruments and Hedging Activities, for further discussion.

For further discussion of our segments' results, see Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Segment Operating Results.

### **17. Series A Convertible Preferred Stock**

Our certificate of incorporation authorizes the issuance of 30,000,000 shares of preferred stock, par value \$0.01 per share, issuable from time to time in one or more series. There were no shares issued and outstanding as of December 31, 2008.

In the third quarter of 2009, as an inducement for the conversion of our 3.75% convertible notes (see Conversion of 3.75% Convertible Notes, of Note 8, Debt Obligations, for a further discussion), we agreed to pay the Holders and certain of their affiliates an aggregate amount of \$9 million in cash and to issue to the Holders 1,600,000 shares of our series A convertible preferred stock, with an aggregate initial liquidation preference amount of \$16 million. Conversion of the series A convertible preferred stock is contingent upon shareholder approval and does not represent an unconditional obligation to transfer assets. The series A convertible preferred stock will automatically convert into our common stock upon shareholder approval, which we plan to seek at our next regularly scheduled annual shareholders' meeting currently planned for May 2010. In accordance with U.S. GAAP, if the conversion and subsequent issuance of equity shares is not solely in the control of the issuer and the instrument does not represent an unconditional obligation to transfer assets, permanent equity classification is not permitted. Therefore, we have recorded the fair value of the series A convertible preferred stock of \$15 million as temporary equity in the Condensed Consolidated Balance Sheets as of September 30, 2009.

Upon shareholder approval, the series A convertible preferred stock will automatically convert into the number of common shares determined by dividing the initial liquidation preference amount of \$16 million by the average daily volume weighted average price, or VWAP, of NASDAQ OMX's common stock during the 10 day period immediately preceding the date on which the results of the shareholder vote are calculated. At the time of conversion, the VWAP is subject to a floor price of 80% of the price of NASDAQ OMX's common stock as of the initial issuance date, and a ceiling price of 120% of the price of NASDAQ OMX's common stock as of the initial issuance date.

If shareholder approval is not received, a dividend on the preferred stock will commence at a rate of 12% per annum, and the series A convertible preferred stock will mature in October 2013. The series A convertible preferred stock will be accreted through retained earnings.

### **18. Subsequent Events**

We have evaluated our subsequent events through November 6, 2009, the issuance date of this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009.

In October 2009, we entered into agreements to sell substantially all of our Carpenter Moore Insurance Services, Inc. business. On October 2, 2009, we agreed to sell certain assets of the western region direct practice insurance brokerage business to Woodruff-Sawyer & Co. and on October 26, 2009, we agreed to sell the eastern region insurance brokerage business to Aon Risk Services Companies, Inc. The sales, which will be recognized in the fourth quarter of 2009, will not have a material impact on our results of operations.

In addition, on October 21, 2009, we obtained Financial Services Authority approval to sell our Broker Services operations in the United Kingdom to TD Waterhouse. The sale, which will also be recognized in the fourth quarter of 2009, will not have a material impact on our results of operations.





## **Table of Contents**

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

You should read the following discussion and analysis of the financial condition and results of operations of NASDAQ OMX in conjunction with our condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q.

#### **Overview**

On February 27, 2008, Nasdaq and OMX AB combined their businesses and Nasdaq was renamed The NASDAQ OMX Group, Inc. Under the purchase method of accounting, Nasdaq was treated as the accounting and legal acquirer in the business combination with OMX AB. We also completed our acquisitions of PHLX in July 2008, BSX in August 2008 and certain businesses of Nord Pool in October 2008. These acquisitions also have been treated as purchases for accounting purposes, with NASDAQ OMX treated as the acquirer. Additionally, we purchased a majority stake in IDCG in December 2008 and a 20% aggregate equity interest in Agora-X (13.3% in March 2008 and an additional 6.7% in December 2008). The financial results of OMX AB are included in the consolidated financial results beginning on February 27, 2008. PHLX is included beginning July 2008, BSX beginning August 2008, the Nord Pool businesses beginning October 2008, IDCG beginning December 2008 and our initial equity interest in Agora-X of 13.3% beginning in March 2008 and the aggregate 20% beginning in December 2008.

#### **Financial Highlights**

The comparability of our operating results for the three months ended September 30, 2009 to the same period in 2008 is significantly impacted by our acquisition of PHLX and our Nord Pool transaction. The comparability of our operating results for the nine months ended September 30, 2009 to the same period in 2008 is significantly impacted by our business combination with OMX AB as well as the acquisition of PHLX and our Nord Pool transaction. In our discussion and analysis of results of operations, we have quantified the contribution of additional revenues or expenses resulting from OMX, NASDAQ OMX PHLX and NASDAQ OMX Commodities operations wherever such amounts were material. While identified amounts may provide indications of general trends, the analysis cannot completely address the effects attributable to integration efforts.

In addition, fluctuations in the value of foreign currencies relative to the U.S. dollar impacted our operating results. Impacts associated with fluctuations in foreign currency are discussed in more detail under Item 3. Quantitative and Qualitative Disclosures about Market Risks. For the three months ended September 30, 2009, approximately 36% of our revenues less liquidity rebates, brokerage, clearance and exchange fees and 24% of our operating income were derived in currencies other than the U.S. dollar, primarily the Swedish Krona and Euro. For the nine months ended September 30, 2009, approximately 34% of our revenues less liquidity rebates, brokerage, clearance and exchange fees and 23% of our operating income were derived in currencies other than the U.S. dollar, primarily the Swedish Krona and Euro.

In countries with currencies other than the U.S. dollar, revenues and expenses are translated using monthly average rates of exchange. The following discussion of results of operations eliminates the impact of year-over-year foreign currency fluctuations to better measure the comparability of operating results between periods. Operating results excluding the impact of foreign currency fluctuations are calculated by translating the current year's results by the prior period's exchange rates.

The following summarizes significant changes in our financial performance in the third quarter and first nine months of 2009 when compared with the same periods in 2008:

Revenues less liquidity rebates, brokerage, clearance and exchange fees decreased \$50 million, or 12.5%, to \$349 million in the third quarter of 2009, compared with \$399 million in the third quarter of 2008, reflecting a decrease in operational revenues of \$35 million and an unfavorable impact from foreign exchange of \$15 million. The operational decline was primarily due to a decrease in U.S. cash equity trading revenues less liquidity rebates, brokerage, clearance and exchange fees due to declines in matched share volume and the average net fee per share matched on NASDAQ's trading system. In September 2009, we introduced a revised fee structure on NASDAQ OMX BX and in November 2009, we introduced a revised fee structure on NASDAQ to address the declines in the average net fee per share matched. Assuming volume and market share are comparable with the third quarter of 2009, our revised fee structure would favorably impact our fourth quarter 2009 U.S. cash equity trading revenues less liquidity rebates, brokerage, clearance and exchange fees.

Revenues less liquidity rebates, brokerage, clearance and exchange fees increased \$27 million, or 2.6%, to \$1,084 million in the first nine months of 2009, compared with \$1,057 million in the first nine months of 2008, reflecting an \$85 million increase due to operational growth, partially offset by an unfavorable impact from foreign exchange of \$58 million. The operational growth was primarily due to an

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

increase in derivative trading revenues mainly due to the inclusion of NASDAQ OMX PHLX's derivative trading revenues for the full nine-month period in 2009 compared to two months in 2008 and the inclusion of results of operations from OMX for the full nine-month period in 2009 compared to seven months in 2008. The increase in operational growth was partially offset by a decrease in U.S. cash equity trading revenues less liquidity rebates, brokerage, clearance and exchange fees due to a decrease in the number of shares matched and routed on NASDAQ's trading system.

Operating expenses decreased \$9 million, or 4.0%, to \$218 million in the third quarter of 2009, compared with \$227 million in the third quarter of 2008, reflecting a favorable impact from foreign exchange of \$11 million, partially offset by an increase in operating expenses of \$2 million.

Operating expenses increased \$32 million, or 5.4%, to \$629 million in the first nine months of 2009, compared with \$597 million in the first nine months of 2008, reflecting an increase in operating expenses of \$75 million, partially offset by a

## **Table of Contents**

favorable impact from foreign exchange of \$43 million. The increase in operating expenses was primarily due to the inclusion of OMX's operating expenses for the full nine-month period in 2009 compared to seven months in 2008, as well as the inclusion of NASDAQ OMX PHLX's operating expenses for the full nine-month period in 2009 compared to two months in 2008.

Net interest expense increased \$32 million, or 91.4%, to \$67 million in the first nine months of 2009, compared with \$35 million in the first nine months of 2008, primarily reflecting a full nine months of interest expense in 2009 for the debt outstanding related to our business combination with OMX AB compared to seven months of debt outstanding in the first nine months of 2008. In addition, interest expense increased due to an increase in our outstanding debt obligations related to the acquisitions of PHLX and certain businesses of Nord Pool that were completed in the second half of 2008.

Income (loss) from unconsolidated investees, net was a net loss of \$20 million for the first nine months of 2009, compared with net income of \$27 million for the first nine months of 2008. The net loss for the first nine months of 2009 is primarily due to a \$19 million loss recorded in May 2009 related to the sale of our share capital in Orc. The net income for the first nine months of 2008 was primarily related to the NASDAQ Dubai transaction.

Debt conversion expense was \$25 million for the third quarter of 2009 and the first nine months of 2009 and was related to the conversion of most of our 3.75% convertible notes into common stock. The \$25 million expense included a cash inducement of \$9 million, the present value of series A convertible preferred stock issued totaling \$15 million, and debt issuance and other costs of \$1 million.

Loss on foreign currency contracts, net of \$51 million for the third quarter of 2008 and \$11 million for the first nine months of 2008 primarily related to the Nord Pool acquisition and losses on forward currency contracts used to limit our exposure to foreign currency exchange rate fluctuations on contracted revenue streams. The loss for the first nine months of 2008 was partially offset by gains on foreign currency contracts related to our business combination with OMX AB.

These current and prior year items are discussed in more detail below.

## **Business Environment**

We serve listed companies, market participants and investors by providing high quality cash equity, fixed-income and derivative markets, thereby facilitating economic growth and corporate entrepreneurship. We also provide market technology to exchanges and markets around the world. In broad terms, our business performance is impacted by a number of drivers including macroeconomic events affecting the risk and return of financial assets, investor sentiment, government and private sector demands for capital, the regulatory environment for primary and secondary equity markets, and the changing technology in the financial services industry. Our future revenues and net income will continue to be influenced by a number of domestic and international trends including:

Trading volumes, particularly in U.S. and Nordic equity and derivative securities, which are driven primarily by overall macroeconomic conditions;

The number of companies seeking equity financing, which is affected by factors such as investor demand, the global economy, availability of diverse sources of financing, and tax and regulatory policies;

The gradual return of confidence to the credit markets increasing the availability of liquidity to our technology customers, suppliers, trading participants, and listed companies;

The reinvigoration of certain market participants following the partial or complete takeover of financial institutions by national governments and the distressed mergers of market participant organizations;

The emergence of new market participants seeing opportunities in the recovering global economy;

The ongoing constraints on our fixed-income issuers' ability to access the credit markets due to rating downgrades or illiquidity in the market;

The increasing optimism of our technology customers and suppliers arising from the recent securities market rise and the economic stabilization;

Continuing pressure in transaction fee pricing due to intense competition in the U.S. and Europe;

Competition for listings and trade executions related to pricing, and product and service offerings; and

Other technological advancements and regulatory developments.

Currently our business drivers are characterized by improvement in investors' outlook for financial institutions and global economic growth, continued declines in the levels of market volatility, emerging industry reaction to regulatory initiatives and continued rapid evolution and deployment of new technology in the financial services industry. The business environment that influenced our financial performance during the third quarter of 2009 can be characterized as follows:

A modestly increased pace for new equity issuance relative to the second quarter of 2009 with 20 IPOs across all exchanges in the U.S. and 12 new IPOs on The NASDAQ Stock Market and the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic;

Improved yet limited access to debt and equity capital for both new and established companies;

**Table of Contents**

A 42% reduction of activity experienced by The NASDAQ Stock Market relative to the third quarter of 2008 in U.S. equity matched trades driven by decreased trading levels resulting from diminished volatility, a loss of market share and decline in overall activity relative to the highly elevated trading levels of 2008 due to the financial crisis;

A 4% decrease relative to the third quarter of 2008 in the number of equity transactions on our Nordic and Baltic exchanges driven by decreased participant trading in response to changed economic conditions;

A 29% decrease relative to the third quarter of 2008 in the value of equity transactions on our Nordic and Baltic exchanges resulting from lower equity valuations, lower trading activity due to diminished volatility and the relative return of overall trading activity to levels predating the financial crisis;

A 31% decline experienced by our Nordic and Baltic exchanges relative to the third quarter of 2008 in number of traded derivatives contracts in equity related products (excluding EDX and Eurex) driven by reduced volatility and by the changed economic climate;

A 1% decrease relative to the third quarter of 2008 in number of cleared derivatives contracts in fixed-income related products on our Nordic and Baltic exchanges;

Intense competition among U.S. exchanges for both equity trading volume and listings, and growing competition in Europe;

Globalization of exchanges, customers and competitors extending the competitive horizon beyond national markets;

Consolidation of major global customers as financial institutions are acquired, merged, and restructured; and

Market trends requiring continued investment in technology to meet customers' demands for speed, capacity, and reliability as markets adapt to a global financial industry, as increasing numbers of new companies surface, and as emerging countries show ongoing interest in developing their financial markets.

## Table of Contents

### NASDAQ OMX's Operating Results

#### Key Drivers

The following table includes key drivers for our Market Services, Issuer Services, and Market Technology segments. In evaluating the performance of our business, our senior management closely watches these key drivers.

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|---------|------------------------------------|---------|
|  | 2009                                | 2008    | 2009                               | 2008    |
| <b>Market Services</b>   |                                     |         |                                    |         |
| Cash Equity Trading  |                                     |         |                                    |         |
| Average daily share volume in NASDAQ securities (in billions)  | 2.25                                | 2.26    | 2.30                               | 2.27    |
| Matched market share in NASDAQ securities executed on NASDAQ   | 30.4%                               | 41.0%   | 33.6%                              | 43.3%   |
| Matched market share in NASDAQ securities executed on NASDAQ OMX BX  | 2.0%                                |         | 1.0%                               |         |
| Market share reported to the FINRA/NASDAQ Trade Reporting Facility in NASDAQ securities <sup>(1)</sup>   | 39.3%                               | 21.3%   | 36.1%                              | 21.7%   |
| Total market share in NASDAQ securities <sup>(2)</sup>   | 71.8%                               | 62.3%   | 70.7%                              | 65.0%   |
| Matched market share in NYSE securities executed on NASDAQ   | 14.1%                               | 23.3%   | 15.8%                              | 22.3%   |
| Matched market share in NYSE securities executed on NASDAQ OMX BX  | 3.1%                                |         | 1.3%                               |         |
| Market share reported to the FINRA/NASDAQ Trade Reporting Facility in NYSE securities <sup>(1)</sup>   | 35.4%                               | 18.7%   | 31.8%                              | 18.2%   |
| Total market share in NYSE securities <sup>(2)</sup>   | 52.6%                               | 42.0%   | 48.9%                              | 40.5%   |
| Matched market share in NYSE Amex and regional securities executed on NASDAQ   | 22.2%                               | 35.3%   | 24.6%                              | 35.3%   |
| Matched market share in NYSE Amex and regional securities executed on NASDAQ OMX BX  | 2.1%                                |         | 1.2%                               |         |
| Market share reported to the FINRA/NASDAQ Trade Reporting Facility in NYSE Amex and regional securities <sup>(1)</sup>                         | 34.4%                               | 14.6%   | 31.9%                              | 15.7%   |
| Total market share in NYSE Amex and regional securities <sup>(2)</sup>   | 58.6%                               | 49.9%   | 57.6%                              | 51.0%   |
| Matched share volume in all U.S.-listed equities (in billions)   | 131.4                               | 179.2   | 436.5                              | 469.3   |
| Matched market share in all U.S.-listed equities executed on NASDAQ  | 19.4%                               | 29.6%   | 21.5%                              | 30.0%   |
| Matched market share in all U.S.-listed equities executed on NASDAQ OMX BX   | 2.7%                                |         | 1.0%                               |         |
| Average daily number of equity trades on the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic                                   | 189,002                             | 196,671 | 210,004                            | 197,869 |
| Average daily value of shares traded on the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic (in billions)                      | \$ 3.0                              | \$ 5.0  | \$ 3.1                             | \$ 5.6  |
| <b>Derivative Trading</b>  |                                     |         |                                    |         |
| Average daily volume of U.S. equity option contracts (in millions)   | 13.2                                | 14.4    | 13.5                               | 13.3    |
| NASDAQ OMX PHLX matched market share of U.S. equity options  | 17.0%                               | 16.6%   | 17.4%                              | 16.2%   |
| The NASDAQ Options Market matched market share of U.S. equity options  | 3.2%                                | 1.3%    | 3.1%                               | 0.7%    |
| Average daily volume of equity option and fixed-income contracts traded on the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic | 298,849                             | 391,049 | 317,958                            | 434,211 |
| Average daily volume of Nordic equity option contracts traded on EDX London  | 87,636                              | 169,604 | 110,076                            | 160,957 |
| Average daily volume of Finnish option contracts traded on Eurex   | 65,779                              | 72,993  | 74,272                             | 74,081  |
| Clearing Turnover:   |                                     |         |                                    |         |
| Power contracts (TWh) <sup>(3)</sup>   | 480.0                               |         | 1,573.5                            |         |
| Carbon contracts (1000 tCO2) <sup>(3)</sup>  | 13,745                              |         | 34,196                             |         |
| <b>Issuer Services</b>   |                                     |         |                                    |         |

# Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

## Initial public offerings:

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| NASDAQ   | 12     | 2      | 15     | 12     |
| Exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic                |        | 3      |        | 14     |
| New listings:  |        |        |        |        |
| NASDAQ <sup>(4)</sup>  | 33     | 58     | 67     | 148    |
| Exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic                | 2      | 4      | 9      | 18     |
| Number of listed companies:  |        |        |        |        |
| NASDAQ <sup>(5)</sup>  | 2,863  | 3,062  | 2,863  | 3,062  |
| Exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic <sup>(6)</sup> | 800    | 841    | 800    | 841    |
| Market Technology  |        |        |        |        |
| Order intake (in millions) <sup>(7)</sup>                                      | \$ 37  | \$ 61  | \$ 56  | \$ 188 |
| Total order value (in millions) <sup>(8)</sup>                                 | \$ 318 | \$ 465 | \$ 318 | \$ 465 |



**Table of Contents**

- (1) Transactions reported to the Financial Industry Regulatory Authority, or FINRA/NASDAQ Trade Reporting Facility.
- (2) Includes transactions executed on both NASDAQ's and NASDAQ OMX BX's systems plus trades reported through the FINRA/NASDAQ Trade Reporting Facility.
- (3) Transactions executed on Nord Pool and reported for clearing to NASDAQ OMX Commodities measured by Terawatt hours (TWh) and one thousand metric tons of carbon dioxide (1000 tCO<sub>2</sub>).
- (4) New listings include IPOs, including those completed on a best efforts basis, issuers that switched from other listing venues, closed-end funds and separately listed ETFs.
- (5) Number of listed companies for NASDAQ at period end, including separately listed ETFs.
- (6) Represents companies listed on the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic and companies on the alternative markets, NASDAQ OMX First North, at period end.
- (7) Total contract value of orders signed.
- (8) Represents total contract value of orders signed that are yet to be recognized as revenue.

## Table of Contents

### Business Segments

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

The Market Services segment includes our U.S. and European Transaction Services businesses and our Market Data business, which are interrelated because the Transaction Services businesses generate the quote and trade information that we sell to market participants and data distributors. Market Services also includes our Broker Services business.

The Issuer Services segment includes our Global Listing Services and the Global Index Group businesses. The companies listed on The NASDAQ Stock Market and the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic represent a diverse array of industries. This diversity of companies listed on NASDAQ OMX markets allows us to develop industry-specific and other indexes that we use to develop and license NASDAQ OMX branded indexes, associated derivatives and index products as part of our Global Index Group. The Global Listing Services business also includes our Corporate Services business.

The Market Technology segment provides technology solutions for trading, clearing and settlement, and information dissemination, and also offers facility management integration and advisory services.

Our management allocates resources, assesses performance and manages these businesses as three separate segments. See Note 16, Segments, to the condensed consolidated financial statements for further discussion.

### Segment Operating Results

Of our total third quarter 2009 revenues less liquidity rebates, brokerage, clearance and exchange fees of \$349 million, 65.9% was from our Market Services segment, 22.9% was from our Issuer Services segment, 10.3% was from our Market Technology segment and 0.9% related to other revenues, compared to our total third quarter 2008 revenues less liquidity rebates, brokerage, clearance and exchange fees of \$399 million, of which 69.7% was from our Market Services segment, 22.3% was from our Issuer services segment, 7.3% was from our Market Technology segment and 0.7% related to other revenues.

Of our total first nine months of 2009 revenues less liquidity rebates, brokerage, clearance and exchange fees of \$1,084 million, 67.7% was from our Market Services segment, 22.2% was from our Issuer Services segment, 9.2% was from our Market Technology segment and 0.9% related to other revenues, compared to our total first nine months of 2008 revenues less liquidity rebates, brokerage, clearance and exchange fees of \$1,057 million, of which 66.9% was from our Market Services segment, 24.4% was from our Issuer Services segment, 7.9% was from our Market Technology segment and 0.8% related to other revenues.

The following table shows our total revenues, cost of revenues and revenues less liquidity rebates, brokerage, clearance and exchange fees by segment:

|   | Three Months Ended<br>September 30,<br>2009      2008<br>(in millions) |        | Percentage<br>Change | Nine Months Ended<br>September 30,<br>2009      2008<br>(in millions) |          | Percentage<br>Change |
|---|--|--------|----------------------|---|----------|----------------------|
| Market Services   | \$ 691   | \$ 869 | (20.5)%              | \$ 2,243  | \$ 2,275 | (1.4)%               |
| Cost of revenues  | (461)  | (591)  | (22.0)%              | (1,509)   | (1,568)  | (3.8)%               |
| Market Services revenues less liquidity rebates, brokerage, clearance and exchange fees | 230  | 278    | (17.3)%              | 734   | 707      | 3.8%                 |
| Issuer Services   | 80   | 89     | (10.1)%              | 241   | 258      | (6.6)%               |
| Market Technology   | 36   | 29     | 24.1%                | 100   | 84       | 19.0%                |
| Other   | 3  | 3      |                      | 9   | 8        | 12.5%                |

# Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

|   |        |        |         |          |          |      |
|---|--------|--------|---------|----------|----------|------|
| Total revenues less liquidity rebates, brokerage, clearance and exchange fees | \$ 349 | \$ 399 | (12.5)% | \$ 1,084 | \$ 1,057 | 2.6% |
|---|--------|--------|---------|----------|----------|------|

**Table of Contents****MARKET SERVICES**

The following table shows total revenues less liquidity rebates, brokerage, clearance and exchange fees from our Market Services segment:

|   | Three Months Ended<br>September 30,<br>2009      2008<br>(in millions) |        | Percentage<br>Change | Nine Months Ended<br>September 30,<br>2009      2008<br>(in millions) |          | Percentage<br>Change |
|---|--|--------|----------------------|---|----------|----------------------|
| Transaction Services  |  |        |                      |   |          |                      |
| Cash Equity Trading Revenues:   |  |        |                      |   |          |                      |
| U.S. cash equity trading <sup>(1)</sup>   | \$ 461   | \$ 643 | (28.3)%              | \$ 1,563  | \$ 1,736 | (10.0)%              |
| Cost of revenues:   |  |        |                      |   |          |                      |
| Liquidity rebates   | (310)  | (471)  | (34.2)%              | (1,108)   | (1,201)  | (7.7)%               |
| Brokerage, clearance and exchange fees <sup>(1)</sup>   | (127)  | (106)  | 19.8%                | (334)   | (351)    | (4.8)%               |
| Total U.S. cash equity cost of revenues   | (437)  | (577)  | (24.3)%              | (1,442)   | (1,552)  | (7.1)%               |
| U.S. cash equity trading revenues less liquidity rebates,<br>brokerage, clearance and exchange fees   | 24   | 66     | (63.6)%              | 121   | 184      | (34.2)%              |
| European cash equity trading  | 25   | 35     | (28.6)%              | 75  | 86       | (12.8)%              |
| Total cash equity trading revenues less liquidity<br>rebates, brokerage, clearance and exchange fees  | 49   | 101    | (51.5)%              | 196   | 270      | (27.4)%              |
| Derivative Trading Revenues:  |  |        |                      |   |          |                      |
| U.S. derivative trading <sup>(2)</sup>  | 58   | 44     | 31.8%                | 171   | 46       | #                    |
| Cost of revenues:   |  |        |                      |   |          |                      |
| Liquidity rebates   | (19)   | (13)   | 46.2%                | (59)  | (15)     | #                    |
| Brokerage, clearance and exchange fees <sup>(2)</sup>   | (5)  | (1)    | #                    | (8)   | (1)      | #                    |
| Total U.S. derivative trading cost of revenues  | (24)   | (14)   | 71.4%                | (67)  | (16)     | #                    |
| U.S. derivative trading revenues less liquidity rebates,<br>brokerage, clearance and exchange fees    | 34   | 30     | 13.3%                | 104   | 30       | #                    |
| European derivative trading   | 20   | 16     | 25.0%                | 61  | 44       | 38.6%                |
| Total derivative trading revenues less liquidity rebates,<br>brokerage, clearance and exchange fees   | 54   | 46     | 17.4%                | 165   | 74       | #                    |
| Access Services revenues  | 36   | 31     | 16.1%                | 100   | 81       | 23.5%                |
| Total Transaction Services revenues less liquidity<br>rebates, brokerage, clearance and exchange fees | 139  | 178    | (21.9)%              | 461   | 425      | 8.5%                 |
| Market Data   |  |        |                      |   |          |                      |
| Net U.S. tape plans   | 31   | 38     | (18.4)%              | 95  | 109      | (12.8)%              |
| U.S. market data products   | 29   | 27     | 7.4%                 | 86  | 79       | 8.9%                 |
| European market data products   | 19   | 22     | (13.6)%              | 58  | 57       | 1.8%                 |
| Total Market Data revenues  | 79   | 87     | (9.2)%               | 239   | 245      | (2.4)%               |
| Broker Services   | 9  | 12     | (25.0)%              | 26  | 31       | (16.1)%              |

# Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

|  |        |        |         |        |        |       |
|--|--------|--------|---------|--------|--------|-------|
| <b>Other Market Services</b>   | 3      | 1      | #       | 8      | 6      | 33.3% |
| <b>Total Market Services revenues less liquidity rebates, brokerage, clearance and exchange fees</b> | \$ 230 | \$ 278 | (17.3)% | \$ 734 | \$ 707 | 3.8%  |

# Denotes a variance greater than 100.0%.

(1) Includes Section 31 fees of \$94 million in the third quarter of 2009, \$42 million in the third quarter of 2008, \$211 million in the first nine months of 2009 and \$171 million in the first nine months of 2008. Section 31 fees are recorded as U.S. cash equity trading revenues with a corresponding amount recorded in cost of revenues.

## **Table of Contents**

- (2) Includes Section 31 fees of \$4 million in the third quarter of 2009, \$1 million in the third quarter of 2008, \$7 million in the first nine months of 2009 and \$1 million in the first nine months of 2008. Section 31 fees are recorded as U.S. derivative trading revenues with a corresponding amount recorded in cost of revenues.

### **Transaction Services**

Transaction Services revenues less liquidity rebates, brokerage, clearance and exchange fees decreased in the third quarter of 2009 compared with the same period in 2008, primarily due to a decrease in cash equity trading revenues less liquidity rebates, brokerage, clearance and exchange fees, partially offset by an increase in derivative trading revenues less liquidity rebates, brokerage, clearance and exchange fees.

Transaction Services revenues less liquidity rebates, brokerage, clearance and exchange fees increased in the first nine months of 2009 compared with the same period in 2008, primarily due to an increase in derivative trading revenues less liquidity rebates, brokerage, clearance and exchange fees, partially offset by a decrease in cash equity trading revenues less liquidity rebates, brokerage, clearance and exchange fees.

### *U.S. Cash Equity Trading Revenues*

U.S. cash equity trading revenues less liquidity rebates, brokerage, clearance and exchange fees decreased in the third quarter and first nine months of 2009 compared with the same periods in 2008, primarily due to declines in matched share volume and the average net fee per share matched on NASDAQ's trading system. In September 2009, we introduced a revised fee structure on NASDAQ OMX BX and in November 2009, we introduced a revised fee structure on NASDAQ to address the declines in the average net fee per share matched. Assuming volume and market share are comparable with the third quarter of 2009, our revised fee structure would favorably impact our fourth quarter 2009 U.S. cash equity trading revenues less liquidity rebates, brokerage, clearance and exchange fees.

U.S. cash equity trading revenues decreased in the third quarter and first nine months of 2009 compared with the same periods in 2008, primarily due to declines in matched share volume, partially offset by an increase in Section 31 fees.

As discussed above, we record Section 31 fees as cash equity trading revenues with a corresponding amount recorded as cost of revenues. We are assessed these fees from the SEC and pass them through to our customers in the form of incremental fees. Since the amount recorded in revenues is equal to the amount recorded in cost of revenues, there is no impact on our revenues less liquidity rebates, brokerage, clearance and exchange fees. Section 31 fees were \$94 million in the third quarter of 2009 and \$211 million in the first nine months of 2009, compared with \$42 million in the third quarter of 2008 and \$171 million in the first nine months of 2008. The increase in the third quarter and first nine months of 2009 compared with the same periods in 2008 is primarily due to higher Section 31 fee rates.

Liquidity rebates, in which we credit a portion of the per share execution charge to the market participant that provides the liquidity, decreased in the third quarter and first nine months of 2009 compared with the same periods in 2008, primarily due to a lower number of shares matched on NASDAQ's trading system. Partially offsetting the decrease in the first nine months of 2009 compared to the same period in 2008 was an increase in the amount of the rebate offered to liquidity providers.

Brokerage, clearance and exchange fees increased in the third quarter of 2009 and decreased in the first nine months of 2009 compared with the same periods in 2008. The increase in the third quarter of 2009 was primarily due to higher Section 31 fee rates, partially offset by lower routing costs due to a decrease in the amount of volume routed by NASDAQ and lower fees incurred from the National Securities Clearing Corporation, or NSCC. The decrease in the first nine months of 2009 was primarily due to lower routing costs as a result of less volume being routed by NASDAQ, partially offset by higher Section 31 fee rates and a lower rebate received in the first quarter of 2009 from NSCC due to NSCC's pricing reductions announced in 2008.

### *European Cash Equity Trading Revenues*

European cash equity trading revenues include trading revenues from equity products traded on NASDAQ OMX Europe and the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic. European cash equity trading revenues decreased in the third quarter of 2009 and first nine months of 2009 compared with the same periods in 2008, primarily due to a decrease in the value traded per day due to lower average market capitalization of stocks traded. In addition, foreign exchange negatively impacted European cash equity trading revenues by \$3 million in the third quarter of 2009 and \$14 million in the first nine months of 2009. The decrease in the first nine months of 2009 was partially offset by the inclusion of European cash equity trading revenues for the full nine-month period in 2009 compared to seven months in 2008.

### *U.S. Derivative Trading Revenues*

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

U.S. derivative trading revenues increased in the third quarter and first nine months of 2009 compared with the same periods in 2008, primarily due to the inclusion of NASDAQ OMX PHLX's derivative trading revenues of \$48 million for the full third quarter of 2009 and \$147 million for the full nine-month period in 2009 compared with the inclusion of two months of NASDAQ OMX PHLX's derivative trading revenues totaling \$38 million for the third quarter and first nine months of 2008.

## **Table of Contents**

As discussed above, Section 31 fees are recorded as derivative trading revenues with a corresponding amount recorded as cost of revenues. We are assessed these fees from the SEC and pass them through to our customers in the form of incremental fees. Since the amount recorded in revenues is equal to the amount recorded in cost of revenues, there is no impact on our revenues less liquidity rebates, brokerage, clearance and exchange fees. Section 31 fees were \$4 million in the third quarter of 2009 and \$7 million in the first nine months of 2009, compared with \$1 million in both the third quarter and first nine months of 2008.

Liquidity rebates, in which we credit a portion of the per share execution charge to the market participant that provides the liquidity, increased in the third quarter and first nine months of 2009 compared with the same periods in 2008, primarily due to the inclusion of NASDAQ OMX PHLX's liquidity rebates of \$15 million for the full third quarter of 2009 and \$42 million for the full nine-month period in 2009 compared with the inclusion of two months of NASDAQ OMX PHLX's liquidity rebates totaling \$9 million in both the third quarter and first nine months of 2008.

Brokerage, clearance and exchange fees increased in the third quarter and first nine months of 2009 compared with the same periods in 2008, due to the inclusion of NASDAQ OMX PHLX's brokerage, clearance and exchange fees of \$3 million for the full third quarter of 2009 and \$7 million for the full nine-month period in 2009 compared with the inclusion of two months of NASDAQ OMX PHLX's brokerage, clearance and exchange fees totaling \$1 million in both the third quarter and first nine months of 2008.

### *European Derivative Trading Revenues*

European derivative trading revenues include trading and clearing revenues from derivative products traded on NASDAQ OMX Stockholm and NASDAQ OMX Copenhagen and also includes revenues from NASDAQ OMX Commodities. European derivative trading revenues increased in the third quarter and first nine months of 2009 compared with the same periods in 2008, primarily due to the inclusion of NASDAQ OMX Commodities revenues of \$8 million in the third quarter of 2009 and \$24 million in the first nine months of 2009. These increases were partially offset by an unfavorable impact from foreign exchange of \$2 million in the third quarter of 2009 and \$5 million in the first nine months of 2009.

### *Access Services Revenues*

Access services revenues increased in the third quarter and first nine months of 2009 compared with the same periods in 2008. These increases were primarily due to increases in customer demand for network connectivity and co-location services and increases in exchange and other membership fees. The increase in the first nine months of 2009 was also due to the inclusion of NASDAQ OMX PHLX's revenues of \$11 million for the full nine-month period in 2009 compared with the inclusion of two months of NASDAQ OMX PHLX's revenues totaling \$4 million for the same period in 2008.

## **Market Data**

Market Data revenues decreased in the third quarter of 2009 compared with the same period in 2008 primarily due to a decrease in net U.S. tape plans and European market data products revenues. These decreases were partially offset by an increase in U.S. market data products revenues.

The decline in net U.S. tape plans revenues was primarily due to a decline in NASDAQ's trading and quoting market share of U.S. equities and a reduction in the size of the tape plans revenue pools. European market data products revenues decreased primarily due to an unfavorable impact from foreign exchange of \$2 million.

U.S. market data products revenues, which are generated from the sale of NASDAQ OMX proprietary data products, increased in the third quarter of 2009 primarily due to growth of products such as the NASDAQ Global Index Data Service, which was launched in the first quarter of 2009, and other proprietary data products.

Market Data revenues decreased in the first nine months of 2009 compared with the same period in 2008 primarily due to a decrease in net U.S. tape plans revenues, partially offset by an increase in U.S. market data products and European market data products revenues.

The decline in net U.S. tape plans revenues was primarily due to a decline in NASDAQ's trading and quoting market share of U.S. equities and a reduction in the size of the tape plans revenue pools.

The increase in U.S. market data products revenues was primarily due to growth of products such as the NASDAQ Global Index Data Service, which was launched in the first quarter of 2009, NASDAQ Last Sale, which was launched in the second quarter of 2008, and other proprietary data products. European market data products revenues increased primarily due to the inclusion of European market data products revenues for the full nine-month period in 2009 compared with seven months in 2008, partially offset by an unfavorable impact from foreign exchange of \$8



million.

**Table of Contents**

**Broker Services**

Broker Services revenues decreased in the third quarter and first nine months of 2009 compared with the same periods in 2008 primarily due to an unfavorable impact from foreign exchange.

## Table of Contents

### ISSUER SERVICES

The following table shows revenues from our Issuer Services segment:

|                                   | Three Months Ended<br>September 30,<br>2009      2008<br>(in millions) |       | Percentage<br>Change | Nine Months Ended<br>September 30,<br>2009      2008<br>(in millions) |        | Percentage<br>Change |
|-----------------------------------|--|-------|----------------------|---|--------|----------------------|
| Global Listing Services:          |  |       |                      |   |        |                      |
| Annual renewal fees               | \$ 29  | \$ 31 | (6.5)%               | \$ 87   | \$ 93  | (6.5)%               |
| Listing of additional shares fees | 9  | 10    | (10.0)%              | 28  | 30     | (6.7)%               |
| Initial listing fees              | 5  | 5     |                      | 15  | 17     | (11.8)%              |
| Total U.S. listing fees           | 43   | 46    | (6.5)%               | 130   | 140    | (7.1)%               |
| European listing fees             | 11   | 14    | (21.4)%              | 33  | 37     | (10.8)%              |
| Corporate services                | 16   | 16    |                      | 49  | 47     | 4.3%                 |
| Total Global Listing Services     | 70   | 76    | (7.9)%               | 212   | 224    | (5.4)%               |
| Global Index Group                | 10   | 13    | (23.1)%              | 29  | 34     | (14.7)%              |
| Total Issuer Services revenues    | \$ 80  | \$ 89 | (10.1)%              | \$ 241  | \$ 258 | (6.6)%               |

### Global Listing Services

#### U.S. Listing Services Revenues

Annual renewal fees decreased in the third quarter and first nine months of 2009 compared with the same periods in 2008, primarily due to a decrease in the number of listed companies on The NASDAQ Stock Market. The number of companies listed on The NASDAQ Stock Market on January 1, 2009 was 3,023, compared to 3,135 on January 1, 2008, the date on which listed companies were billed their annual fees. The decrease in the number of listed companies was due to 289 delistings from The NASDAQ Stock Market in 2008, partially offset by 177 new listings in 2008. The number of listed companies as of January 1, 2009 and 2008 includes separately listed ETFs. Annual renewal fees are recognized ratably over a 12-month period.

Listing of additional shares fees decreased slightly in the third quarter and first nine months of 2009 compared with the same periods in 2008 as fewer companies issued additional shares in 2009 compared to prior years. Listing of additional shares fees are amortized on a straight-line basis over an estimated service period of four years.

Initial listing fees were flat in the third quarter of 2009 compared with the same period in 2008 and decreased slightly in the first nine months of 2009 compared with the same period in 2008, primarily due to a decrease in the number of new listings. There were 33 new listings, including 12 new IPOs, during the third quarter of 2009 and 67 new listings, including 15 new IPOs, during the first nine months of 2009 compared with 58 new listings, including 2 new IPOs, during the third quarter of 2008 and 148 new listings, including 12 new IPOs, during the first nine months of 2008. The decrease in new listings during 2009 will impact future revenues as these fees are amortized on a straight-line basis over an estimated service period of six years.

#### European Listing Services Revenues

European Listing Services revenues decreased in the third quarter and first nine months of 2009 compared with the same periods in 2008, primarily due to a decline in the market capitalization of Nordic issuers as well as a decrease in the number of listed companies from 841 as of September 30, 2008 to 800 as of September 30, 2009. In addition, foreign exchange negatively impacted European Listing Services revenues by \$1 million in the third quarter of 2009 and \$5 million in the first nine months of 2009. Partially offsetting the decline in the first nine months of 2009 was an increase in revenues due to the inclusion of European Listing Services revenues for the full nine-month period in 2009 compared to seven months in 2008. European Listing Services revenues are derived from annual fees received from listed companies on the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic, and are directly related to the listed companies' market capitalization. These revenues are recognized ratably over a 12-month period.

*Corporate Services Revenues*

Global Listing Services revenues also include fees from Corporate Services. These fees include commission income from Carpenter Moore, subscription income from Shareholder.com and Directors Desk, fees from GlobeNewswire and revenues from Corporate Services Nordic. Corporate Services revenues was flat in the third quarter of 2009 compared with the same period in 2008 and increased slightly in the first nine months of 2009 compared with the same period in 2008, primarily due to expanding customer utilization of our Corporate Services. In addition, the inclusion of Corporate Services Nordic for the full nine-month period in 2009 compared with seven months in 2008 contributed to the increase in the first nine months of 2009.

**Table of Contents****Global Index Group Revenues**

Global Index Group revenues primarily include license fees from NASDAQ OMX branded indexes, associated derivatives and financial products in the U.S. and abroad. Global Index Group revenues decreased in the third quarter and first nine months of 2009 compared with the same periods in 2008, primarily due to a decrease in underlying assets associated with NASDAQ OMX-licensed ETFs and a decrease in licensed derivatives volumes.

**MARKET TECHNOLOGY**

The following table shows revenues from our Market Technology segment:

|   | Three Months Ended<br>September 30,<br>2009      2008<br>(in millions) |              | Percentage<br>Change | Nine Months Ended<br>September 30,<br>2009      2008<br>(in millions) |              | Percentage<br>Change |
|---|--|--------------|----------------------|---|--------------|----------------------|
| Market Technology:                      |  |              |                      |   |              |                      |
| License, support and project revenues   | \$ 28  | \$ 21        | 33.3%                | \$ 77   | \$ 63        | 22.2%                |
| Facility management services            | 7  | 7            |                      | 20  | 19           | 5.3%                 |
| Other revenues                          | 1  | 1            |                      | 3   | 2            | 50.0%                |
| <b>Total Market Technology revenues</b> | <b>\$ 36</b>   | <b>\$ 29</b> | <b>24.1%</b>         | <b>\$ 100</b>   | <b>\$ 84</b> | <b>19.0%</b>         |

Market Technology revenues increased in the third quarter and first nine months of 2009 compared with the same periods in 2008, primarily due to increased deliveries of market technology contracts in 2009. In addition, the inclusion of Market Technology revenues for the full nine-month period in 2009 compared to seven months in 2008 contributed to the increase in the first nine months of 2009. Partially offsetting these increases was an unfavorable impact from foreign exchange of \$4 million for the third quarter of 2009 and \$18 million for the first nine months of 2009.

Market Technology provides technology solutions for trading, clearing and settlement, and information dissemination, and also offers facility management integration and advisory services to marketplaces throughout the world.

License, support and project 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. Each project involves individual adaptations to the specific requirements of the customer, such as those relating to functionality and capacity. When NASDAQ OMX provides a system solution, it undertakes to upgrade, develop and maintain the system and receives regular support revenues for this work which is recognized over the contract period. Under contract accounting, where customization and significant modifications to the software are made to meet the needs of our customers, total revenues, as well as costs incurred, are deferred until the customization and significant modifications are complete and are then recognized over the support period. In addition, license, support and project revenues also include amortization of the deferred revenue related to our contribution of technology licenses to NASDAQ Dubai. See The combination with OMX AB and strategic partnership with Borse Dubai Limited, of Note 4, Acquisitions and Strategic Initiatives, to the condensed consolidated financial statements for further discussion of our NASDAQ Dubai transaction.

Facility management services revenues are derived when NASDAQ OMX assumes responsibility for the continuous operation of a system platform for a customer and receives facility management services revenues which can be both fixed and volume-based. Facility management services revenues are recognized as services are rendered over the contract period after delivery has occurred.

Other revenues include advisory services that are recognized in revenue when earned.

## Table of Contents

### Expenses

#### Operating Expenses

The following table shows our operating expenses:

|   | Three Months Ended<br>September 30,<br>2009 2008<br>(in millions) |        |  | Percentage<br>Change | Nine Months Ended<br>September 30,<br>2009 2008<br>(in millions) |        |  | Percentage<br>Change |
|---|---|--------|--|----------------------|--|--------|--|----------------------|
| Compensation and benefits                   | \$ 99   | \$ 106 |  | (6.6)%               | \$ 302   | \$ 294 |  | 2.7%                 |
| Marketing and advertising                   | 3   | 7      |  | (57.1)%              | 7  | 13     |  | (46.2)%              |
| Depreciation and amortization               | 27  | 28     |  | (3.6)%               | 78   | 66     |  | 18.2%                |
| Professional and contract services          | 20  | 17     |  | 17.6%                | 56   | 53     |  | 5.7%                 |
| Computer operations and data communications | 14  | 16     |  | (12.5)%              | 42   | 42     |  |                      |
| Occupancy                                   | 19  | 19     |  |                      | 55   | 48     |  | 14.6%                |
| Regulatory                                  | 10  | 7      |  | 42.9%                | 29   | 22     |  | 31.8%                |
| Merger expenses                             | 5   | 9      |  | (44.4)%              | 16   | 16     |  |                      |
| General, administrative and other           | 21  | 18     |  | 16.7%                | 44   | 43     |  | 2.3%                 |
| Total operating expenses                    | \$ 218  | \$ 227 |  | (4.0)%               | \$ 629   | \$ 597 |  | 5.4%                 |

Total operating expenses decreased \$9 million in the third quarter of 2009 compared with the same period in 2008, reflecting a favorable impact from foreign exchange of \$11 million, partially offset by an increase in operating expenses of \$2 million. Total operating expenses increased \$32 million in the first nine months of 2009 compared to the same period in 2008, reflecting an increase in operating expenses of \$75 million, partially offset by a favorable impact from foreign exchange of \$43 million. The increase in operating expenses of \$75 million was primarily due to the inclusion of OMX's operating expenses for the full nine-month period in 2009 compared with seven months in 2008 and the inclusion of NASDAQ OMX PHLX's operating expenses for the full nine-month period in 2009 compared with two months in 2008. See below for further discussion.

Compensation and benefits expense decreased in the third quarter of 2009 compared with the same period in 2008, primarily due to foreign exchange, which had a favorable impact of \$5 million, and a decrease in salaries due to a lower number of employees in 2009. Headcount decreased to 2,450 employees at September 30, 2009 compared with 2,624 employees at September 30, 2008 due to a reduction in staffing needs driven by successful integration efforts associated with our business combination with OMX AB and the acquisition of PHLX. Compensation and benefits expense increased in the first nine months of 2009 compared to the same period in 2008, primarily due to the inclusion of OMX's compensation and benefits expense for the full nine-month period in 2009 compared with seven months in 2008 and the inclusion of NASDAQ OMX PHLX's compensation and benefits expense for the full nine-month period in 2009 compared with two months in 2008, as well as increased compensation and stock based compensation as a result of other recent acquisitions. Partially offsetting the increase in compensation and benefits expense in the first nine months of 2009 was a favorable impact from foreign exchange of \$20 million.

Marketing and advertising expense decreased in the third quarter and first nine months of 2009 compared with the same periods in 2008 primarily due to a reduction in media production and advertising in 2009.

Depreciation and amortization expense decreased slightly in the third quarter of 2009 compared with the same period in 2008. An increase in amortization expense on acquisition-related intangible assets was offset by a favorable impact from foreign exchange. Depreciation and amortization expense increased in the first nine months of 2009 compared with the same period in 2008, primarily due to the inclusion of NASDAQ OMX PHLX's depreciation and amortization expense for the full nine-month period in 2009 compared with two months in 2008 and the inclusion of OMX's depreciation and amortization expense for the full nine-month period in 2009 compared with seven months in 2008, partially offset by a favorable impact from foreign exchange of \$6 million.

Professional and contract services expense increased in the third quarter and first nine months of 2009 compared with the same periods in 2008, primarily due to expenses for consulting work performed on system upgrades. In addition, the inclusion of OMX's professional and contract services expense for the full nine-month period in 2009 compared with seven months in 2008 and the inclusion of NASDAQ OMX PHLX's professional and contract services expense for the full nine-month period in 2009 compared with two months in 2008 contributed to the increase

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

in the first nine months of 2009. Partially offsetting these increases was foreign exchange, which had a favorable impact of \$1 million for the third quarter of 2009 and \$4 million for the first nine months of 2009.

Computer operations and data communications expense decreased in the third quarter of 2009 compared with the same period in 2008, primarily due to a decrease in OMX's computer operations and data communications expense due to realized synergies and foreign exchange, which had a favorable impact of \$1 million. Computer operations and data communications expense remained flat in the first nine months of 2009 compared with the same period in 2008. An increase due to the inclusion of OMX's computer

## Table of Contents

operations and data communications expense for the full nine-month period in 2009 compared with seven months in 2008 was offset by a favorable impact from foreign exchange.

Occupancy expense remained flat in the third quarter of 2009 compared with the same period in 2008 and increased in the first nine months of 2009 compared with the same period in 2008. The increase in the first nine months of 2009 was primarily due to the inclusion of NASDAQ OMX PHLX's occupancy expense for the full nine-month period in 2009 compared with two months in 2008 and an increase in co-location rent in 2009. Partially offsetting this increase was foreign exchange, which had a favorable impact of \$3 million for the first nine months of 2009.

Regulatory expense increased in the third quarter and first nine months of 2009 compared with the same periods in 2008 primarily due to new regulatory fees from FINRA and an expansion of regulatory services to new markets. FINRA provides regulatory services, including the regulation of trading activity and surveillance and investigative functions, to The NASDAQ Stock Market, The NASDAQ Options Market and, as of March 2009, the markets operated or regulated by NASDAQ OMX BX.

Merger expenses were \$5 million in the third quarter of 2009 and \$16 million for the first nine months of 2009 compared with \$9 million for the third quarter of 2008 and \$16 million for the first nine months of 2008. Merger expenses in the third quarter of 2009 primarily related to the expected resolution of sales and use tax exposures which existed on previous acquisitions. In addition to the sales and use tax recorded in the third quarter of 2009, merger costs for the first nine months of 2009, as well as the third quarter and first nine months of 2008, are directly attributable to the business combination with OMX AB and the acquisition of PHLX, but do not qualify as purchase accounting adjustments. The costs primarily include consulting and legal costs related to our integration of OMX AB and PHLX.

General, administrative and other expense increased in the third quarter and first nine months of 2009 compared with the same periods in 2008, primarily due to asset retirements of \$10 million in the third quarter of 2009 related to obsolete technology assets. The increase in the third quarter of 2009 was partially offset by a decrease in the provision for bad debts due to improved collection results as well as foreign exchange, which had a favorable impact of \$2 million. The increase in the first nine months of 2009 was also due to the inclusion of OMX's general, administrative and other expense for the full nine-month period in 2009 compared with seven months in 2008, partially offset by foreign exchange which had a favorable impact of \$7 million and the recognition of pre-tax gains of \$4 million on the early extinguishment of debt, net of debt issuance and other costs. See Early Extinguishment of Debt, of Note 8, Debt Obligations, to the condensed consolidated financial statements for further discussion of the early extinguishment of debt.

## Non-operating Income and Expenses

The following table presents our non-operating income and expenses:

|  | Three Months Ended<br>September 30,<br>2009 2008<br>(in millions) |         | Percentage<br>Change | Nine Months Ended<br>September 30,<br>2009 2008<br>(in millions) |         | Percentage<br>Change |
|--|---|---------|----------------------|--|---------|----------------------|
| Interest income                                  | \$ 3  | \$ 9    | (66.7)%              | \$ 10  | \$ 28   | (64.3)%              |
| Interest expense                                 | (26)  | (29)    | (10.3)%              | (77)   | (63)    | 22.2%                |
| Net interest expense                             | (23)  | (20)    | 15.0%                | (67)   | (35)    | 91.4%                |
| Dividend and investment income                   | 1   | 2       | (50.0)%              | 2  | 5       | (60.0)%              |
| Loss on sale of investment security              |   |         |                      | (5)  |         | #                    |
| Income (loss) from unconsolidated investees, net |   |         |                      | (20)   | 27      | #                    |
| Debt conversion expense                          | (25)  |         | #                    | (25)   |         | #                    |
| Asset impairment charges                         |   | (7)     | #                    |  | (7)     | #                    |
| Loss on foreign currency contracts, net          |   | (51)    | #                    |  | (11)    | #                    |
| Total non-operating income and (expenses)        | \$ (47)   | \$ (76) | 38.2%                | \$ (115)   | \$ (21) | #                    |

# Denotes a variance greater than or equal to 100.0%.

## Interest Income



## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

Interest income decreased in the third quarter and first nine months of 2009 compared with the same periods in 2008, primarily due to lower interest rates and a lower average cash balance compared with the same periods in 2008.

### ***Interest Expense***

Interest expense decreased in the third quarter of 2009 and increased in the first nine months of 2009 compared with the same periods in 2008. The decrease in the third quarter of 2009 was primarily due to a decrease in our outstanding debt obligations due to principal debt payments made in 2009. The increase in the first nine months of 2009 primarily reflects a full nine-month period of

## **Table of Contents**

interest expense in 2009 on our outstanding debt obligations related to the OMX AB business combination compared with seven months of interest expense in 2008 and additional interest expense due to our increased outstanding debt obligations as a result of the acquisitions of PHLX and certain businesses of Nord Pool that were completed in the second half of 2008.

### ***Dividend and Investment Income***

Dividend and investment income decreased in the third quarter and first nine months of 2009 compared with the same periods in 2008 primarily due to a decrease in the dividend per share received from our available-for-sale investment in Oslo.

### ***Loss on Sale of Investment Security***

In connection with our business combination with OMX AB, we acquired a long-term available-for-sale investment in Oslo. During the second quarter of 2009, we made a strategic decision to sell this investment demonstrating our intent to no longer hold this investment and recorded a \$5 million loss, which is net of costs directly related to the sale, primarily broker fees.

### ***Income (Loss) from Unconsolidated Investees, net***

The net loss in the first nine months of 2009 of \$20 million was primarily due to a \$19 million loss recorded in May 2009 related to the sale of our 25.25% share capital in Orc. The net income in the first nine months of 2008 of \$27 million primarily related to the NASDAQ Dubai transaction. We contributed intangible assets and \$50 million in cash to NASDAQ Dubai in exchange for a 33 1/3% equity ownership in NASDAQ Dubai. One of the intangible assets contributed was the Nasdaq trade name, which had a zero carrying value on Nasdaq's books and records prior to the transfer. As a result, we recognized a \$26 million gain for the difference between Nasdaq's carrying value and the fair value of the contributed asset on this non-monetary exchange.

### ***Debt Conversion Expense***

In the third quarter of 2009, we recorded debt conversion expense of \$25 million related to an inducement for conversion of most of the 3.75% convertible notes into common stock. The \$25 million expense included a cash inducement of \$9 million, the present value of the series A convertible preferred stock issued of \$15 million, and debt issuance and other costs of \$1 million. See "Conversion of 3.75% Convertible Notes," of Note 8, "Debt Obligations," and Note 17, "Series A Convertible Preferred Stock," to the condensed consolidated financial statements for further discussion.

### ***Asset Impairment Charges***

In the third quarter of 2008, we recorded a non-cash impairment loss of \$7 million from the write-down of finite-lived intangible assets, primarily related to our insurance agency business. See Note 5, "Goodwill and Purchased Intangible Assets," to the condensed consolidated financial statements for further discussion.

### ***Loss on Foreign Currency Contracts, net***

In the third quarter of 2008, we recorded a loss of \$51 million primarily related to losses on a forward contract entered into to hedge the NOK cash payment for the Nord Pool acquisition (\$45 million) and losses on forward currency contracts used to economically hedge our Market Technology contracted revenue streams (\$6 million). In the first nine months of 2008, we recorded a net loss of \$11 million which relates to losses on a forward contract entered into to hedge the NOK cash payment for the Nord Pool acquisition (\$39 million), net gains on forward and option contracts entered into to hedge the foreign currency exposure on our business combination with OMX AB (\$27 million) and gains on forward currency contracts used to economically hedge our Market Technology contracted revenue streams (\$1 million). See "Derivatives Not Designated as Hedges," of Note 14, "Derivative Financial Instruments and Hedging Activities," to the condensed consolidated financial statements for further discussion.

### ***Income Taxes***

NASDAQ OMX's income tax provision was \$25 million in the third quarter of 2009 and \$119 million in the first nine months of 2009 compared with \$38 million in the third quarter of 2008 and \$159 million in the first nine months of 2008. The overall effective tax rate was approximately 30% in the third quarter of 2009 and approximately 40% in the third quarter of 2008. The overall effective tax rate was approximately 35% in the first nine months of 2009 and approximately 36% in the first nine months of 2008. The lower effective tax rate in the third quarter of 2009 is

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

primarily due to reductions in 2008 U.S. tax liabilities based on recent tax return filings, reductions in U.S. tax liabilities for years which are no longer subject to examination, as well as reductions in current year taxes in jurisdictions outside the U.S. Offsetting these decreases is the debt conversion expense, which is not deductible for U.S. tax purposes.

The effective tax rate may vary from period to period depending on, among other factors, the geographic and business mix of earnings and losses. These same and other factors, including history of pre-tax earnings and losses, are taken into account in assessing the ability to realize deferred tax assets.

As previously discussed, we adopted ASC 470.20 on January 1, 2009 and have adjusted all periods presented to reflect the tax impact on the incremental interest expense, which resulted in a change in tax expense and current and non-current deferred tax

## **Table of Contents**

liabilities. See ASC Topic 470.20, of Note 3, Recent Accounting Pronouncements and Adoption of ASC 470.20, of 2.50% Convertible Senior Notes, of Note 8, Debt Obligations, to the condensed consolidated financial statements for further discussion.

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.

NASDAQ OMX and its eligible subsidiaries file a consolidated U.S. federal income tax return, applicable state and local income tax returns, and non-U.S. income tax returns. Federal income tax returns for years 2006-2008 are subject to examination by the Internal Revenue Service. Several state tax returns are currently under examination by the respective tax authorities for years 1996-1998 and 2000-2006 and we are subject to examination for 2007 and 2008. Non-U.S. tax returns are subject to review by the respective tax authorities for years 2002-2008. We anticipate that the amount of unrecognized tax benefits at September 30, 2009 will significantly decrease in the next twelve months as we expect to settle certain tax audits. The final outcome of such audits cannot yet be determined. We anticipate that such adjustments would not have a material impact on our condensed consolidated financial position or results of operations.

In June 2009, NASDAQ OMX filed an application for an advance tax ruling with the Swedish Tax Council for Advanced 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. We expect to receive a favorable response from the Swedish Tax Council for Advance Tax Rulings by the end of the first quarter of 2010. We recorded the Swedish tax benefit as described above in our condensed consolidated financial statements. In the third quarter of 2009, we recorded a tax benefit of \$5 million. For the first nine months of 2009, we recorded a tax benefit of \$14 million. We expect to record recurring quarterly tax benefits of \$4 million to \$5 million with respect to this issue for the foreseeable future.

## **Liquidity and Capital Resources**

Global market and economic conditions appear to have rebounded from adverse levels experienced earlier this year, and this recovery has reinvigorated financial markets. Many lenders and institutional investors have reestablished their lending practices and are now able to provide increased funding to borrowers, which has resulted in improved access to credit and positive liquidity growth. Our cost and availability of funding remain healthy and we expect to be positively impacted by continued improvements in the credit markets.

We require cash to pay our operating expenses, make capital expenditures and service our debt and other long-term liabilities. Our principal source of funds is cash from our operations. In addition, we have obtained funds by selling our common stock in the capital markets. In order to finance our business combination with OMX AB, our acquisition of PHLX and the Nord Pool transaction, we incurred additional debt and issued shares of our common stock. See Note 8, Debt Obligations, to the condensed consolidated financial statements for further discussion of our debt obligations.

In the near term, we expect that our operations will provide sufficient cash to fund our operating expenses, capital expenditures and interest payments on our debt. As of September 30, 2009, our cash and cash equivalents of \$311 million were primarily invested in money market funds. In the long-term, we may use both internally generated funds and external sources to satisfy our debt and other long-term liabilities.

Principal factors that could affect the availability of our internally-generated funds include:

deterioration of our revenues in any of our business segments;

changes in our working capital requirements; and

an increase in our expenses.

Principal factors that could affect our ability to obtain cash from external sources include:

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

financial covenants contained in our Credit Facilities that limit our total borrowing capacity;

increases in interest rates applicable to our floating rate term debt;

credit rating downgrades, which could limit our access to additional debt;

a decrease in the market price of our common stock; and

volatility in the public debt and equity markets.

The following sections discuss the effects of changes in our cash flows, capital requirements and other commitments on our liquidity and capital resources.

**Table of Contents*****Cash and Cash Equivalents and Changes in Cash Flows***

Cash and cash equivalents include cash in banks and all non-restricted highly liquid investments with original maturities of three months or less at the time of purchase. Restricted cash, which was \$155 million as of September 30, 2009 and \$141 million as of December 31, 2008, is not available for general use by us due to regulatory and other requirements and is classified as restricted cash in the Condensed Consolidated Balance Sheets. Non-current restricted cash, which was \$50 million at both September 30, 2009 and December 31, 2008, relates to a deposit to the guarantee fund of IDCG and is classified as non-current restricted cash in the Condensed Consolidated Balance Sheets.

The following tables summarize our cash and cash equivalents and changes in cash flows:

|  | September 30,<br>2009 | December 31,<br>2008 | Percentage<br>Change |
|--|-----------------------|----------------------|----------------------|
|  | (in millions)         |                      |                      |
| Cash and cash equivalents <sup>(1)</sup> | \$ 311                | \$ 374               | (16.8)%              |

<sup>(1)</sup> Cash and cash equivalents exclude restricted cash which is not available for general use by us due to regulatory and other requirements.

|  | Nine Months Ended<br>September 30, |          | Percentage<br>Change |
|--|------------------------------------|----------|----------------------|
|  | 2009                               | 2008     |                      |
|  | (in millions)                      |          |                      |
| Cash provided by (used in) operating activities              | \$ 228                             | \$ (189) | #                    |
| Cash provided by (used in) investing activities              | 11                                 | (2,783)  | #                    |
| Cash provided by (used in) financing activities              | (332)                              | 2,046    | #                    |
| Effect of exchange rate changes on cash and cash equivalents | 30                                 | (17)     | #                    |

# Denotes a variance greater than 100.0%.

*Cash and cash equivalents.* Cash and cash equivalents decreased \$63 million from December 31, 2008 primarily due to payments of outstanding debt obligations, purchases of trading securities and decreases in other accrued liabilities. These decreases were partially offset by proceeds from sales of investments, collections of Global Listing Services annual billings and other positive cash flows from operating activities.

***Changes in Cash Flows***

*Cash provided by (used in) operating activities.* The following items impacted our cash provided by operating activities for the nine months ended September 30, 2009:

Net income attributable to NASDAQ OMX of \$223 million, plus:

Non-cash items of \$170 million comprised primarily of depreciation and amortization of \$78 million, share-based compensation of \$25 million, loss from unconsolidated investees, net of \$20 million, debt conversion expense of \$25 million, asset retirements and impairment charges of \$11 million and accretion of 2.50% convertible senior notes of \$10 million.

Increase in deferred revenue of \$33 million mainly due to Global Listing Services annual billings.

Partially offset by a:

Decrease in other accrued liabilities of \$73 million primarily due to decreases in accrued taxes as a result of payments made.

Decrease in accrued personnel costs of \$51 million primarily due to payment of 2008 incentive compensation in the first quarter of 2009, partially offset by the 2009 accrual.

Increase in receivables, net of \$40 million primarily due to an increase in income tax receivable, reflecting quarterly estimates paid in excess of the current liability owed.

During the nine months ended September 30, 2008, the following items impacted our cash used in operating activities:

Net income attributable to NASDAQ OMX of \$279 million, plus:

Increase in deferred revenue of \$34 million mainly due to Global Listing Services' annual billings.

Increase in accounts payable and accrued expenses of \$27 million primarily due to additional rebates payable as a result of increases in market share, as well as an increase in interest payable on our Credit Facilities.

## **Table of Contents**

Non-cash items of \$12 million comprised primarily of depreciation and amortization of \$66 million, share-based compensation of \$18 million, loss on foreign currency contracts, net of \$11 million and accretion of 2.50% convertible senior notes of \$8 million, partially offset by deferred taxes, net of \$65 million and income from unconsolidated investees, net of \$27 million.

Partially offset by a:

Decrease in other assets of \$412 million primarily due to the increase in the restricted cash balance as of September 30, 2008 primarily related to our acquisition of certain businesses of Nord Pool.

Decrease in Section 31 fees payable to SEC of \$89 million mainly due to payments made in March and September 2008 representing fees collected from September 2007 to August 2008.

Decrease in accrued personnel costs of \$47 million primarily due to the payment of 2007 employee incentive compensation. We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, accounts receivable collections, share-based compensation and the timing and amount of other payments that we make.

*Cash provided by (used in) investing activities.* Cash provided by investing activities for the nine months ended September 30, 2009 is primarily due to cash received from sales and redemptions of trading securities and our available-for-sale investment in Oslo, as well as cash received from the sale of our 25.25% equity method investment in Orc. Partially offsetting cash received, was cash used in connection with the purchase of trading securities, as well as purchases of property and equipment. In the first nine months of 2008, cash used in investing activities primarily related to our business combination with OMX AB and acquisitions of PHLX and BSX, net of cash acquired, as well as the acquisition of 33 1/3% of the equity of NASDAQ Dubai and the equity interest in Agora-X, for total cash paid of \$2,732 million.

*Cash provided by (used in) financing activities.* Cash used in financing activities in the first nine months of 2009 consisted of \$225 million in principal payments made on our Term Loan Facility and a \$71 million payment to repay in full the vendor note issued to the previous owners of Nord Pool in connection with the acquisition of certain businesses of Nord Pool. In addition, we repurchased \$47 million principal amount of our 2.50% convertible senior notes for a cash payment of \$40 million and recognized a pre-tax gain of \$4 million, net of debt issuance and other costs, and made a \$4 million payment on our other credit facilities in the first nine months of 2009. We also made a \$9 million payment in connection with an inducement for the conversion of our 3.75% convertible notes. For further discussion of the \$9 million inducement payment, see Note 8, Debt Obligations, and Note 17, Series A Convertible Preferred Stock. In the first nine months of 2008, cash provided by financing activities consisted of the proceeds from the issuance of \$475 million aggregate principal amount of 2.50% convertible senior notes and \$2,000 million in senior secured indebtedness under our Credit Facilities. See Credit Facilities below for further discussion. The 2008 proceeds from the 2.50% convertible senior notes and new credit facilities were partially offset by the refinancing of \$353 million of OMX AB outstanding debt obligations at the time of the business combination. In addition, we made a \$37 million principal payment in the third quarter of 2008 on our Term Loan Facility.

### ***Capital Resources and Working Capital***

Working capital (calculated as current assets less current liabilities) was \$541 million at September 30, 2009, compared with \$351 million at December 31, 2008, an increase of \$190 million, or 54.1%. We have historically been able to generate sufficient funds from operations to meet working capital requirements. At September 30, 2009, we had total contractual debt obligations of \$2,146 million, of which \$169 million is due within one year. See below for further discussion.

### ***3.75% Convertible Notes due 2012***

In September 2009, most of the holders of our outstanding 3.75% convertible notes agreed to convert their remaining outstanding notes into common stock in accordance with the terms of the notes, which resulted in the issuance of an aggregate of 8,246,680 shares of our common stock. See Conversion of 3.75 Convertible Notes, of Note 8, Debt Obligations, to the condensed consolidated financial statements for further discussion.



***2.50% Convertible Senior Notes due 2013***

In the first quarter of 2008, in connection with the business combination with OMX AB, we completed the offering of \$475 million aggregate principal amount of 2.50% convertible senior notes due 2013. In 2009, we repurchased \$47 million principal amount of the notes for a cash payment of \$40 million. For the first nine months of 2009, we recognized a pre-tax gain on the early extinguishment of debt of \$4 million, net of debt issuance and other costs of \$0.8 million. These gains were recorded in general, administrative and other expense in the Condensed Consolidated Statements of Income. The aggregate principal amount outstanding on these notes as of December 31, 2008 was \$475 million. As a result of the repurchase, the remaining aggregate principal amount outstanding on these notes as of September 30, 2009 was \$428 million. It is our intent and policy to settle the principal amount of the notes in cash and we are permitted to settle the conversion premium in shares of our common stock or cash.

## **Table of Contents**

### ***Credit Facilities***

In the first quarter of 2008, we entered into the Credit Facilities to finance the business combination with OMX AB, the acquisition of PHLX and the Nord Pool transaction. The Credit Facilities provide for up to \$2,075 million of debt financing, which includes (i) a five-year, \$2,000 million senior secured term loan facility which consists of (a) a \$1,050 million term loan facility allocated to the OMX AB business combination, (b) a \$650 million term loan facility allocated to our acquisition of PHLX and (c) a \$300 million term loan facility allocated to fund the Nord Pool transaction and (ii) a five-year, \$75 million senior secured revolving credit facility. At September 30, 2009 and December 31, 2008, the revolving credit facility was unused. Total debt obligations outstanding under the Credit Facilities were \$1,700 million at September 30, 2009 and \$1,925 million at December 31, 2008.

Under the provisions of our Credit Facilities, we are required to maintain approximately 30% of our debt structure on a fixed rate basis for two years from the date of the credit agreement. As such, in August 2008, we entered into interest rate swap agreements that effectively converted \$200 million of funds borrowed under our Credit Facilities, which is floating rate debt, to a fixed rate basis through August 2011. The interest rate swap was fixed to a base rate of 3.73% plus the current credit spread of 200 basis points as of September 30, 2009. The credit spread (not to exceed 200 basis points) is subject to change based upon the leverage ratio in accordance with the Credit Facilities. See Cash Flow Hedges, of Note 14, Derivative Financial Instruments and Hedging Activities, to the condensed consolidated financial statements for further discussion.

We have other credit facilities related to our clearinghouses in order to meet liquidity and regulatory requirements. These credit facilities, which are available in multiple currencies, primarily Swedish Krona and U.S. dollar, totaled \$538 million (\$260 million which is available to be pledged as collateral and \$278 million to satisfy regulatory requirements), of which \$0.1 million was drawn at September 30, 2009. At December 31, 2008, these facilities totaled \$246 million, of which \$4 million was drawn. Amounts drawn were included in other accrued liabilities in the Condensed Consolidated Balance Sheets.

At September 30, 2009, we were in compliance with the covenants of all of our debt obligations.

See Note 8, Debt Obligations, to the condensed consolidated financial statements for further discussion of our 3.75% convertible notes, 2.50% convertible senior notes and Credit Facilities.

### ***Broker-Dealer Net Capital Requirements***

Our broker-dealer subsidiaries, Nasdaq Execution Services and NASDAQ Options Services, are subject to regulatory requirements intended to ensure their general financial soundness and liquidity, which require that they comply with minimum capital requirements. At September 30, 2009, Nasdaq Execution Services was required to maintain minimum net capital of \$0.3 million and had total net capital of approximately \$8.3 million, or \$8.0 million in excess of the minimum amount required. At September 30, 2009, NASDAQ Options Services was also required to maintain minimum net capital of \$0.3 million and had total net capital of approximately \$4.4 million, or \$4.1 million in excess of the minimum amount required.

### ***Other Capital Requirements***

NASDAQ Options Services is also required to maintain a \$2 million minimum level of net capital under our clearing arrangement with The Options Clearing Corporation, or OCC.

### ***Derivative Clearing Operations Regulatory Capital Requirements***

We are required to maintain minimum levels of regulatory capital for our clearing operations for NASDAQ OMX Stockholm, NASDAQ OMX Commodities and IDCG. The level of regulatory capital required to be maintained is dependent upon many factors, including market conditions and creditworthiness of the counterparty. At September 30, 2009, we were required to maintain regulatory capital of \$307 million which is comprised of:

\$117 million of restricted cash;

\$50 million of non-current restricted cash; and

\$140 million primarily in Swedish government debt securities. These securities are included in financial investments, at fair value in the Condensed Consolidated Balance Sheets as of September 30, 2009.

In addition, we have available credit facilities of \$278 million which can be utilized to satisfy our regulatory capital requirements.

**Table of Contents****OMX AB Share Purchase**

On August 27, 2008, through compulsory acquisition procedures under Swedish law, NASDAQ OMX received advanced title for the remaining 1.2% of OMX AB shares held by OMX AB shareholders for an aggregate consideration of SEK 370.8 million (\$61.7 million at August 27, 2008). As a result of the compulsory acquisition procedures, OMX AB is now wholly-owned by NASDAQ OMX. The additional purchase price for the shares acquired was included in other liabilities in the Condensed Consolidated Balance Sheets as of December 31, 2008. In accordance with the compulsory acquisition procedures, NASDAQ OMX was required to maintain cash amounts greater than the total amount due, and as such, segregated SEK 440 million (\$73.2 million as of August 27, 2008) in other assets in the Condensed Consolidated Balance Sheets as of December 31, 2008. In February 2009, NASDAQ OMX paid the full liability of SEK 370.8 million (\$41 million at February 28, 2009) plus interest to holders of the remaining 1.2% of OMX AB shares.

**Contractual Obligations and Contingent Commitments**

NASDAQ OMX has contractual obligations to make future payments under debt obligations by contract maturity, minimum rental commitments under non-cancelable operating leases, net and other obligations. The following table shows these contractual obligations:

| Contractual Obligations  | Total    | Payments Due by Period |                            |           |                 |
|--|----------|------------------------|----------------------------|-----------|-----------------|
|  |          | Remainder of 2009      | 2010-2011<br>(in millions) | 2012-2013 | 2014-thereafter |
| Debt obligations by contract maturity (See Note 8, Debt Obligations <sup>(1)</sup> ) | \$ 2,295 | \$ 12                  | \$ 979                     | \$ 1,284  | \$ 20           |
| Minimum rental commitments under non-cancelable operating leases, net                | 595      | 16                     | 163                        | 112       | 304             |
| Other obligations  | 15       | 2                      | 13                         |           |                 |
| Total  | \$ 2,905 | \$ 30                  | \$ 1,155                   | \$ 1,396  | \$ 324          |

- <sup>(1)</sup> Our debt obligations include both principal and interest obligations. The interest on our Credit Facilities reflects the net interest payment after consideration of interest rate swap agreements that effectively converted \$200 million of our Credit Facility to fixed rate debt. See Note 8, Debt Obligations, to the condensed consolidated financial statements for further discussion. A weighted-average interest rate of 2.69% at September 30, 2009 was used to compute the amount of the contractual obligations for interest on our Credit Facilities. The 2.50% convertible senior notes contractual obligation for interest was calculated on a 360 day basis at the contractual fixed rate of 2.50% multiplied by the aggregate principal amount of \$428 million at September 30, 2009.

**Off-Balance Sheet Arrangements****Brokerage Activities**

Nasdaq Execution Services and NASDAQ Options Services provide guarantees to securities clearinghouses and exchanges under their standard membership agreements, which require members to guarantee the performance of other members. If a member becomes unable to satisfy its obligations to the clearinghouses, other members would be required to meet its shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral as well as meet certain minimum financial standards. Nasdaq Execution Services and NASDAQ Options Services' maximum potential liability under these arrangements cannot be quantified. However, we believe that the potential for Nasdaq Execution Services and NASDAQ Options Services to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability is recorded in the Condensed Consolidated Balance Sheets for these arrangements.

**Guarantees Issued, Credit Facilities Available and Collateral Received for Clearing Operations**

Through our clearing operations in the derivative markets of NASDAQ OMX Commodities, NASDAQ OMX Stockholm and IDCG, we are the legal counterparty for each derivative position traded and thereby guarantee the fulfillment of each contract. We are required to pledge collateral for commitments with other clearinghouses. The amount of these commitments is calculated on the gross exposure between the clearinghouses. As collateral for these obligations, we have obtained financial guarantees and credit facilities which are guaranteed by us through counter

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

indemnities. At September 30, 2009, financial guarantees pledged as collateral totaled \$482 million. Credit facilities available to be pledged as collateral totaled \$260 million, of which million \$0.1 million was utilized as of September 30, 2009.

In addition, we obtained credit facilities to satisfy regulatory requirements totaling \$278 million, none of which has been utilized as of September 30, 2009.

## **Table of Contents**

We require our customers to pledge collateral and meet certain minimum financial standards to mitigate the risk if they become unable to satisfy their obligations. At September 30, 2009, total customer pledged collateral with NASDAQ OMX Commodities and NASDAQ OMX Stockholm was \$6.6 billion. This pledged collateral is held by a custodian bank. Since these funds are not held by NASDAQ OMX Commodities and NASDAQ OMX Stockholm and they are not available for our use, we do not receive any interest income on these funds. Customer pledged cash collateral held by IDCG was \$3 million at September 30, 2009 and is included in restricted cash with an offsetting liability included in other accrued liabilities in the Condensed Consolidated Balance Sheets, as the risks and rewards of collateral ownership, including interest, belongs to IDCG. Non-cash margin and guaranty fund deposits pledged to IDCG are not reflected in the Condensed Consolidated Balance Sheets as IDCG does not take legal ownership.

We believe that the potential for us to be required to make payments under these arrangements is mitigated through the pledged collateral, our risk management policies and, in the case of NASDAQ OMX Commodities, a default insurance policy. Accordingly, no contingent liability is recorded in the Condensed Consolidated Balance Sheets for these arrangements.

### ***Other Guarantees***

We have provided other guarantees as of September 30, 2009 of \$31 million, primarily related to obligations for our rental and leasing contracts. In addition, for certain Market Technology contracts, we have performance guarantees of \$10 million related to the delivery of software technology and support services. We have received financial guarantees from various financial institutions to support these guarantees.

### **Review for Potential Goodwill Impairment**

Goodwill is measured as the excess of the cost of an acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. Total goodwill recorded on our condensed consolidated balance sheet as of September 30, 2009 was \$4,922 million and was allocated to our business segments as follows: Market Services \$4,540 million; Issuer Services \$280 million; and Market Technology \$102 million. We perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances for each reporting period. The date of the last impairment test was during the fourth quarter of 2008. We considered the need to update our 2008 annual goodwill impairment test as of September 30, 2009 and concluded that none of the impairment indicators triggered a revised impairment analysis. As such, we believe the assumptions used during the year end assessment remained appropriate.

Although there was no impairment of goodwill as of September 30, 2009, continued economic weakness and unexpected significant declines in operating results may place the Market Services segment at risk for possible impairment in future periods. The results of the 2008 annual goodwill impairment test indicated that the Market Services segment was not impaired as the fair value exceeded its carrying value by 12.7%. We used a combination of the income approach and the market approach for valuing the Market Services segment. The income approach for the Market Services segment was based on discounted cash flows and growth rates through 2012, followed by a long-term growth rate subsequent to 2012. We believe the key valuation assumptions used during the year end assessment remain appropriate. The market approach was based on similar public company multiples to calculate the fair value of the Market Services segment.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

As a result of our operating and financing activities, we are exposed to market risks such as interest rate risk, foreign currency exchange rate risk, equity risk and credit risk.

We have implemented policies and procedures to measure, manage, monitor and report risk exposures, which are reviewed regularly by management and the board of directors. We identify risk exposures and monitor and manage such risks on a daily basis.

We perform sensitivity analyses to determine the effects that market risk exposures may have. We may use derivative instruments solely to hedge financial risks related to our financial positions or risks that are incurred during the normal course of business. We do not use derivative instruments for speculative purposes.

**Interest Rate Risk**

The majority of our financial assets and liabilities are based on floating rates and fixed rates with an outstanding maturity or reset date falling in less than one year. The following table summarizes our significant exposure to interest rate risk as of September 30, 2009:

|   | Financial<br>Assets | Financial<br>Liabilities <sup>(2)</sup><br>(in millions) | Negative impact of a<br>100 bp adverse shift<br>in interest rate <sup>(3)</sup> |
|---|---------------------|--|---|
| Floating rate positions <sup>(1)</sup>  | \$ 594              | \$ 1,500   | \$ 16   |
| Fixed rate positions <sup>(4) (5)</sup> | 187                 | 646  | 1   |
| Total                                   | \$ 781              | \$ 2,146   | \$ 17   |

(1) Includes floating rate and fixed interest rates with a maturity or reset date due within 12 months.

(2) Represents total contractual debt obligations.

(3) Annualized impact of a 100 basis point parallel adverse shift in the yield curve.

(4) Financial assets primarily consist of our Swedish government debt securities, which are classified as trading investment securities, with an average duration of 2.78 years. See Note 13, Fair Value of Financial Instruments, to the condensed consolidated financial statements for further discussion.

(5) Financial liabilities include \$200 million of our Credit Facilities which were swapped to fixed rate using float-to-fixed interest rate swaps in the third quarter of 2008. See Interest Rate Swaps, of Note 8, Debt Obligations, and Cash Flow Hedges, of Note 14, Derivative Financial Instruments and Hedging Activities, to the condensed consolidated financial statements for further discussion.

We are exposed to cash flow risk on floating rate positions. When interest rates on financial assets of floating rate positions decrease, net interest income decreases. When interest rates on financial liabilities of floating rate positions increase, net interest income decreases. Based on September 30, 2009 positions, each 1.0% change in interest rates on our net floating rate positions would impact annual pre-tax income by \$16 million in total as reflected in the table above.

We are exposed to price risk on our fixed rate financial investments which total \$187 million. At September 30, 2009, these fixed rate positions have an average outstanding maturity or reset date falling in more than one year. A shift of 1.0% of the interest rate curve would in aggregate impact the fair value of these positions by approximately \$1 million. The average duration of the portfolio was 2.78 years. The net effect of such a yield curve shift, taking into account the change in fair value and the increase in interest income, would impact annual pre-tax income negatively by \$0.4 million.

**Foreign Currency Exchange Risk**

As an international company, we are subject to currency translation risk. For the three months ended September 30, 2009, approximately 36% of our revenues less liquidity rebates, brokerage, clearance and exchange fees and 24% of our operating income are derived in currencies other than the U.S. dollar, primarily the Swedish Krona and Euro. For the nine months ended September 30, 2009, approximately 34% of our revenues less liquidity rebates, brokerage, clearance and exchange fees and 23% of our operating income are derived in currencies other than the U.S. dollar, primarily the Swedish Krona and Euro.





**Table of Contents**

Our primary exposure to foreign denominated revenues less liquidity rebates, brokerage, clearance and exchange fees and operating income for the third quarter of 2009 is presented in the following table:

|   | Swedish<br>Krona                    | Euro   | Other Foreign<br>Currencies |
|---|-------------------------------------|--------|-----------------------------|
|   | (in millions, except currency rate) |        |                             |
| Average foreign currency rate to the U.S. dollar in the third quarter of 2009   | 0.1376                              | 1.4305 | #                           |
| Percentage of revenues less liquidity rebates, brokerage, clearance and exchange fees                                   | 21%                                 | 5%     | 10%                         |
| Percentage of operating income  | 10%                                 | 7%     | 7%                          |
| Impact of a 10% adverse currency fluctuation on revenues less liquidity rebates, brokerage, clearance and exchange fees | \$ (7)                              | \$ (2) | \$ (4)                      |
| Impact of a 10% adverse currency fluctuation on operating income  | \$ (1)                              | \$ (1) | \$ (1)                      |

# Represents multiple foreign currency rates.

Our primary exposure to foreign denominated revenues less liquidity rebates, brokerage, clearance and exchange fees and operating income for the nine months ended September 30, 2009 is presented in the following table:

|   | Swedish<br>Krona                    | Euro   | Other Foreign<br>Currencies |
|---|-------------------------------------|--------|-----------------------------|
|   | (in millions, except currency rate) |        |                             |
| Average foreign currency rate to the U.S. dollar in first nine months of 2009   | 0.1278                              | 1.3664 | #                           |
| Percentage of revenues less liquidity rebates, brokerage, clearance and exchange fees                                   | 20%                                 | 4%     | 10%                         |
| Percentage of operating income  | 12%                                 | 7%     | 4%                          |
| Impact of a 10% adverse currency fluctuation on revenues less liquidity rebates, brokerage, clearance and exchange fees | \$ (22)                             | \$ (5) | \$ (10)                     |
| Impact of a 10% adverse currency fluctuation on operating income  | \$ (6)                              | \$ (3) | \$ (2)                      |

# Represents multiple foreign currency rates.

**Equity Risk**

Our investments in foreign subsidiaries are exposed to volatility in currency exchange rates through translation of the foreign subsidiaries' net assets or equity to U.S. dollars. Our primary exposure to this equity risk as of September 30, 2009 is presented by foreign currency in the following table:

|                 | Net<br>Investment | Impact on<br>Consolidated<br>Equity of a 10%<br>Decrease in<br>Foreign Currency<br>(millions of dollars) |
|-----------------|-------------------|--|
| Swedish Krona   | \$ 295            | \$ 30  |
| Euro            | 183               | 18   |
| Norwegian Krone | 127               | 13   |
| Danish Krone    | 93                | 9  |

**Credit Risk**

We are exposed to credit risk from third parties, including customers, counterparties and clearing agents. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. We limit our exposure to credit risk by rigorously

## Edgar Filing: NASDAQ OMX GROUP, INC. - Form 10-Q

selecting the counterparties with which we make investments and execute agreements. The financial investment portfolio objective is to invest in securities to preserve principal while maximizing yields, without significantly increasing risk. Credit risk associated with investments is minimized substantially by ensuring that these financial assets are placed with governments, well-capitalized financial institutions and other creditworthy counterparties.

Our subsidiaries Nasdaq Execution Services and NASDAQ Options Services may be exposed to credit risk, due to the default of trading counterparties, in connection with the clearing and routing services that Nasdaq Execution Services and NASDAQ Options Services provide for our trading customers. System trades in equities routed to other market centers for members of The NASDAQ Stock Market are cleared by Nasdaq Execution Services, as a member of the NSCC. System trades in derivative contracts executed in the opening and closing cross and trades routed to other market centers are cleared by NASDAQ Options Services, as a member of the OCC.

## **Table of Contents**

Pursuant to the rules of the NSCC and Nasdaq Execution Services clearing agreement, Nasdaq Execution Services is liable for any losses incurred due to a counterparty or a clearing agent's failure to satisfy its contractual obligations, either by making payment or delivering securities. Pursuant to the rules of the OCC and NASDAQ Options Services clearing agreement, NASDAQ Options Services is also liable for any losses incurred due to a counterparty or a clearing agent's failure to satisfy its contractual obligations, either by making payment or delivering securities. Adverse movements in the prices of securities and derivative contracts that are subject to these transactions can increase our credit risk. However, we believe that the risk of material loss is limited, as Nasdaq Execution Services and NASDAQ Options Services customers are not permitted to trade on margin and NSCC and OCC rules limit counterparty risk on self-cleared transactions by establishing credit limits and capital deposit requirements for all brokers that clear with NSCC and OCC. Both Nasdaq Execution Services and NASDAQ Options Services have never incurred a liability due to a customer's failure to satisfy its contractual obligations as counterparty to a system trade. Credit difficulties or insolvency or the perceived possibility of credit difficulties or insolvency of one or more larger or visible market participants could also result in market-wide credit difficulties or other market disruptions.

Through our clearing operations in the derivative markets with NASDAQ OMX Commodities, NASDAQ OMX Stockholm and IDCG, we are the legal counterparty for each derivative position traded and thereby guarantee the fulfillment of each contract. We are required to pledge collateral for commitments with other clearinghouses. The amount of these commitments is calculated on the gross exposure between the clearinghouses. As collateral for these obligations, we have obtained financial guarantees and credit facilities which are guaranteed by us through counter indemnities. At September 30, 2009, financial guarantees pledged as collateral totaled \$482 million and available credit facilities totaled \$260 million, of which \$0.1 million was utilized. In addition, we obtained credit facilities totaling \$278 million in order to satisfy regulatory requirements, none of which has been utilized as of September 30, 2009.

We require our customers to pledge collateral and meet certain minimum financial standards to mitigate the risk if they become unable to satisfy their obligations. At September 30, 2009, total customer pledged collateral with NASDAQ OMX Commodities and NASDAQ OMX Stockholm was \$6.6 billion. This pledged collateral is held by a custodian bank. Since these funds are not held by NASDAQ OMX Commodities and NASDAQ OMX Stockholm and they are not available for our use, we do not receive any interest income on these funds. Customer pledged cash collateral held by IDCG was \$3 million at September 30, 2009 and is included in restricted cash with an offsetting liability included in other accrued liabilities in the Condensed Consolidated Balance Sheets, as the risks and rewards of collateral ownership, including interest, belongs to IDCG. Non-cash margin and guaranty fund deposits pledged to IDCG are not reflected in the Condensed Consolidated Balance Sheets as IDCG does not take legal ownership.

We believe that the potential for us to be required to make payments under these arrangements is mitigated through the pledged collateral, our risk management policies and, in the case of NASDAQ OMX Commodities, a default insurance policy. Accordingly, no contingent liability is recorded in the Condensed Consolidated Balance Sheets for these arrangements.

We also have credit risk related to transaction fees that are billed to customers on a monthly basis, in arrears. Our potential exposure to credit losses on these transactions is represented by the receivable balances in our Condensed Consolidated Balance Sheets. Our customers are financial institutions whose ability to satisfy their contractual obligations may be impacted by volatile securities markets.

On an ongoing basis we review and evaluate changes in the status of our counterparty's creditworthiness. Credit losses such as those described above could adversely affect our consolidated financial position and results of operations.

**Table of Contents**

**Item 4. Controls and Procedures.**

(a). ***Disclosure controls and procedures.*** NASDAQ OMX's management, with the participation of NASDAQ OMX's Chief Executive Officer and Executive Vice President and Chief Financial Officer, has evaluated the effectiveness of NASDAQ OMX's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, NASDAQ OMX's Chief Executive Officer and Executive Vice President and Chief Financial Officer have concluded that, as of the end of such period, NASDAQ OMX's disclosure controls and procedures are effective.

(b). ***Internal controls over financial reporting.*** There have been no changes in NASDAQ OMX's internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, NASDAQ OMX's internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings.**

We are not currently a party to any material pending legal proceeding that we believe could have a material adverse effect on our business, financial condition, or operating results. However, from time to time, we have been threatened with, or named as a defendant in, lawsuits, or involved in regulatory proceedings.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed under **Risk Factors** in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 as filed with the SEC on February 27, 2009. These risks could materially and adversely affect our business, financial condition and results of operations. The risks and uncertainties in our Form 10-K are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

Repurchases made in the fiscal quarter ended September 30, 2009 (in whole number of shares):

| Period         | (a) Total Number of<br>Shares (or Units)<br>Purchased | (b) Average Price Paid<br>per Share (or<br>Units) | (c) Total Number of<br>Shares (or Units)<br>Purchased as Part<br>of Publicly Announced<br>Plans or Programs | (d) Maximum Number<br>(or Approximate Dollar<br>Value) of Shares (or<br>Units) that May Yet Be<br>Purchased Under the<br>Plans or Programs |
|----------------|---|---|---|--|
| July 2009      | 515   | \$ 20.54  |   |  |
| August 2009    | 4,275   | 21.40   |   |  |
| September 2009 | 540   | 21.01   |   |  |
| Total          | 5,330   | \$ 21.27  |   |  |

The shares repurchased during the third quarter of 2009 were acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from vesting in restricted stock grants.

**Item 3. Defaults upon Senior Securities.**

None

**Item 4. Submission of Matters to a Vote of Security Holders.**

None

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

The exhibits required by this item are listed on the Exhibit Index.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The NASDAQ OMX Group, Inc.  
(Registrant)

Date: November 6, 2009

By: /s/ ROBERT GREIFELD  
Name: **Robert Greifeld**  
Title: **Chief Executive Officer**

Date: November 6, 2009

By: /s/ ADENA FRIEDMAN  
Name: **Adena Friedman**  
Title: **Executive Vice President and Chief Financial Officer**

**Table of Contents**

**Index**

**Exhibit**

**Number**

|      |  |
|------|--|
| 3.2  | By-Laws of The NASDAQ OMX Group, Inc. (incorporated herein by reference to Exhibit 3.2 to the Current Report on Form 8-K filed on August 26, 2009).  |
| 11   | Statement regarding computation of per share earnings (incorporated herein by reference from Note 12 to the condensed consolidated financial statements under Part I, Item 1 of this Form 10-Q). |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 ( Sarbanes-Oxley ).   |
| 31.2 | Certification of Executive Vice President and Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley.   |
| 32.1 | Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley.   |