

NASDAQ OMX GROUP, INC.
Form 10-Q
November 06, 2009
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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 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)

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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 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 October 30, 2009 |
|---|---------------------------------|
| Common Stock, \$.01 par value per share | 211,072,230 shares |

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For the Quarterly Period Ended September 30, 2009

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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

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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.

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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 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;

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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)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues | | | | |
| 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 |
| Cost of revenues | | | | |
| 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) |
| Revenues less liquidity rebates, brokerage, clearance and exchange fees | 349 | 399 | 1,084 | 1,057 |
| Operating expenses | | | | |
| 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) | |

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| | | | | |
|--|---------|---------|---------|---------|
| 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 |
| Net income | 59 | 58 | 221 | 280 |
| Net (income) loss attributable to noncontrolling interests | 1 | | 2 | (1) |
| Net income attributable to NASDAQ OMX | \$ 60 | \$ 58 | \$ 223 | \$ 279 |
| Basic and diluted earnings per share: | | | | |
| 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, 2009 (Unaudited) | December 31, 2008 |
|--|---|------------------------------|
| Assets | | |
| 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 |