

NASDAQ OMX GROUP, INC.
Form 10-Q
August 03, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from to

Commission file number: 000-32651

The NASDAQ OMX Group, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

52-1165937
(I.R.S. Employer
Identification No.)

One Liberty Plaza, New York, New York
(Address of Principal Executive Offices)

10006
(Zip Code)

+1 212 401 8700
(Registrant's telephone number, including area code)

No changes

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Class	Outstanding at July 27, 2012
Common Stock, \$.01 par value per share	166,891,225 shares

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Form 10-Q

For the Quarterly Period Ended June 30, 2012

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About This Form 10-Q

Throughout this Form 10-Q, unless otherwise specified:

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

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

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

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

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

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

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

* * * * *

Aces[®], BX Venture Market[®], Directors Desk[®], Dream It. Do It[®], EVI[®], GlobeNewswire[®], INET[®], ITCH[®], Market Intelligence Desk[®], Market Mechanics[®], MarketSite[®], NASDAQ[®], NASDAQ Biotechnology[®], NASDAQ Biotechnology Index[®], NASDAQ Capital Market[®], NASDAQ Competitive VWAP[®], NASDAQ Composite[®], NASDAQ Composite Index[®], NASDAQ Computer Index[®], NASDAQ-Financial Index[®], NASDAQ Financial-100 Index[®], NASDAQ Global Market[®], NASDAQ Global Select Market[®], NASDAQ Industrial Index[®], NASDAQ Interact[®], NASDAQ Internet Index[®], NASDAQ Is There When the Bell Stops Ringing[®], NASDAQ Market Analytix[®], NASDAQ Market Center[®], NASDAQ Market Forces[®], NASDAQ Market Velocity[®], NASDAQ MarketSite[®], NASDAQ MAX[®], NASDAQ MAX Market Analytix[®], NASDAQ National Market[®], NASDAQ OMX[®], NASDAQ OMX Advantage[®], NASDAQ OMX Alpha Indexes[®], NASDAQ OMX BX[®], NASDAQ OMX Express[®], NASDAQ OMX Futures Exchange[®], NASDAQ OMX Green Economy Index[®], NASDAQ OMX Group[®], NASDAQ OMX Nordic[®], NASDAQ Q-50 Index[®], NASDAQ Report Source[®], NASDAQ Social Stream[®], NASDAQ Telecommunications Index[®], NASDAQ TotalView[®], NASDAQ Trade Up[®], NASDAQTrader[®], NASDAQ Transportation[®], NASDAQ US ALL Market[®], NASDAQ Volatility Guard[®], NASDAQ Workstation[®], NASDAQ Workstation II[®], NASDAQ-100[®], NASDAQ-100 European[®], NASDAQ-100 Index[®], NASDAQ-100 Index Tracking Stock[®], NDX[®], NFX World Currency[®]; NFX XL[®], NLX[®], NOMX[®], PHLX[®], PORTAL Alliance[®], QQQ[®], QView[®], Shareholder.com[®], The NASDAQ Stock Market[®], The Stock Market for the Next 100 Years[®], Trade Up[®], and UltraFeed[®] are registered trademarks of The NASDAQ OMX Group, Inc.

FINRA[®] and Trade Reporting Facility are registered trademarks of the Financial Industry Regulatory Authority, or FINRA.

All other trademarks and servicemarks used herein are the property of their respective owners.

* * * * *

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

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therein. Statements as to our market position are based on the most currently available market data. For market comparison purposes, The NASDAQ Stock Market data in this Quarterly Report on Form 10-Q for initial public offerings, or IPOs, is based on data generated internally by us, which includes best efforts underwritings and closed-end funds; therefore, the data may not be comparable to other publicly-available IPO data. Data in this Quarterly Report on Form 10-Q for new listings of equity securities on The NASDAQ Stock Market is based on data generated internally by us, which includes best efforts underwritings, issuers that switched from other listing venues, closed-end funds and exchange traded funds, or ETFs. Data in this Quarterly Report on Form 10-Q for IPOs and new listings of equities securities on the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic also is based on data generated internally by us. IPOs and new listings data is presented as of period end. While we are not aware of any misstatements regarding industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors. We refer you to the Risk Factors section in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, the Risk Factors section in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 that was filed with the U.S. Securities and Exchange Commission, or SEC, on May 8, 2012, and the Risk Factors section in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 that was filed with the SEC on February 24, 2012.

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Forward-Looking Statements

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

our 2012 outlook;

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

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

the effective dates for, and expected benefits of, ongoing initiatives, including strategic and capital return initiatives;

the impact of pricing changes;

tax matters;

the cost and availability of liquidity; and

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

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

our operating results may be lower than expected;

loss of significant trading and clearing volume, market share or listed companies;

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

government and industry regulation;

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

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

adverse changes that may occur in the securities markets generally.

Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the uncertainty and any risk related to forward-looking statements that we make. These risk factors are discussed under the caption Part II. Item 1A. Risk Factors, in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 that was filed with the SEC on May 8, 2012, and more fully described in the Risk Factors section in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 that was filed with the SEC on February 24, 2012. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. You should carefully read this entire Form 10-Q, including Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, and the condensed consolidated financial statements and the related notes. Except as required by the federal securities laws, we undertake no obligation to update any forward-looking statement, release publicly any revisions to any forward-looking statements or report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Table of Contents**PART 1 FINANCIAL INFORMATION****Item 1. Financial Statements.****The NASDAQ OMX Group, Inc.****Condensed Consolidated Balance Sheets****(in millions, except share and par value amounts)**

	June 30, 2012	December 31, 2011
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 491	\$ 506
Restricted cash	36	34
Financial investments, at fair value	196	279
Receivables, net	341	308
Deferred tax assets	16	16
Default funds and margin deposits	204	17
Open clearing contracts:		
Derivative positions, at fair value		1,566
Resale agreements, at contract value		3,745
Other current assets	126	110
Total current assets	1,410	6,581
Non-current restricted cash	105	97
Property and equipment, net	198	193
Non-current deferred tax assets	392	392
Goodwill	5,103	5,061
Intangible assets, net	1,625	1,648
Other non-current assets	94	119
Total assets	\$ 8,927	\$ 14,091
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 160	\$ 164
Section 31 fees payable to SEC	156	106
Accrued personnel costs	74	132
Deferred revenue	201	124
Other current liabilities	120	112
Deferred tax liabilities	27	27
Default funds and margin deposits	204	17
Open clearing contracts:		
Derivative positions, at fair value		1,566
Repurchase agreements, at contract value		3,745
Current portion of debt obligations	45	45
Total current liabilities	987	6,038
Debt obligations	1,951	2,072
Non-current deferred tax liabilities	661	670
Non-current deferred revenue	160	154

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Other non-current liabilities	198	171
Total liabilities	3,957	9,105
Commitments and contingencies		
Equity		
NASDAQ OMX stockholders' equity:		
Common stock, \$0.01 par value, 300,000,000 shares authorized, shares issued: 213,425,286 at June 30, 2012 and 213,398,111 at December 31, 2011; shares outstanding: 167,178,252 at June 30, 2012 and 173,552,939 at December 31, 2011	2	2
Preferred stock, 30,000,000 shares authorized, series A convertible preferred stock: shares issued: 1,600,000 at June 30, 2012 and December 31, 2011; shares outstanding: none at June 30, 2012 and December 31, 2011		
Additional paid-in capital	3,797	3,793
Common stock in treasury, at cost: 46,247,034 shares at June 30, 2012 and 39,845,172 shares at December 31, 2011	(1,017)	(860)
Accumulated other comprehensive loss	(368)	(350)
Retained earnings	2,547	2,391
Total NASDAQ OMX stockholders' equity	4,961	4,976
Noncontrolling interests	9	10
Total equity	4,970	4,986
Total liabilities and equity	\$ 8,927	\$ 14,091

See accompanying notes to condensed consolidated financial statements.

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The NASDAQ OMX Group, Inc.
Condensed Consolidated Statements of Income
(Unaudited)
(in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Market Services	\$ 688	\$ 699	\$ 1,354	\$ 1,382
Issuer Services	91	92	181	180
Market Technology	44	46	89	89
Total revenues	823	837	1,624	1,651
Cost of revenues:				
Transaction rebates	(299)	(322)	(604)	(631)
Brokerage, clearance and exchange fees	(100)	(100)	(185)	(193)
Total cost of revenues	(399)	(422)	(789)	(824)
Revenues less transaction rebates, brokerage, clearance and exchange fees	424	415	835	827
Operating expenses:				
Compensation and benefits	113	115	224	226
Marketing and advertising	6	5	13	10
Depreciation and amortization	25	26	51	53
Professional and contract services	23	20	45	39
Computer operations and data communications	17	17	33	34
Occupancy	23	23	46	46
Regulatory	9	8	18	17
Merger and strategic initiatives	1	29	3	34
Restructuring charges	17		26	
General, administrative and other	15	14	30	27
Total operating expenses	249	257	489	486
Operating income	175	158	346	341
Interest income	2	3	4	5
Interest expense	(24)	(31)	(48)	(63)
Dividend and investment income				(1)
Asset impairment charges	(28)		(40)	
Income from unconsolidated investees, net		1		1
Income before income taxes	125	131	262	283
Income tax provision	33	40	86	89
Net income	92	91	176	194
Net loss attributable to noncontrolling interests	1	1	2	2

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Net income attributable to NASDAQ OMX	\$ 93	\$ 92	\$ 178	\$ 196
Per share information:				
Basic earnings per share	\$ 0.55	\$ 0.52	\$ 1.04	\$ 1.11
Diluted earnings per share	\$ 0.53	\$ 0.51	\$ 1.02	\$ 1.09
Cash dividends declared per common share	\$ 0.13	\$	\$ 0.13	\$

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$ 92	\$ 91	\$ 176	\$ 194
Other comprehensive income (loss):				
Net unrealized holding gains (losses) on available-for-sale investment securities:				
Unrealized holding gains (losses) arising during the period	(5)	(3)	2	(7)
Income tax benefit		1		3
Total	(5)	(2)	2	(4)
Foreign currency translation gains (losses):				
Net foreign currency translation gains (losses)	(209)	23	(24)	299
Income tax benefit (expense)	64	(1)	4	(85)
Total	(145)	22	(20)	214
Total other comprehensive income (loss), net of tax	(150)	20	(18)	210
Comprehensive income (loss)	(58)	111	158	404
Comprehensive loss attributable to noncontrolling interests	1	1	2	2
Comprehensive income (loss) attributable to NASDAQ OMX	\$ (57)	\$ 112	\$ 160	\$ 406

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)**

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 176	\$ 194
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51	53
Share-based compensation	22	17
Excess tax benefits related to share-based compensation	(1)	(6)
Provision for bad debts	4	1
Deferred income taxes	(36)	(21)
Non-cash restructuring charges	12	
Asset impairment charges	40	
Loss on asset retirements		1
Net income from unconsolidated investees		(1)
Accretion of debt discounts	1	8
Amortization of debt issuance costs	1	4
Other non-cash items included in net income	5	
Net change in operating assets and liabilities, net of effects of acquisitions:		
Receivables, net	(35)	(43)
Other assets	(18)	65
Accounts payable and accrued expenses	(8)	46
Section 31 fees payable to SEC	50	65
Accrued personnel costs	(65)	(37)
Deferred revenue	80	70
Other liabilities	39	14
Net cash provided by operating activities	318	430
Cash flows from investing activities:		
Purchases of trading securities	(164)	(348)
Proceeds from sales and redemptions of trading securities	248	298
Acquisitions of businesses, net of cash and cash equivalents acquired	(57)	(2)
Purchases of property and equipment	(41)	(24)
Net cash used in investing activities	(14)	(76)
Cash flows from financing activities:		
Payments of debt obligations	(122)	(120)
Cash paid for repurchase of common stock	(175)	
Cash dividends	(22)	
Issuances of common stock, net of treasury stock purchases	2	8
Excess tax benefits related to share-based compensation	1	6
Other financing activities	(1)	10

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Net cash used in financing activities	(317)	(96)
Effect of exchange rate changes on cash and cash equivalents	(2)	5
Net increase (decrease) in cash and cash equivalents	(15)	263
Cash and cash equivalents at the beginning of period	506	315
Cash and cash equivalents at the end of period	\$ 491	\$ 578
Supplemental Disclosures		
Cash paid for:		
Interest	\$ 40	\$ 36
Income taxes, net of refund	\$ 79	\$ 37

See accompanying notes to condensed consolidated financial statements.

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The NASDAQ OMX Group, Inc.

Notes to Condensed Consolidated Financial Statements

1. Organization and Nature of Operations

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

In the U.S., we operate The NASDAQ Stock Market, a registered national securities exchange. The NASDAQ Stock Market is the largest single cash equities securities market in the U.S. in terms of listed companies and in the world in terms of share value traded. As of June 30, 2012, The NASDAQ Stock Market was home to 2,636 listed companies with a combined market capitalization of approximately \$5.1 trillion. Also, in the U.S. we operate two additional cash equities trading markets, three options markets, a futures market and a derivatives clearinghouse. We also engage in riskless principal trading of over-the-counter, or OTC, power and gas contracts.

In Europe, we operate exchanges in Stockholm (Sweden), Copenhagen (Denmark), Helsinki (Finland), and Iceland as NASDAQ OMX Nordic, and exchanges in Tallinn (Estonia), Riga (Latvia) and Vilnius (Lithuania) as NASDAQ OMX Baltic. Collectively, the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic offer trading in cash equ