

---

---

**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, 2008

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)

---

**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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  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 August 1, 2008

---

Common Stock, \$.01 par value per share

199,924,340 shares

---

---

[Table of Contents](#)

**The NASDAQ OMX Group, Inc.**  
**Form 10-Q**  
**For the Quarterly Period Ended June 30, 2008**

**INDEX**

**[PART I. FINANCIAL INFORMATION](#)**

Item 1.	<a href="#">Financial Statements (unaudited)</a>	2
	<a href="#">Condensed Consolidated Statements of Income—Three and Six Months Ended June 30, 2008 and 2007</a>	2
	<a href="#">Condensed Consolidated Balance Sheets—June 30, 2008 and December 31, 2007</a>	3
	<a href="#">Condensed Consolidated Statements of Cash Flows—Six Months Ended June 30, 2008 and 2007</a>	4
	<a href="#">Notes to Condensed Consolidated Financial Statements</a>	5
Item 2.	<a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	38
Item 3.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	51
Item 4.	<a href="#">Controls and Procedures</a>	54

**[PART II. OTHER INFORMATION](#)**

Item 1.	<a href="#">Legal Proceedings</a>	54
Item 1A.	<a href="#">Risk Factors</a>	54
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	56
Item 3.	<a href="#">Defaults upon Senior Securities</a>	56
Item 4.	<a href="#">Submission of Matters to a Vote of Security Holders</a>	56
Item 5.	<a href="#">Other Information</a>	57
Item 6.	<a href="#">Exhibits</a>	57

**[SIGNATURES](#)**

58

## About This Form 10-Q

The NASDAQ OMX Group, Inc., is a holding company created by the combination of the businesses 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 from February 27, 2008.

Throughout this Form 10-Q, unless otherwise specified:

- “Nasdaq” refers to The Nasdaq Stock Market, Inc., as that entity operated prior to the business combination with OMX.
- The “Exchange” and “The NASDAQ Stock Market” refer to The NASDAQ Stock Market LLC and its wholly-owned subsidiaries.
- “OMX” refers to OMX AB (publ), as that entity operated prior to the business combination with Nasdaq.
- “Nordic Exchange” refers to collectively, the OMX Nordic Exchange Stockholm, the OMX Nordic Exchange Copenhagen, the OMX Nordic Exchange Helsinki, the OMX Nordic Exchange Iceland, the Tallinn Stock Exchange, the Riga Stock Exchange and the Vilnius Stock Exchange.
- “PHLX” refers to the Philadelphia Stock Exchange, Inc. and Subsidiaries.
- “NASDAQ OMX,” “we,” “us” and “our” refer to The NASDAQ OMX Group, Inc.
- “SEK” or “Swedish Krona” refers to the lawful currency of Sweden.
- “NOK” 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 initial public offering data. Data in this Quarterly Report on Form 10-Q for secondary offerings for The NASDAQ Stock Market is also 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 equities securities on the Nordic Exchange is also 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, including those discussed in the “Risk Factors” section in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.

## Forward-Looking Statements

The U.S. Securities and Exchange Commission, or 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:

- 2008 outlook;
- the scope, nature or impact of acquisitions, dispositions, investments or other transactional activities;
- the integration of the businesses of Nasdaq, OMX and PHLX, including accounting decisions relating thereto;
- the effective dates for and expected benefits of ongoing initiatives; 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;
- our ability to successfully integrate the businesses of Nasdaq, OMX and PHLX, including the fact that such integration may be more difficult, time consuming or costly than expected and our ability to realize synergies from the business combination of Nasdaq, OMX and PHLX, as well as our proposed acquisitions of The Boston Stock Exchange and certain businesses of Nord Pool ASA, or Nord Pool;
- loss of significant trading volume or listed companies;
- covenants in the indenture governing our indebtedness and the agreements governing our other indebtedness, which may restrict the operation of our business;
- economic, political and market conditions and fluctuations, including interest rate risk, inherent in U.S. and international operations;
- 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 risk resulting from such uncertainty in connection with any forward-looking statements that we make. These risk factors are more fully described under the caption Part 2. "Item 1A. Risk Factors," in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2008. 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 "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," and our condensed consolidated financial statements and the related notes. Except as required by the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to 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.

## 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 thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Revenues</b>				
Market Services	\$ 694,085	\$ 487,390	\$1,421,048	\$ 982,883
Issuer Services	87,622	70,742	163,310	137,093
Market Technology	38,678	—	49,661	—
Other	1,093	69	1,286	171
Total revenues	821,478	558,201	1,635,305	1,120,147
<b>Cost of revenues</b>				
Liquidity rebates	(346,767)	(238,313)	(731,538)	(463,503)
Brokerage, clearance and exchange fees	(94,558)	(121,208)	(245,281)	(265,898)
Total cost of revenues	(441,325)	(359,521)	(976,819)	(729,401)
<b>Revenues less liquidity rebates, brokerage, clearance and exchange fees</b>	<b>380,153</b>	<b>198,680</b>	<b>658,486</b>	<b>390,746</b>
<b>Operating Expenses</b>				
Compensation and benefits	115,176	49,704	188,578	93,977
Marketing and advertising	3,960	4,227	5,858	9,101
Depreciation and amortization	22,193	9,796	38,105	19,635
Professional and contract services	22,543	8,652	36,344	17,034
Computer operations and data communications	17,394	7,916	25,571	16,112
Provision for bad debts	(1,113)	(1,359)	(147)	2,130
Occupancy	16,595	8,975	28,928	17,840
Regulatory	7,487	7,112	14,959	13,835
Merger expenses	5,704	—	7,165	—
General, administrative and other	15,392	4,806	25,284	20,827
Total operating expenses	225,331	99,829	370,645	210,491
Operating income	154,822	98,851	287,841	180,255
Other income (expense), net	(3,778)	(4,518)	59,668	(55,170)
Minority interests	(827)	—	(1,080)	96
Income before income taxes	150,217	94,333	346,429	125,181
Income tax provision	48,580	38,205	123,429	50,736
<b>Net income</b>	<b>\$ 101,637</b>	<b>\$ 56,128</b>	<b>\$ 223,000</b>	<b>\$ 74,445</b>
<b>Basic and diluted earnings per share:</b>				
Basic	\$ 0.51	\$ 0.50	\$ 1.24	\$ 0.66
Diluted	\$ 0.48	\$ 0.39	\$ 1.15	\$ 0.52

See accompanying notes to condensed consolidated financial statements.

**The NASDAQ OMX Group, Inc.**  
**Condensed Consolidated Balance Sheets**  
**(in thousands, except share and par value amounts)**

	June 30, 2008 (Unaudited)	December 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 739,999	\$1,325,314
Financial investments, at fair value	136,971	—
Receivables, net	354,931	249,524
Deferred tax assets	18,066	10,794
Market value, outstanding derivative positions	716,632	—
Other current assets	196,987	96,385
Total current assets	<u>2,163,586</u>	<u>1,682,017</u>
Property and equipment, net	160,056	64,523
Non-current deferred tax assets	163,521	63,279
Goodwill	4,074,588	980,736
Intangible assets, net	2,039,653	181,612
Other assets	367,581	7,230
Total assets	<u>\$8,968,985</u>	<u>\$2,979,397</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 219,866	\$ 115,114
Section 31 fees payable to SEC	109,723	103,574
Accrued personnel costs	93,688	64,625
Deferred revenue	164,506	60,537
Other accrued liabilities	169,011	58,540
Deferred tax liabilities	23,939	8,807
Market value, outstanding derivative positions	716,632	—
Current portion of debt obligations	98,438	—
Total current liabilities	<u>1,595,803</u>	<u>411,197</u>
Debt obligations	1,545,145	118,438
Non-current deferred tax liabilities	864,698	91,811
Non-current deferred revenue	130,934	94,045
Other liabilities	104,248	55,623
Total liabilities	<u>4,240,828</u>	<u>771,114</u>
Minority interests	12,896	—
<b>Stockholders' equity</b>		
Common stock, \$0.01 par value, 300,000,000 shares authorized, shares issued: 200,133,804 at June 30, 2008 and 139,096,762 at December 31, 2007; shares outstanding: 199,861,427 at June 30, 2008 and 138,869,150 at December 31, 2007	2,004	1,393
Preferred stock, 30,000,000 shares authorized, none issued or outstanding	—	—
Additional paid-in capital	3,474,450	1,189,224
Common stock in treasury, at cost: 272,377 shares at June 30, 2008 and 227,612 shares at December 31, 2007	(9,896)	(8,035)
Accumulated other comprehensive income (loss)	(4,695)	(4,697)
Retained earnings	1,253,398	1,030,398
Total stockholders' equity	<u>4,715,261</u>	<u>2,208,283</u>
Total liabilities, minority interests and stockholders' equity	<u>\$8,968,985</u>	<u>\$2,979,397</u>

See accompanying notes to condensed consolidated financial statements.

## The NASDAQ OMX Group, Inc.

**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**  
**(in thousands)**

	Six Months Ended June 30,	
	2008	2007
<b>Cash provided by operating activities</b>		
Net income	\$ 223,000	\$ 74,445
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	38,105	19,635
Share-based compensation	11,488	7,564
Income tax benefit related to share-based compensation	(3,020)	(4,568)
Provision for bad debts	(147)	2,130
(Gain) loss on foreign currency contracts	(40,137)	9,509
Deferred taxes, net	(38,719)	(32,723)
Income from unconsolidated investees, net	(27,641)	—
Clearing contract charge	—	10,620
Strategic initiative costs	—	26,511
Foreign currency translation adjustment	9,536	—
Other non-cash items included in net income	830	2,703
Net change in operating assets and liabilities, net of effects of acquisitions:		
Receivables, net	17,609	(48,806)
Other assets	1,594	(9,901)
Accounts payable and accrued expenses	31,827	6,078
Section 31 fees payable to SEC	6,149	72,175
Accrued personnel costs	(17,457)	(21,452)
Deferred revenue	48,715	77,700
Other accrued liabilities	18,134	(2,287)
Other liabilities	(7,346)	(9,036)
<b>Cash provided by operating activities</b>	<u>272,520</u>	<u>180,297</u>
<b>Cash flows from investing activities</b>		
Purchases of trading investment securities	(26,024)	—
Purchases of foreign currency contracts	(12,500)	(12,988)
Settlement of foreign currency contracts	66,515	63,900
Purchases of available-for-sale investments, net	—	(53,532)
Proceeds from maturities of available-for-sale investments	—	47,910
Proceeds from redemptions of available-for-sale investments	—	30,100
Acquisitions of businesses, net of cash and cash equivalents acquired	(1,989,044)	—
Purchases of property and equipment	(26,474)	(7,776)
Other	—	127
<b>Cash provided by (used in) investing activities</b>	<u>(1,987,527)</u>	<u>67,741</u>
<b>Cash flows from financing activities</b>		
Proceeds from debt obligations, net of debt issuance costs	1,476,968	—
Payments of debt obligations	(352,918)	(5,341)
Issuances of common stock, net of treasury stock purchases	2,622	5,738
Income tax benefit related to share-based compensation	3,020	4,568
<b>Cash provided by financing activities</b>	<u>1,129,692</u>	<u>4,965</u>
Increase (decrease) in cash and cash equivalents	(585,315)	253,003
Cash and cash equivalents at beginning of period	1,325,314	321,995
Cash and cash equivalents at end of period	<u>\$ 739,999</u>	<u>\$574,998</u>
<b>Supplemental Disclosure Cash Flow Information</b>		
Cash paid for:		
Interest	\$ 14,776	\$ 48,932
Income taxes, net of refund	\$ 151,531	\$ 62,118

See accompanying notes to condensed consolidated financial statements.

**The NASDAQ OMX Group, Inc**

**Notes to Condensed Consolidated Financial Statements**

**1. Organization and Nature of Operations**

On February 27, 2008, Nasdaq and OMX combined their businesses and Nasdaq was renamed The NASDAQ OMX Group, Inc. NASDAQ OMX is a holding company that through its subsidiaries operates the following exchanges: The Exchange in the United States and the Nordic Exchange in the Nordic-Baltic region. NASDAQ OMX also operates certain other related businesses through other subsidiaries. Nasdaq became a holding company on August 1, 2006 when the Exchange commenced operations as a national securities exchange for NASDAQ-listed securities. The Exchange commenced operations as a national securities exchange for non-NASDAQ-listed securities on February 12, 2007.

NASDAQ OMX, through its subsidiaries, is a leading provider of securities listing, trading, and information products and services and also provides technology solutions to exchanges and other marketplaces. NASDAQ OMX has operations around the world, spanning developed and emerging markets. Its global offerings include trading across multiple asset classes, capital formation solutions, financial services and exchanges technology, market data products, and financial indexes.

Our revenue sources are diverse and include revenues from transaction services, market data products and services, listing fees, insurance products, shareholder, directors and newswire services, financial products and market technology. The Exchange is the largest electronic equity securities market in the United States, both in terms of number of listed companies and traded share volume. As of June 30, 2008, the Exchange was home to 3,080 listed companies with a combined market capitalization of approximately \$4.0 trillion. The Nordic Exchange is the largest securities marketplace in Northern Europe. As of June 30, 2008, the Nordic Exchange was home to 847 listed companies with a combined market capitalization of approximately \$1.1 trillion.

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 business (cash equity and derivative trading), as well as our Market Data and Broker Services businesses. Our transaction-based platform in the U.S. provides our market participants with the ability to access, process, display and integrate orders and quotes for cash equities and derivatives. The platform allows us to route and execute buy and sell orders as well as report transactions for NASDAQ-listed securities and those securities listed on other national securities exchanges in the U.S., providing fee-based revenues. Our European operations include trading and clearing revenues from equity and derivative products traded on the Nordic Exchange.

Market data revenues in the U.S. are generated by providing varying levels of quote and trade information to market participants and data vendors, who in turn sell subscriptions for this information to the public. Our systems enable vendors to gain direct access to our detailed order data, index information, mutual fund pricing information, and corporate action information on NASDAQ-listed securities. European market data revenues, which are subscription based, are generated through the sale and distribution of trading information based on the data generated through trading on the Nordic Exchange.

Broker Services offers technology and customized securities administration solutions to financial participants trading on the Nordic Exchange and the markets in the United Kingdom, primarily the London Stock Exchange. Broker Services provide services through a registered securities company which is regulated by the Swedish and United Kingdom Financial Supervisory Authorities. 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 U.S. and European Listing Services and Financial Products businesses. In the U.S., companies listed on The NASDAQ Stock Market represent a diverse array of industries including information technology, financial services, healthcare, consumer products and industrials. There are three types of fees applicable to companies that list on The NASDAQ Stock Market: annual, listing and listing of additional share fees. In addition, our Listing Services business includes revenues generated through our insurance business, shareholder, directors and newswire services (Corporate services). We also develop and license financial products and associated derivatives based on NASDAQ indexes. These include the PowerShares QQQ, which is an ETF based on the NASDAQ-100 Index. We also generate revenues by licensing and listing third-party structured products and third-party sponsored ETFs. Our European Listing Services include companies listed on the Nordic Exchange and fees are directly related to the listed companies' market capitalization.

**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 information dissemination, and also offers facility management integration and advisory services. Revenues are derived from three primary sources: licensing, 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. 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 are derived from advisory services.

## [Table of Contents](#)

For further discussion of our segments, see Note 17, “Segments.” For further discussion of our revenue recognition policies, see “Revenue Recognition and Cost of Revenues,” of Note 2, “Summary of Significant Accounting Policies.”

## **2. Summary of Significant Accounting Policies**

### **Basis of Presentation and Principles of Consolidation**

As discussed in Note 3, “Business Combinations,” Nasdaq completed the business combination with OMX on February 27, 2008. The business combination between Nasdaq and OMX has been treated as a purchase business combination for accounting purposes, with Nasdaq treated as the acquirer. The condensed consolidated financial statements and accompanying notes included in this Form 10-Q include the financial results of the former OMX from the date of acquisition.

The condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, and 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, as defined in FIN 46(R), “Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (revised),” or where we have a controlling financial interest. 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 in accordance with Accounting Principles Board Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock,” or APB 18.

In accordance with APB 18, if financial statements of an investee are not sufficiently timely for an investor to apply the equity method of accounting currently, the investor ordinarily should record its share of the earnings or losses of an investee from the most recent available financial statements. A lag in reporting should be consistent from period to period. See Note 5, “Equity Method Investments,” for further discussion of our equity method investments.

We have condensed or omitted footnotes or other financial information that is normally included in annual financial statements prepared in accordance with U.S. GAAP, but is not required for interim reports. Certain prior year amounts have been reclassified to conform to the current year presentation.

### **Use of Estimates**

The preparation of 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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

### **Foreign Currency Translation**

In accordance with Statement of Financial Accounting Standards, or SFAS, No. 52, “Foreign Currency Translation,” or SFAS 52, foreign denominated assets and liabilities are remeasured into the functional currency at exchange rates in effect at the balance sheet date through the income statement. Gains or losses resulting from foreign currency transactions are included in net income.

Translation gains or losses resulting from translating our subsidiaries’ financial statements from the local functional currency to the reporting currency, net of tax, is included in stockholders’ equity. Assets and liabilities are generally translated at the balance sheet date while revenues and expenses are recorded at the date the transaction occurs or at an applicable average rate.

### **Cash and Cash Equivalents**

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. Cash equivalents are carried at cost plus accrued interest, which approximates fair value due to the short maturities of these investments. As of June 30, 2008 our cash and cash equivalents included \$43.3 million of restricted cash, which is not available for general use by us due to regulatory requirements.

### **Financial Investments**

Financial investments include debt and equity securities and are classified within both the trading and available-for-sale categories. Debt securities that are bought principally for regulatory purposes and which are generally sold in the near term are classified as trading investment securities. Trading investment securities are included in financial investments, at fair value in the Condensed Consolidated Balance Sheets and changes in fair value are included in investment income within other income (expense), net in the Condensed Consolidated Statements of Income. Long-term available-for-sale investment securities are carried at fair value in the Condensed Consolidated Balance Sheets in other assets with unrealized gains and losses, net of tax, reported as a separate

## [Table of Contents](#)

component of stockholders' equity. Our long-term available-for-sale securities at June 30, 2008 represent equity securities in other foreign stock exchanges. Realized gains and losses on these securities are included in earnings upon disposition of the securities using the specific identification method. In addition, realized losses are recognized when management determines that a decline in value is other-than-temporary, which requires judgment regarding the amount and timing of recovery. Indicators of other-than-temporary impairment for debt securities include issuer downgrade, default, or bankruptcy. We also consider the extent to which cost exceeds fair value, the duration of that difference and management's judgment about the issuer's current and prospective financial condition, as well as our intent and ability to hold the security until recovery of the unrealized losses.

Fair value of both available-for-sale and trading investment securities are generally obtained from third party pricing sources. When available, quoted market prices are used to determine fair value. If quoted market prices are not available, fair values are estimated using pricing models, where the inputs to those models are based on observable market inputs. The inputs to the valuation models vary by the type of security being priced but are typically benchmark yields, reported trades, broker dealer quotes, and prices of similar assets. Pricing models generally do not entail material subjectivity because the methodologies employed use inputs observed from active markets. See Note 12, "Fair Value of Financial Instruments," for further discussion of fair value measures.

### **Derivative Positions, at Fair Value**

As part of our clearing operations in the derivative markets, the Nordic Exchange is the legal counterparty for each derivative position traded on the Nordic Exchange. The derivatives are not used by the Nordic Exchange for the purpose of trading on their own behalf. As a legal counterparty of each transaction, the Nordic Exchange bears the counterparty risk. As such, the market value of the derivative positions are reported gross in the Condensed Consolidated Balance Sheets after netting by customer where right of offset exists. The derivatives positions are recorded at fair value using an internal valuation model that uses key observable market data inputs.

We have the responsibility for clearing, or settlement of payment, for the derivative and equity transactions. Certain timing differences may exist related to the periodic cash settlement of counterparty trades, between the Nordic Exchange, United Kingdom broker services and other clearinghouses and customers, where we are acting as intermediary and guaranteeing the fulfillment of each contract. We have recorded receivables and payables associated with such timing differences in other current assets and accounts payable and accrued expenses, respectively, in the Condensed Consolidated Balance Sheets.

### **Derivative Financial Instruments and Hedging Activities**

To the extent that we engage in any hedging activity, we account for our hedging activity in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," or SFAS 133. At June 30, 2008, we held no derivative financial instruments which were designated or which qualified for hedge accounting. If we have derivative financial instruments which are designated or qualify for hedge accounting, such derivatives would be recognized on the balance sheet at fair value as either assets or liabilities. The fair value of our derivative financial instruments would be determined using either market quotes or valuation models that are based upon the net present value of estimated future cash flows and incorporate current market data inputs. We would report our derivative assets in other current assets and our derivative liabilities in accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets. Any ineffectiveness would be recorded in earnings. The accounting for the change in the fair value of a derivative financial instrument depends on its intended use and the resulting hedge designation, if any. We also use derivatives as economic hedges that are not designed as accounting hedges or do not qualify for hedge accounting treatment. For further discussion of hedging activities, see below and Note 13, "Derivative Financial Instruments and Hedging Activities."

#### *Non-Designated Derivatives*

For derivative financial instruments that do not qualify for hedge accounting or are not designated as hedges, changes in fair value are reported in current period earnings, in other income (expense), net in the Condensed Consolidated Statements of Income.

#### *Derivative Financial Instruments that Qualify for Hedge Accounting*

Derivative financial instruments that are entered into for hedging purposes are designated as such when we enter into the contract. For all derivative financial instruments that are designated for hedging activities, we formally document all of the hedging relationships between the hedge instruments and the hedged items at the inception of the relationships. We also formally document our risk management objectives and strategies for entering into the hedge transactions. We formally assess, at inception and on a quarterly basis, whether derivatives designated as hedges are highly effective in offsetting the fair value or cash flows of hedged items. If it is determined that a derivative is no longer highly effective as a hedge, we will discontinue the application of hedge accounting.

**Receivables, net**

Our receivables are concentrated with our member firms, market data vendors, listed companies and market technology customers. Receivables are shown net of reserves for uncollectible accounts. The reserve for bad debts is maintained at a level that management believes to be sufficient to absorb estimated losses in the accounts receivable portfolio. The reserve is increased by the

## [Table of Contents](#)

provision for bad debts which is charged against operating results and decreased by the amount of charge-offs, net of recoveries. The amount charged against operating results is based on several factors including, but not limited to, a continuous assessment of the collectibility of each account, the length of time a receivable is past due and our historical experience with the particular customer. In circumstances where a specific customer's inability to meet its financial obligations is known (i.e., bankruptcy filings), we record a specific provision for bad debts against amounts due to reduce the receivable to the amount we reasonably believe will be collected. Due to changing economic, business and market conditions, we review the reserve for bad debts monthly and make changes to the reserve through the provision for bad debts as appropriate. If circumstances change (i.e., higher than expected defaults or an unexpected material adverse change in a major customer's ability to pay), our estimates of recoverability could be reduced by a material amount.

### **Property and Equipment, net**

Property and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are generally recognized over the estimated useful lives of the related assets. Estimated useful lives generally range from 10 to 40 years for buildings and improvements, two to five years for data processing equipment and software and five to 10 years for furniture and equipment. Leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining term of the related lease. Depreciation and amortization are computed by the straight-line method.

### **Goodwill**

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of a business acquired. In connection with SFAS No. 142, "Goodwill and Other Intangible Assets," or SFAS 142, we are required to test goodwill for impairment at the reporting unit level annually, or in interim periods if certain events occur indicating that the carrying value may be impaired. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill is less than the carrying value. There was no impairment of goodwill in the first six months of 2008 or 2007.

### **Intangible Assets, net**

Intangible assets, net, primarily include exchange registrations, customer relationships, trade names and technology. Intangible assets with finite lives are amortized on a straight-line basis over their estimated average useful lives as follows:

- Technology: 3 - 10 years
- Customer relationships: 7 - 28 years
- Other: 4.5 - 5 years

In connection with SFAS 142, intangible assets deemed to have indefinite useful lives are not amortized and are subject to annual impairment tests. Impairment exists if the carrying value of the indefinite-lived intangible asset exceeds its fair value. For finite lived intangible assets subject to amortization, impairment is considered upon certain "triggering events" and is recognized if the carrying amount is not recoverable and the carrying amount exceeds the fair value of the intangible asset. There was no impairment of indefinite-lived intangible assets in the first six months of 2008 or 2007.

### **Valuation of Long-Lived Assets**

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," or SFAS 144, we assess potential impairments to our long-lived assets, including finite lived intangible assets and property and equipment, when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. An impairment loss is recognized when the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Any required impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value and is recorded as a reduction in the carrying value of the related asset and a charge to operating results. There was no impairment recorded in the first six months of 2008 or 2007.

## [Table of Contents](#)

### **Revenue Recognition and Cost of Revenues**

#### **Market Services Revenues**

##### *Cash Equity Trading*

Cash equity trading revenues are variable, based on service volumes, and recognized as transactions occur. We charge transaction fees for executing cash equity trades in NASDAQ- and other listed securities on The NASDAQ Stock Market as well as on orders that are routed to other market venues for execution. We also charge transaction fees for executing cash equity trades on the Nordic Exchange (the Nordic Exchange includes the Danish, Finnish, Icelandic, Swedish and Baltic markets).

In the U.S., pursuant to Emerging Issues Task Force, or EITF, of the Financial Accounting Standards Board, or FASB, Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," or EITF 99-19, we record execution revenues from transactions on a gross basis in revenues and record related expenses such as liquidity rebate payments and execution costs as cost of revenues. All routed transactions are executed through Nasdaq Execution Services, LLC, which is registered with the SEC as a broker-dealer. Nasdaq Execution Services, as a broker-dealer, acts as principal to the transactions executed on our platform, which exposes Nasdaq Execution Services to clearance and settlement risk.

We also have execution risk on non-routed transactions that are conducted on our platform. Under our Limitation of Liability Rule, we, subject to certain caps, provide compensation for losses directly resulting from the systems' actual failure to correctly process an order, Quote/Order, message or other data into our platform. We do not record a liability for any potential claims that may be submitted under the Limitation of Liability Rule unless they meet the provisions of SFAS No. 5, "Accounting for Contingencies," or SFAS 5. As such, losses arising as a result of the rule are accrued and charged to expense only if the loss is probable and estimable. See our 2007 Annual Report on Form 10-K for further discussion of the Limitation of Liability Rule. The Limitation of Liability Rule applies to both equity and derivative trading in the aggregate. See discussion of derivative trading below.

We credit a portion of the per share execution charge to the market participant that provides the liquidity and records the liquidity rebate as a cost of revenues in the Condensed Consolidated Statements of Income. These liquidity rebates are paid on a monthly basis and the amounts due are included in accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets. The liquidity rebates payable amounts were \$41.0 million at June 30, 2008 and \$24.8 million at December 31, 2007.

We pay Section 31 fees to the SEC for supervision and regulation of securities markets. We pass these costs along to our customers through our cash equity trading revenues. We collect the fees as a pass-through charge from organizations executing eligible trades on the Exchange's exchange platform and we recognize these amounts in cost of revenues when invoiced. Section 31 fees received are included in cash and cash equivalents in the Condensed Consolidated Balance Sheets, at the time of receipt and, as required by law, the amount due to the SEC is remitted semiannually and recorded as Section 31 fees payable to SEC in the Condensed Consolidated Balance Sheets until paid. 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. As we hold the cash received until payment to the SEC, we earned interest income on the related cash balances.

##### *Derivative Trading*

Both U.S. derivative trading and European derivative trading revenues are also variable, based on service volumes, and recognized as transactions occur. We charge an integrated fee for both trading and clearing service. The principal types of derivative contracts traded are stock options and futures, index options and futures, fixed-income options and futures. In the U.S., in accordance with EITF 99-19, we also record derivative trading revenues from transactions on a gross basis in revenues and record related expenses such as liquidity rebate payments as cost of revenues, as we have certain risk associated with trade execution.

System trades in derivative contracts for the opening and closing cross and trades routed to other market centers for Exchange members are cleared by NASDAQ Options Services, LLC as a member of the Options Clearing Corporation, or OCC. Pursuant to the rules of the OCC and NASDAQ Options Services' clearing agreement, we act as principal to the transactions executed on our platform, which exposes NASDAQ Options Services to clearance and settlement risk. As discussed above, in the U.S., under our Limitation of Liability Rule, we, subject to certain caps, provide compensation for losses directly resulting from the systems' actual failure to correctly process an order, Quote/Order, message or other data into our platform. The Rule applies to both equity and derivative trading in the aggregate.

##### *Broker Services*

Revenues from broker services are based on a fixed basic fee for administration or licensing, maintenance and operations, and a variable portion that depends on the number of transactions completed. Broker Services revenues are recognized on a continuous basis as services are rendered.

*Market Data*

Both U.S. Market Data product revenues and European Market Data product revenues are primarily based on the number of distributors receiving information, the reported presentation devices in service and quotes delivered through those devices. Market Data revenues are recognized in the month the information is provided. These revenues are recorded net of amounts due under revenue sharing arrangements with market participants.

## [Table of Contents](#)

We earn Market Data revenues for U.S. tape revenue plans, U.S. market data products and European market data products. Revenues from U.S. tape revenue plans include eligible Unlisted Trading Privileges Plan, or UTP Plan, revenues which are shared among UTP Plan participants. U.S. market data products revenues include Level 2 revenues as well as revenues from TotalView, our flagship market depth quote product and other proprietary services and data feed products.

The most significant component of Market Data revenues presented on a net basis in accordance with EITF 99-19 is the UTP Plan revenue sharing in the U.S. All indicators of gross vs. net reporting pursuant to EITF 99-19 have been considered in analyzing the appropriate presentation of UTP Plan revenue sharing. However, the following are the primary indicators of net reporting:

- **Primary Obligor:** We are the Securities Information Processor for the UTP Plan, in addition to being a participant in the UTP Plan. In our unique role as Securities Information Processor, we only facilitate the collection and dissemination of revenues on behalf of the UTP Plan participants. As a participant, we share in the net distribution of revenues according to the plan on the same terms as all other plan participants.
- **Risk of Loss/Credit Risk:** Risk of loss on the revenue is shared equally among plan participants according to the UTP Plan.
- **Price Latitude:** The Operating Committee of the UTP Plan which is comprised of representatives from each of the participants, including us solely in our capacity as a UTP Plan participant, is responsible for setting the level of fees to be paid by vendors, subscribers and taking action in accordance with the provisions of the UTP Plan, subject to SEC approval.

Since the Nordic Exchange does not have any cost of revenues or revenue sharing agreements, such as liquidity rebates and brokerage, clearance and exchange fees, EITF 99-19 is not applicable.

## **Issuer Services Revenues**

### *Listing Services*

Listing Services revenues in the U.S. include annual renewal fees, listing of additional shares fees and initial listing fees. Annual renewal fees are recognized ratably over the following 12-month period. Listing of additional shares fees and initial listing fees are recognized on a straight-line basis over estimated service periods, which are four and six years, respectively, based on our historical listing experience, pursuant to the requirements of SAB Topic 13. European listing fees, which are comprised of issuers' revenues derived from annual fees received from listed companies on the Nordic Exchange, are directly related to the listed companies' market capitalization. These revenues are recognized ratably over the following 12-month period.

Listing Services revenues also include fees from Corporate services which include commission income from Carpenter Moore, subscription income from Shareholder.com and Directors Desk and fees from PrimeNewswire. For our insurance business, commission income is recognized when coverage becomes effective, the premium due under the policy is known or can be reasonably estimated, and substantially all required services related to placing the insurance have been provided. Fee income for services other than placement of insurance coverage is recognized as those services are provided. Broker commission adjustments and commissions on premiums billed directly by underwriters are recognized when such amounts can be reasonably estimated. Shareholder.com revenues are based on subscription agreements with customers. Revenues from subscription agreements are recognized ratably over the contract period, generally one year in length. As part of subscription services, customers are also charged usage fees based upon actual usage of the services provided. Revenues from usage fees and other services are recognized when earned. PrimeNewswire generates fees primarily from wire distribution services, and revenues are recognized as services are provided. Directors Desk revenues are based on subscriptions for online services for directors. Subscriptions are one year in length and revenues are recognized ratably over the year.

### *Financial Products*

Financial Products revenues include license fees for our trademark licenses related to financial products linked to our indexes issued in the United States and abroad. We primarily have two types of license agreements: transaction-based licenses and asset-based licenses. Transaction-based licenses are generally renewable long-term agreements. Customers are charged based on transaction volume or a minimum contract amount, or both. If a customer is charged based on transaction volume, we recognize revenue when the transaction occurs. If a customer is charged based on a minimum contract amount, we recognize revenue on a pro-rata basis over the licensing term. Asset-based licenses are also generally long-term agreements. Customers are charged based on a percentage of assets under management for licensed products, per the agreement, on a monthly or quarterly basis. These revenues are recorded on a monthly or quarterly basis over the term of the license agreement.

In addition, the Financial Products business has expanded to include the development, administration and licensing of OMX indexes.

## [Table of Contents](#)

### **Market Technology Revenues**

The Market Technology segment delivers technology and services to marketplaces throughout the world. Market Technology provides technology solutions for trading, clearing and settlement information dissemination and also offers facility management integration and advisory services. Revenues are derived from three primary sources: licensing, support and project revenues, facility management services revenues and other revenues. Revenues related to Market Technology are accounted for in accordance with Statement of Position, or SOP, 97-2, "Software Revenue Recognition," or SOP 97-2, and SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," or SOP 81-1, depending upon the terms of the Market Technology contracts.

We may customize our software technology and make significant modifications to the software to meet the needs of our customers. As such, we account for our Market Technology contracts under the completed contract method pursuant to the provisions of SOP 81-1. Under the completed contract method total revenue and costs incurred for a customer under a customer contract is deferred and recognized over the total customer service period.

We enter in sales arrangements with customers for software programs, support and other post-contract services. SOP 97-2 sets out precise requirements for establishing Vendor Specific Objective Evidence, or VSOE, for valuing elements of certain multiple-element arrangements. When VSOE for individual elements of an arrangement cannot be established in accordance with SOP 97-2, revenue is generally deferred and recognized over the term of the final element. We do not have VSOE for certain elements of certain multiple-element arrangements with customers. Therefore, as stated above, total revenue and costs incurred for a customer under a customer contract is deferred and recognized over the total customer service period after the significant modifications have been completed.

### **Earnings Per Share**

We compute earnings per share, or EPS, in accordance with SFAS No. 128, "Earnings per Share," or SFAS 128. Basic EPS is computed by dividing net income applicable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive securities which consists primarily of convertible notes, warrants and employee stock options and awards. See Note 11, "Earnings Per Common Share," for further discussion.

### **Share-Based Compensation**

We account for share-based compensation in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment," or SFAS 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees including employee stock options, restricted stock and certain employee stock purchase plans, based on estimated fair values. We recognize compensation expense for share-based awards on a straight-line basis over the requisite service period of the award. See Note 10, "Share-Based Compensation," for further discussion.

### **Deferred Revenue**

Deferred revenue represents revenues for services not yet rendered, primarily for Listing Services and Market Technology. See Note 7, "Deferred Revenue," for further discussion.

### **Advertising Costs**

We expense advertising costs, which include media advertising and production costs, in the periods in which the costs are incurred.

### **Software Costs**

Significant purchased application software and operational software that are an integral part of computer hardware are capitalized and amortized on a straight-line basis over their estimated useful lives, generally two to five years. All other purchased software is charged to expense as incurred.

We develop systems solutions for both internal and external use. The provisions of SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," or SOP 98-1, require certain costs incurred in connection with developing or obtaining internal use software to be capitalized. Unamortized capitalized software development costs are included in data processing equipment and software, within property and equipment, net in the Condensed Consolidated Balance Sheets. Amortization of costs capitalized under SOP 98-1 is included in depreciation and amortization expense in the Condensed Consolidated Statements of Income.

## [Table of Contents](#)

The provisions of SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," or SFAS 86, which apply to our Market Technology segment, specifies the accounting for the costs of computer software to be sold, leased, or otherwise marketed as a separate product or as part of a product or process. In accordance with SFAS 86, software development expenses are capitalized after the product has reached technological feasibility. Technological feasibility is established upon completion of a detail program design or, in its absence, completion. Thereafter, all software production costs shall be capitalized. Prior to reaching technological feasibility, all costs are charged to expense. Capitalized costs are amortized on a straight-line basis over the remaining estimated economic life of the product and are included in depreciation and amortization expense in the Condensed Consolidated Statements of Income.

### **Leases**

We expense rent from non-cancellable operating leases, net of sublease income, in the periods in which the costs are incurred. The net costs are included in occupancy expense in the Condensed Consolidated Statements of Income.

### **Income Taxes**

We use the asset and liability method required by SFAS No. 109, "Accounting for Income Taxes," or SFAS 109, to provide income taxes on all transactions recorded in the consolidated financial statements. Deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (i.e., temporary differences) and are measured at the enacted rates that will be in effect when these differences are realized. If necessary, a valuation allowance is established to reduce deferred tax assets to the amount that is more likely than not to be realized.

We recognize and measure our unrecognized tax benefits in accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," or FIN 48. FIN 48 requires management to determine 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.

### **Recent Accounting Pronouncements**

**SFAS No. 157**—As of January 1, 2008, we adopted on a prospective basis certain required provisions of SFAS No. 157, "Fair Value Measurements," or SFAS 157, as amended by FASB Financial Staff Position, or FSP, No. 157-2, "Effective Date of FASB Statement No. 157," or FSP 157-2. Those provisions relate to our financial assets and liabilities carried at fair value and our fair value disclosures related to financial assets and liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As such, our financial assets and financial liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS 157. See Note 12, "Fair Value of Financial Instruments," for further discussion. The adoption of SFAS 157 did not have a significant impact on our consolidated financial statements. We did not elect to adopt SFAS 157 for acquired non-financial assets and assumed non-financial liabilities.

**SFAS No. 159**—In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," or SFAS 159. SFAS 159 allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities at fair value ("the fair value option"). SFAS 159 is expected to expand the use of fair value accounting but does not affect existing standards which require certain assets or liabilities to be carried at fair value. SFAS 159 provides an option for most financial assets and liabilities to be reported at fair value on an instrument-by-instrument basis with changes in fair value reported in earnings. After the initial adoption, the election is made at the acquisition of a financial asset, financial liability, or a firm commitment and it may not be revoked. SFAS 159 provides an opportunity to mitigate volatility in reported earnings that was caused by measuring hedged assets and liabilities that were previously required to use an accounting method other than fair value, while the related economic hedges were reported at fair value. SFAS 159 was effective for us on January 1, 2008. We have considered the fair value option and decided to not elect the option upon adoption. We will continue to consider the fair value option upon acquiring assets and liabilities that would fall under this option and may elect it in future periods.

## **3. Business Combinations**

### **Business Combination with OMX**

On February 27, 2008, Nasdaq and OMX combined their businesses. The business combination was completed pursuant to the terms of an agreement with Borse Dubai Limited, a Dubai company, or Borse Dubai, dated November 15, 2007. Pursuant to that agreement, Borse Dubai conducted an offer to acquire all of the outstanding shares of OMX and subsequently, on February 27, 2008, sold the OMX shares acquired in the offer or otherwise owned by Borse Dubai or its subsidiaries to Nasdaq. Nasdaq acquired 117,227,931 shares of OMX, representing 97.0% of the share capital of OMX, for SEK 11,678,630,352 (\$1.9 billion) in cash and 60,561,515 shares of Nasdaq common stock issued to Borse Dubai and a trust, or the Trust, for Borse Dubai's economic benefit. Subsequently, Borse Dubai acquired an additional 2,013,350 shares of OMX and, on March 17, 2008, sold those shares to Nasdaq in

## Table of Contents

exchange for SEK 533,537,750 (\$0.1 billion) in cash, as a result of which we now own 98.8% of OMX's outstanding shares. The cash component of the purchase price for OMX was financed through cash on hand, our new credit facilities and the issuance of 2.50% convertible senior notes. See Note 8, "Debt Obligations," for further discussion.

At the closing of the transaction, Borse Dubai was issued shares of Nasdaq common stock representing 19.99% of our fully diluted outstanding share capital (approximately 42.9 million shares), and the balance (approximately 17.7 million shares) were issued to the Trust to be held for Borse Dubai's economic benefit until disposed of by the Trust.

Through compulsory acquisition procedures, NASDAQ OMX intends to acquire 100% of the OMX shares outstanding and not held by NASDAQ OMX. It is not currently known when the proceedings will be complete and when NASDAQ OMX will be able to acquire the OMX shares that are the subject of the proceedings. We anticipate that the additional purchase price for the shares to be acquired through compulsory acquisition procedures shall not exceed \$72.0 million.

As part of the business combination with OMX, on February 27, 2008, Nasdaq 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 to DIFX and the entry into certain technology and trademark licensing agreements. We also are responsible, under an agreement with Borse Dubai and DIFX, for 50% of any additional capital contribution calls made by DIFX, subject to a maximum aggregate additional commitment by us of \$25 million. We account for our investment in DIFX under the equity method of accounting in accordance with APB 18.

The business combination of Nasdaq and OMX and the acquisition of the equity interest in DIFX are collectively referred to as the "Transactions."

The financial results of OMX are included in the consolidated results of NASDAQ OMX beginning on February 27, 2008.

### **Minority Interest in OMX**

Since NASDAQ OMX owned 98.8% of the outstanding shares of OMX at June 30, 2008, we recorded minority interest of \$0.7 million for the three months ended June 30, 2008 and \$0.9 million for the six months ended June 30, 2008 in the Condensed Consolidated Statements of Income, representing 1.2% of OMX's net income for each applicable period. In addition, we recorded \$8.9 million of minority interest in the Condensed Consolidated Balance Sheets representing minority interest of 1.2% of OMX as of June 30, 2008.

### **Purchase Price**

The following is a summary of the purchase price in the OMX business combination (in millions):

Equity component	\$2,266.8(a)
Cash component	1,967.8(b)
Acquisition costs	63.8(c)
Acquisition-related transaction costs	11.0(d)
Total purchase consideration	<u>\$4,309.4</u>

- (a) Based on the closing price of Nasdaq common stock of \$37.43 on September 26, 2007, which was the date of the original purchase agreement with Borse Dubai, multiplied by 60,561,515 shares of Nasdaq common stock. We recorded \$0.6 million to common stock, which represents our \$0.01 par value and the remaining \$2,266.2 million was recorded to additional paid in capital in the Condensed Consolidated Balance Sheets in the first quarter of 2008.
- (b) Based on the cash consideration of SEK 11,678,630,352 paid on February 27, 2008 divided by the SEK/USD exchange rate of 6.2140 on February 26, 2008 for the initial share purchase and SEK 533,537,750 paid on March 17, 2008 divided by the SEK/USD exchange rate of 6.0343 on March 14, 2008 for the OMX shares acquired in the extended offer period. Sources of the cash component are as follows:
- (i) Issuance of 2.50% convertible senior notes due August 15, 2013 for proceeds of \$475.0 million;
  - (ii) Draw down of debt of \$1,050.0 million under a five-year \$2,000.0 million senior secured term loan facility; and
  - (iii) The use of \$442.8 million of cash on hand.

See Note 8, "Debt Obligations," for further discussion on the issuance of the 2.50% convertible senior notes and the draw down on the senior secured term loan facility.

- (c) Management's direct costs of the acquisition, which include legal and advisory fees incurred by Nasdaq and OMX. Nasdaq and OMX have signed an agreement where Nasdaq will reimburse OMX for direct costs of the business combination. These costs were funded with cash on hand.

## Table of Contents

- (d) Under OMX's Share Match Programs, OMX made grants of matching share awards under the Share Match Program for 2006 in April 2006 and had planned to make similar grants under the Share Match Program for 2007. However, as a result of Nasdaq's offer to acquire OMX, OMX postponed making such grants. OMX had not granted stock options to employees since 2002. Under the Nasdaq OMX transaction agreement, dated as of May 25, 2007, between Nasdaq and OMX, as modified by the supplement dated September 20, 2007 and a clarifying letter dated January 2, 2008, referred to as the Nasdaq OMX Transaction Agreement, awards granted under the Share Match Program for 2006 will vest on a pro rata basis in accordance with the Nasdaq OMX Transaction Agreement, and have subsequently been cancelled as of the completion of the Transactions. Participants have received cash consideration for cancellation of such awards, as well as consideration for the grants that would have been made under the Share Match Program for 2007, in accordance with the Nasdaq OMX Transaction Agreement. The total cash consideration for the Share Match Programs totaled \$11.0 million, which is the fair value of the awards at the time of the business combination and which includes the effect of any swap arrangements that were not material. The 2006 Share Match Program totaled approximately \$4.5 million and was calculated by multiplying the number of shares in the 2006 Share Match Program by the share price of SEK 265.0 and adding withholdings. The total cash consideration for the 2007 Share Match Program totaled approximately \$6.5 million, which as stated above was consideration for the grants that would have been made under the 2007 Share Match Program. These costs were funded with cash on hand.

The above purchase price has been preliminarily allocated based on an estimate of the fair value of OMX's assets acquired and liabilities assumed. In addition, we have begun to finalize our plan to integrate certain activities related to our business combination with OMX. We are still gathering information to make final decisions regarding the optimal organization of the combined company, from which additional adjustments and refinements to our plan will arise. As such, additional adjustments to the OMX purchase price allocation will be recorded as we finalize restructuring costs associated with integration activities of the combined company in accordance with the requirements of EITF No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," or EITF 95-3. Upon completion of the organizational analysis and the approval of appropriate management, our plan will be finalized. The future adjustments, whether increasing or decreasing our plan's total value, will impact goodwill and accounts payable and accrued liabilities. We expect our plan to be finalized during the one year allocation period. We are completing our plan under the provisions of EITF 95-3. See Note 4, "Goodwill and Purchased Intangible Assets," for a summary of additional adjustments to the OMX purchase price as of June 30, 2008. All other restructuring liabilities outside the scope of EITF 95-3 will be recognized in the income statement when those costs have been incurred in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The final valuation of net assets will be completed as soon as possible but no later than one year from the acquisition date. To the extent that the estimates need to be adjusted, we will do so, but no later than one year after closing in accordance with SFAS No. 141, "Business Combinations," or SFAS 141.

The following table presents a summary of the preliminary OMX purchase price allocation, which was revised to reflect changes in the fair value of certain purchased intangible assets:

	<u>Purchase Consideration</u>	<u>Total Net Assets (Liabilities) Acquired <sup>(1)</sup></u>	<u>Purchased Intangible Assets</u>	<u>Goodwill</u>
		(in millions)		
Initial purchase price allocation	\$ 4,309.4	\$ (669.9)	\$ 2,041.4	\$2,937.9
Change in fair value of purchased intangible assets	—	64.7	(163.6) <sup>(2)</sup>	98.9 <sup>(2)</sup>
Revised purchase price allocation	<u>\$ 4,309.4</u>	<u>\$ (605.2)</u>	<u>\$ 1,877.8</u>	<u>\$3,036.8</u>

(1) We acquired net assets, at fair value, of OMX totaling \$137.5 million and recorded current deferred tax liabilities of \$18.4 million and non-current deferred tax liabilities of \$789.0 million related to OMX's intangible assets resulting in total net liabilities acquired of \$669.9 million. Included in the net liabilities acquired are \$22.8 million for sublease loss reserves related to OMX real estate that we do not intend to occupy as well as \$3.8 million for severance costs. Based on revised fair values of certain purchased intangible assets (see footnote (2) below), current deferred tax liabilities decreased \$6.6 million to \$11.8 million and non-current deferred tax liabilities decreased \$58.1 million to \$730.9 million, resulting in a total decrease of \$64.7 million and a decrease in net liabilities acquired from \$669.9 million to \$605.2 million.

(2) As we finalize the factors and assumptions that we obtained to determine the purchase price allocation, the fair values of certain purchased intangible assets were adjusted resulting in a decrease of \$163.6 million as of June 30, 2008. The adjusted fair value of purchased intangible assets is \$1,877.8 million. Based on the adjusted fair values, current and non-current deferred tax liabilities decreased \$64.7 million (see footnote (1) above) and goodwill increased \$98.9 million. As discussed above, we have not finalized the allocation of the purchase price related to the OMX business combination and expect there to be further adjustments to goodwill within one year from the purchase date.

## [Table of Contents](#)

In performing the preliminary purchase price allocation, Nasdaq considered, among other factors, the intention for the future use of the acquired assets, analyses of historical financial performance, and an estimate of the future performance of OMX's business. The preliminary estimate of the fair values of intangible assets is based, in part, on a valuation using an income or cost approach, as appropriate. The risk-adjusted discount rates used to compute the present value of the expected net cash flows of individual intangible assets were based on OMX's weighted average cost of capital, which ranged from 7.8% to 9.6%. These discount rates were determined after consideration of OMX's rate of return on debt and equity and the weighted-average return on invested capital. In estimating the remaining useful lives of the intangible assets, we considered the six factors presented in paragraph 11 of SFAS 142 and an analysis of the intangible assets' relevant historical attrition data.

### **Intangible Assets**

The following table presents the details of the purchased intangible assets acquired in the OMX business combination. All purchased intangible assets are amortized using the straight-line method. See Note 4, "Goodwill and Purchased Intangible Assets," for further discussion.

	<u>Increase in Value</u>	<u>Estimated Average Remaining Useful Life (in Years)</u>
Equity method investment	\$ 74.7 (i)	
	<u>Value</u>	
Intangible assets:		
Exchange and clearing registrations	1,143.7	Indefinite
Trade name	195.7	Indefinite
Customer relationships:		
Market and Issuer services	439.9	22-28
Market Technology	65.3	22-26
Total customer relationships	<u>505.2</u>	
Market technology:		
Developed	28.7	3
New	4.5	10
Total market technology	<u>33.2</u>	
Total intangible assets	<u>1,877.8 (ii)</u>	
Total assets	<u>\$1,952.5 (i)+(ii)</u>	

Below is a discussion of the methods used to determine the fair value of OMX's intangible assets and equity method investment, as well as a discussion of the estimated average remaining useful life of each intangible asset. The carrying value of all other assets and liabilities was deemed to approximate their estimated fair value.

### **Equity Investment**

As of February 27, 2008, OMX owned approximately 3.8 million shares of Orc Software AB, a company publicly traded on the OMX Nordic Exchange in Stockholm. The value of this investment is based on the daily closing price as reported on the OMX Nordic Exchange in Stockholm. As of February 27, 2008, the book value of the Orc Software shares was \$14.0 million and the fair value was \$88.7 million, constituting additional fair value of \$74.7 million.

### **Exchange and Clearing Registrations**

The exchange and clearing registrations represent licenses that provide OMX with the ability to operate its equity and derivative exchanges as well as the clearing function. Nasdaq views these intangible assets as a perpetual license to operate the exchanges so long as OMX meets its regulatory requirements. Nasdaq selected a variation of the income approach called the Greenfield Approach to value the exchange and clearing registrations. The Greenfield Approach refers to a discounted cash flow analysis that assumes the buyer is building the exchange and clearing operations from a start-up business to a normalized level of operations as of the acquisition date. This discounted cash flow model considers the required resources and eventual returns from the build-out of operational exchanges and the acquisition of customers, once the exchange and clearing registrations are obtained. The advantage of the approach is that it reflects the actual expectations that will arise from an investment in the registrations and it directly values the registrations. The Greenfield Approach relies on assumptions regarding projected revenues, margins, capital expenditures, depreciation, and working capital during the two year pre-trade phase, the 10 year ramp-up period as well as the terminal period.

## [Table of Contents](#)

A steady state projection for OMX was established first. The projection included synergies that a market participant buyer could realize. Since OMX has a strong market position, Nasdaq assumed that the projected revenues represent nearly 100.0% of the potential market until 2019, and that a market participant would be able to achieve 90.0% of the market within the 12 year ramp-up period. A terminal growth rate of 4.0% was chosen as a reasonable estimate of the growth rate of the stock exchange industry on a long-term basis. A steady state projection was used starting in year 12 based on the assumption that a stock exchange can expect to reach normalized operations at this time.

Nasdaq characterized the costs into fixed costs, variable costs, and technology costs. Annual fixed costs remained constant throughout the projection at approximately \$135.8 million, which represents 50.0% of normalized costs. The remaining 50.0% of the costs were variable costs, which were estimated as a proportion to the revenue. It was estimated that OMX would have to incur approximately \$200.0 million in upfront technology to start the exchanges, and ongoing maintenance technology costs would be equal to 15.0% of revenues thereafter.

The initial capital expenditures in years one and two reflect the costs associated with obtaining the fixed assets and the minimal regulatory fees required to start exchanges. Subsequent annual capital expenditures and depreciation were estimated at 6.1% of the revenue, assuming that maintenance capital expenditures are required to replace the depreciated fixed assets. Nasdaq also assumed that the exchanges would require \$100.0 million of initial clearing capital which would increase to \$300.0 million by the time the exchange reached normalized operations.

Based on historical working capital levels and a review of working capital for comparable companies operating in the industry, working capital for a typical market participant, as a percentage of incremental revenue, is projected to be approximately 12.5%.

The cash flows were then tax-effected at a rate of 25.0%, and a discounted tax amortization benefit was added to the fair value of the asset under the assumption that the exchange registrations would be amortized for tax purposes over a period of seven years.

An indefinite life was assumed for these registrations as the exchanges have operated, in some cases, for more than 140 years and the authorization to operate these exchanges is perpetual so long as OMX meets its regulatory requirements. Furthermore, since no legal, contractual, competitive, economic, or other factors limit the useful life of these intangible assets, Nasdaq considered the useful life of the exchange and clearing registrations to be indefinite. As noted above, we assessed the factors listed in paragraph 11 of SFAS 142 in making this indefinite life determination.

The fair value of the exchange registrations was determined to be approximately \$1,143.7 million.

### **Trade Name**

Nasdaq has incorporated OMX into three reporting segments—Issuer Services, Market Services, and Market Technology. The OMX trade name was valued as used in each of these reporting segments. The trade name represents the value of the market recognition of quality service that OMX and its predecessor entities have developed in their 140 years of operation. In valuing the acquired trade names, we used the income approach, specifically the relief from royalty approach, relying on publicly available information to determine the royalty rate that OMX would have to pay a third-party for the use of the trade name. This valuation methodology is based on the concept that because OMX owns the trade name, it does not have to pay a third-party for the right to use the trade name.

Nasdaq researched public documents and accessed the Royalty Source database for license agreements involving similar trade names in the financial services and technology industries. The guideline sample of license agreements yielded a range of royalty rates extending from 0.5% to 2.0% for financial services and technology companies. Based on the margins of the reporting segments, Nasdaq estimated the royalty rates to be 2.0% for Issuer Services, 2.0% for Market Services, and 0.5% for Market Technology.

The cash flows were then tax-effected at a rate of 25.0%, and a discounted tax amortization benefit was added to the fair value of the asset under the assumption that the trade name would be amortized for tax purposes over a period of seven years for Issuer Services and Market Services and five years for Market Technology.

The following is a summary of the indicated fair value for the trade name asset:

	<u>Issuer Services</u>	<u>Market Services</u>	<u>Market Technology</u>	<u>Total</u>
			(in millions)	
Sum of discounted cash flows	\$ 17.8	\$126.3	\$ 15.0	\$159.1
Discounted tax amortization benefit	4.1	28.6	3.9	36.6
Indicated fair value	<u>\$ 21.9</u>	<u>\$154.9</u>	<u>\$ 18.9</u>	<u>\$195.7</u>

## [Table of Contents](#)

### Customer Relationships

Customer relationships represent the non-contractual and contractual relationships that OMX has with issuers, traders, information vendors, and technology customers. OMX's customer relationships were valued using the income approach, specifically an excess earnings method. This valuation approach relied on assumptions regarding projected revenues, attrition rates, and operating cash flows for each customer type, which were projected up to 45 years.

The following chart depicts OMX's primary revenue streams and how the 2008 revenues were divided amongst the three customer relationship intangible assets:

	<u>Issuer Services</u>	<u>Market Services</u>	<u>Market Technology</u> (in millions)	<u>Unallocated</u>
<b><u>The Nordic Exchange</u></b>				
Trading revenues		100%		
Issuers' revenues	100%			
Other revenues				100%
<b><u>Information Services</u></b>				
Information sales		100%		
Revenues from Baltic Markets		100%		
Revenues from Broker Services		100%		
Other revenues				100%
<b><u>Market Technology</u></b>				
License, support, and project revenues			75%	25%
Facility management services revenues			75%	25%
Other revenues				100%

For operating income, Nasdaq assumed that the weighted-average growth for existing customers was 20.0% for each reporting segment. Nasdaq also adjusted for synergies that would be available to the typical market participant, as well as the cost savings, assumed to be 2.0% of revenue, related to servicing an existing customer base versus a future revenue base.

Nasdaq assumed annual revenue attrition of 5.0% for the customers for all reporting segments, as well as charges for contributory assets. The tax-effected cash flows were discounted at a rate of 9.6%, 10.1%, and 8.0% for Issuer Services, Market Services, and Market Technology, respectively.

The cash flows were then tax-effected at a rate of 25.0%, and a discounted tax amortization benefit was added to the fair value of the asset under the assumption that the customer relationships would be amortized for tax purposes over a period of seven years for Issuer and Market Services and five years for Market Technology.

The following is a summary of the indicated fair value for the customer relationship assets:

	<u>Issuer Services</u>	<u>Market Services</u>	<u>Market Technology</u>	<u>Total</u>
	(in millions)			
Sum of discounted cash flows	\$ 103.3	\$ 256.4	\$ 51.7	\$ 411.4
Discounted tax amortization benefit	23.3	56.9	13.6	93.8
Indicated fair value	<u>\$ 126.6</u>	<u>\$ 313.3</u>	<u>\$ 65.3</u>	<u>\$ 505.2</u>

The estimated remaining useful life captures 90.0% to 95.0% of the present value of the cash flows generated by each customer relationship. The remaining useful life was determined based on an analysis of the historical attrition rates of OMX customers and paragraph 11 of SFAS 142, which included an analysis of the legal, regulatory, contractual, competitive, economic, or other factors that limit the useful life of this intangible asset. The useful life is addressed in the section below, which discusses the assessment of the lives of the customer relationships and market technology.

### Technology – Licensed to Third Parties

Nasdaq acquired two types of technology from OMX, developed and new. The developed technology represents the existing portfolio of software technologies that OMX had developed or acquired. These software technologies are licensed to more than 60 external unrelated customers and are also currently used internally by OMX. The new technology includes Genium. Our future technology platform is an ongoing effort as we further evaluate both Nasdaq and OMX technologies. NASDAQ OMX has refocused

## [Table of Contents](#)

the development of Genium to combine our INET (Nasdaq's current trading platform) and CLICK technologies with the original Genium concepts and components. Ongoing Genium development will predominately incorporate our core INET functionality, including order routing that will be deployed in the new NASDAQ OMX Pan-European Market. See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Current Business Developments," for further discussion on the new Pan-European Market. We will develop new integrated trading and clearing functions based on CLICK and SECUR, and the Genium platform will include Genium Market Info, our information dissemination solution. The Nordic Exchange will begin the migration to the Genium platform in 2010. The fair values of the technologies licensed to third parties were computed using the income approach, specifically the excess earnings approach. This valuation approach relied on assumptions regarding projected revenues, operating cash flows and core technology charges for each technology, which were projected over three years for developed technology and over 10 years for new technology.

The technology revenue streams include 75.0% of license, support, and project revenues and facility management services revenues. Nasdaq assumed that certain customers will gradually start migrating from the existing technology to Genium starting in 2010 and will be almost fully migrated to Genium by 2014.

The projected margins for the technology business are consistent with the overall Market Technology business but are adjusted for research and development, or R&D, costs spent on each technology. Nasdaq assumed that for developed technology, 2.0% of the overall expenses were related to R&D associated with developed technology, and that for new technology, 10.0% of the overall expenses were related to R&D associated with developed technology.

A contributory asset charge for the use of other assets was deducted from the after-tax operating income yielding the excess earnings generated by the technologies, which were discounted at a rate of 8.0% for developed and new technologies.

The cash flows were then tax-effected at a rate of 25.0%, and a discounted tax amortization benefit was added to the fair value of the asset under the assumption that the technology would be amortized for tax purposes over a period of five years.

The fair value of the new technology was adjusted for the INET components that Nasdaq and OMX are incorporating into Genium, which represented approximately 96.0% of value.

The following is a summary of the indicated fair value for the technology asset:

	<b>Developed Technology</b>	<b>New Technology</b>
	(in millions)	
Sum of discounted cash flows	\$ 0.5	\$ 36.7
Discounted tax amortization benefit	0.1	9.6
Indicated fair value	0.6	46.3
Value Adjustment for Nasdaq and OMX	—	(44.7)
Indicated fair value	<u>\$ 0.6</u>	<u>\$ 1.6</u>

The estimated useful life of the developed and new technology was based on discussions with OMX management as to the likely duration of benefit to be derived from the technology. Nasdaq considered such factors as the migration cycle from the existing technology to Genium, the estimated research and development costs, and the development of future generations of technology. Nasdaq also gave consideration to paragraph 11 of SFAS 142 and to the pace of the technological changes in the industries in which OMX sells its products.

### **Technology – Internal Use**

The fair values of the internally used technology were valued using the income approach, specifically the relief from royalty approach, relying on publicly available information to determine the royalty rate that OMX would have to pay a third-party for the use of the technologies. This valuation methodology is based on the concept that because OMX owns the technologies it does not have to pay a third-party for the right to license the technology.

Nasdaq researched public documents and accessed the Royalty Source database for license agreements involving similar trade names in the financial services and technology industries. The guideline sample of license agreements yielded a range of royalty rates extending from 0.25% to 40.0% for financial services technologies. Based on the functionality of the technologies, Nasdaq estimated the royalty rates to be 5.0% for the developed and new technology.

The cash flows were then tax-effected at a rate of 25.0%, and a discounted tax amortization benefit was added to the fair value of the asset under the assumption that the technologies would be amortized for tax purposes over a period of seven years.

## [Table of Contents](#)

The fair value of the new technology was adjusted for the INET components that Nasdaq and OMX are incorporating into Genium, which represented approximately 96.0% of value.

The following is a summary of the indicated fair value for the internally licensed existing and new technologies:

	<b>Developed Technology</b>	<b>New Technology</b>
	(in millions)	
Sum of discounted cash flows	\$ 22.9	\$ 66.4
Discounted tax amortization benefit	5.2	15.0
Indicated fair value	28.1	81.4
Value Adjustment for Nasdaq and OMX	—	(78.5)
Indicated fair value	<u>\$ 28.1</u>	<u>\$ 2.9</u>

### **Customer Relationships and Market Technology Lives**

The following summarizes the methodologies and assumptions Nasdaq used to estimate the remaining economic lives of the customer relationships and market technology.

a. *The expected use of the asset by the entity*—As previously discussed, the existing technology will be partially replaced by the Genium technology over the next 6 years. In addition, the existing technology and Genium technology will be obsolete after three and 10 years, respectively. The determination of the useful life of Genium was based on the historical development and life cycles of existing technology products within Nasdaq and OMX.

b. *The expected useful life of another asset or group of assets to which the useful life of the intangible asset may relate*—The useful lives of the technology and customer relationship assets are not significantly impacted by any other asset or group of assets. The life of the customer relationships varies depending on the customers. The issuers generally have a 22 to 28 year life, the traders/information vendors have a 22 to 28 year life, and the market technology customers have a 22 to 26 year life. For technology, the existing technology has a three year life whereas Genium has a 10 year life.

c. *Any legal, regulatory or contractual provisions that may limit the useful life*—We are not aware of any.

d. *Any legal, regulatory or contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost*—The market technology customers enter into license and facilities management contracts with a duration of three to 10 years. Such contracts are generally renewed at least once with minimal cost. The useful life of 22 to 26 years was selected based on the fact that many contracts are renewed more than one time, and a majority of the contracts have terms in the eight to 10 year range. We are not aware of any other legal, regulatory, or contractual provisions that may impact the lives of the customer relationships and market technology.

e. *The effects of obsolescence, demand, competition, and other economic factors*—Genium will be introduced both internally and externally beginning in 2010. The existing technology would become obsolete in approximately three years. In addition, Genium would become obsolete in approximately ten years should OMX not invest in upgrades and improvements. The life cycles were based on the historical development and life cycles of existing software products within Nasdaq and OMX.

With respect to the customer relationships, the issuers are generally loyal to their home country and, as such, list on the local exchanges. Most delistings relate to mergers or acquisitions rather than competition. However, within Europe, there has been increased competition with respect to the trading business, resulting in higher attrition rates for the listing/information vendor business. Finally, for the market technology customers, OMX faced competition from exchanges that choose to develop their own exchange technologies. The present competition does not have a large impact on the life cycle as customers typically return due to better pricing options and the high cost of changing providers.

f. *The level of maintenance expenditures required to obtain the expected future cash flows from the asset*. OMX expects to incur research and development expenses to maintain its technology. With respect to the customer relationships, OMX incurs sales and marketing expenses to maintain the current customers. Nasdaq believes that historically the research and development and sales and marketing expenses have maintained the quality of its products and services, thus contributing to a longer life.

### **Deferred Tax Liability**

An \$11.8 million current deferred tax liability and a \$730.9 million non-current deferred tax liability (total deferred tax liability of \$742.7 million) has been set up against the \$1,952.5 million increase in value of OMX's assets outlined in the table under intangible assets above. The deferred tax liabilities represent the tax effect of the difference between the estimated assigned fair value of the acquired intangible assets (\$1,877.8 million) and the tax basis (\$0) of such assets. The estimated amount of \$742.7 million is determined by multiplying the difference of \$1,877.8 million by the U.S. marginal tax rate of 39.55%.

## [Table of Contents](#)

### **Equity Investment in DIFX**

As discussed above, we also acquired 33 1/3% of the equity of DIFX in exchange for \$50 million of cash consideration and the entry into certain technology and trademark licensing agreements. These agreements are intended to be nontransferable and perpetual, subject to various exceptions. The agreements grant to DIFX and/or its affiliates rights to use or sublicense certain intellectual property (including, in some instances, on an exclusive basis). We will also be responsible for 50.0% of any additional capital contribution calls made by DIFX, subject to a maximum aggregate additional commitment by us of \$25.0 million.

Included in the Condensed Consolidated Balance Sheet is our equity method investment in DIFX, for approximately \$128 million. Our investment includes \$50 million of cash consideration and the contribution of certain licenses related to our technology, or technology licenses, and the Nasdaq trade name with a gross value of \$117 million (net value of \$78 million after reduction by the portion of economic interest retained through our 33 1/3% equity investment in DIFX). Upon the concurrent closing of the Transactions, we recognized a non-recurring pre-tax gain of \$26 million (\$15.7 million after-tax) on the transfer of the Nasdaq trade name asset. In addition, as discussed below, we recorded deferred revenue of \$52 million related to the transfer of the technology licenses and will ratably recognize this revenue over a seven year period, which is an estimate of the relevant period for which service will be provided to DIFX.

The basis of the estimated fair values of the technology licenses and the Nasdaq trade name and the calculation of deferred revenue on the technology licenses and the calculation of the Nasdaq trade name pre-tax and after-tax gains are presented below.

### **Estimated Fair Value of Licenses related to Technology and Calculation of Deferred Revenue**

#### **Estimated Fair Value of Technology Licenses**

The technology license contributed to DIFX was valued using the cost savings method. As part of the Transactions, DIFX was granted the rights to use or sublicense certain intellectual property (including in some instances, on an exclusive basis) for use in DIFX's operations in certain territories. Furthermore, DIFX can sublicense current or future commercially available technologies owned by NASDAQ OMX to any of its affiliated entities. Nasdaq estimated the hypothetical after-tax license fees saved by DIFX based on similar license agreements. The applicable license fees saved by the affiliated entities were based on the analysis of likely licensors of commercially available technologies. A hypothetical license agreement with DIFX and their affiliated entities was assumed to span a period of five years, and the license fees were assumed to be paid at the beginning of each period. The tax rate in Dubai is zero. The tax-effected license fee savings cash flows were discounted at a rate of 19.1%. The discount rate was developed using the comparable public company data and economic data reflecting the risk environment in DIFX's market area. The discount rate was based on the capital asset pricing model and represents the weighted-average cost of capital.

The fair value of the technology licenses was determined to be approximately \$78 million.

#### **Calculation of Deferred Revenue**

As part of the perpetual technology license agreement, we are obligated to provide DIFX with additional unspecified software developed or marketed by NASDAQ OMX in the future. As such, we have deemed our contribution of technology to be an "insubstance subscription" in accordance with SOP 97-2. As such, revenue that is earned as a result of the license agreement will be recognized ratably over its estimated economic useful life. We have recorded deferred revenue equal to the fair value of the technology licenses. The deferred revenue will be reduced by the portion of the economic interest retained since we will have a 33 1/3% equity investment in DIFX and the deferred revenue will be recognized ratably over the estimated economic useful life of the technology licenses, which is seven years.

Calculation is as follows:

- \$78 million value to technology licenses \* 66 2/3% interest sold = \$52 million.

For the three months ended June 30, 2008, we recorded \$1.9 million of income and for the six months ended June 30, 2008 we recorded \$2.5 million of income related to this deferred revenue in Market Technology revenues in the Condensed Consolidated Statements of Income.

### **Estimated Fair Value of License related to the Nasdaq Trade Name and Calculation of Gain on Transfer of the Nasdaq Trade Name**

#### **Estimated Fair Value of Nasdaq Trade Name**

Nasdaq used the relief from royalty method in valuing DIFX's right to the Nasdaq trade name. As a part of the Transactions, DIFX received rights to use the Nasdaq trade name. The valuation methodology used is based on the after-tax royalties saved by DIFX because of the licensing agreement. The royalty rate used was selected after researching publicly available information on license agreements involving similar trade names. Based on these license agreements, a royalty rate of 3.0% was selected, which was multiplied by DIFX's projected revenue stream to derive the after-tax royalty savings. The tax rate in Dubai is zero. The resulting after-tax royalty savings were discounted using a rate of 19.1%, which represents the weighted average cost of capital.

## [Table of Contents](#)

The fair value of the license related to the Nasdaq trade name was determined to be approximately \$39 million.

### Calculation of Gain on Transfer of Asset

As noted above, the fair value of the license related to the Nasdaq trade name was approximately \$39 million and had a zero carrying value on Nasdaq's books and records prior to the transfer. The contribution of the Nasdaq trade name is considered an exchange of monetary assets in accordance with EITF 01-02 "Interpretations of APB Opinion No. 29", therefore we determined that a gain should be recognized for the difference between Nasdaq's carrying value and the fair value of this contributed asset. This gain is reduced by the portion of economic interest retained since we will have a 33 1/3% equity investment in DIFX.

The pre-tax gain was calculated as follows:

- \$39 million value to trade name \*66 2/3% interest sold = \$26 million.

The after-tax gain was calculated as follows:

- \$26 million gain less taxes at 39.55% (\$10.3 million) = \$15.7 million.

### Tax Related to the DIFX Investment

For tax purposes, we recorded a current income tax payable of \$46.3 million on the total intangible asset value of \$117 million. In addition, we recorded a deferred tax asset of \$36.0 million related to the difference between the total intangible asset value of \$117 million and the gain of \$26.0 million recognized on the Nasdaq trade name contribution.

### Pro Forma Results

The condensed consolidated financial statements include the financial results of OMX from the date of acquisition. Therefore, pro forma results for the three months ended June 30, 2008 are not presented as these results are included in the NASDAQ OMX Condensed Consolidated Statement of Income for the three months ended June 30, 2008. Unaudited pro forma combined historical results for the three months ended June 30, 2007 and six months ended June 30, 2008 and 2007 are included in the table below. The unaudited pro forma combined results include the historical Condensed Consolidated Statements of Income of Nasdaq and OMX, giving effect to the business combination as if it had occurred at the beginning of each period presented.

	Three Months Ended June 30, 2007	Six Months Ended June 30,	
		2008	2007
	(in thousands, except per share amounts)		
Revenues	\$ 695,768	\$ 1,738,487	\$ 1,399,664
Revenues less liquidity rebates, brokerage, clearance and exchange fees	336,247	761,668	670,263
Net income	89,477	220,225	161,850
Basic earnings per share	\$ 0.52	\$ 0.92	\$ 0.93
Diluted earnings per share	\$ 0.43	\$ 0.87	\$ 0.79

The pro forma results for the three months ended June 30, 2007 and six months ended June 30, 2008 and 2007 primarily include adjustments for amortization of the intangible assets presented above, the elimination of OMX's historical amortization expense, additional interest expense on the credit facilities and the 2.50% convertible senior notes, elimination of OMX's historical interest expense related to OMX's debt that was refinanced and related tax adjustments.

The pro forma results for the six months ended June 30, 2008 also include the elimination of the non-recurring gain on the contribution of the Nasdaq trade name in the DIFX transaction discussed above. In addition, the pro forma results for the three and six months ended June 30, 2007 were adjusted to exclude the material non-recurring charges or credits and related tax effects related to our previous investment in the London Stock Exchange Group plc, or the LSE, in accordance with Regulation S-X. The adjustments related to the LSE transaction include the elimination of Nasdaq's interest expense related to the financing of the purchase of the share capital of the LSE, the loss on foreign currency option contracts purchased to hedge the foreign currency exposure on our acquisition bid, dividend income received from the LSE, strategic initiative costs and related tax adjustments. In addition, pro forma results for the three months ended June 30, 2007 and six months ended June 30, 2008 and 2007 include adjustments to eliminate interest income related to the net cash received from the sale of our investment in the LSE.

[Table of Contents](#)

**4. Goodwill and Purchased Intangible Assets**

**Goodwill**

The following table presents the changes in goodwill by business segment during the six months ended June 30, 2008:

	Market Services	Issuer Services	Market Technology	Total
	(in thousands)			
Balance at December 31, 2007	\$ 911,179	\$ 69,557	\$ —	\$ 980,736
Goodwill acquired	1,986,790	302,274	747,733	3,036,797
Purchase accounting adjustments	24,202	3,279	29,574	57,055
Balance at June 30, 2008	<u>\$2,922,171</u>	<u>\$ 375,110</u>	<u>\$ 777,307</u>	<u>\$ 4,074,588</u>

The goodwill acquired and purchase accounting adjustments for Market Services, Issuer Services and Market Technology shown above relate to our business combination with OMX. See Note 3, "Business Combinations," for further discussion. The purchase accounting adjustments for Market Services consist of direct acquisition costs, technology write-downs, additional severance costs related to former OMX employees and a reduction in the fair value of certain assets acquired. The purchase accounting adjustments for Issuer Services consist of direct acquisition costs and additional severance costs related to former OMX employees and the purchase accounting adjustments for Market Technology consist of technology write-downs, direct acquisition costs and additional severance costs related to former OMX employees.

**Purchased Intangible Assets**

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

	June 30, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
	(in thousands)					
<b>Finite-Lived Intangible Assets</b>						
Technology	\$ 62,609	\$ (25,200)	\$ 37,409	\$ 29,409	\$ (20,682)	\$ 8,727
Customer relationships	711,610	(52,090)	659,520	206,410	(37,076)	169,334
Other	3,240	(2,316)	924	3,240	(2,089)	1,151
Total Finite-Lived Intangible Assets	<u>\$ 777,459</u>	<u>\$ (79,606)</u>	<u>\$ 697,853</u>	<u>\$ 239,059</u>	<u>\$ (59,847)</u>	<u>\$ 179,212</u>
<b>Indefinite-Lived Intangible Assets</b>						
Exchange registrations	\$1,143,700	\$ —	\$1,143,700	\$ —	\$ —	\$ —
Trade names <sup>(1)</sup>	198,100	—	198,100	2,400	—	2,400
Total Indefinite-Lived Intangible Assets	<u>\$1,341,800</u>	<u>\$ —</u>	<u>\$1,341,800</u>	<u>\$ 2,400</u>	<u>\$ —</u>	<u>\$ 2,400</u>
Total Intangible Assets	<u>\$2,119,259</u>	<u>\$ (79,606)</u>	<u>\$2,039,653</u>	<u>\$241,459</u>	<u>\$ (59,847)</u>	<u>\$181,612</u>

<sup>(1)</sup> Includes trade names for OMX and Shareholder.com which we have determined to have an indefinite useful life as these trade names are expected to generate future cash flows for an indefinite period of time.

Amortization expense for purchased finite-lived intangible assets was \$11.0 million for the three months ended June 30, 2008 and \$19.8 million for the six months ended June 30, 2008 compared to \$4.9 million for the three months ended June 30, 2007 and \$9.8 million for the six months ended June 30, 2007. The increase was due to intangible asset amortization expense on identifiable finite-lived intangible assets purchased in connection with the OMX business combination from the date of acquisition of February 27, 2008.

The estimated future amortization expense of purchased intangible assets as of June 30, 2008 is as follows:

	(in thousands)
2008	\$ 24,738
2009	49,887
2010	49,596
2011	39,391
2012	37,209
2013 and thereafter	497,032
Total	<u>\$ 697,853</u>

## [Table of Contents](#)

### 5. Equity Method Investments

We have investments in companies accounted for under the equity method of accounting which were primarily acquired through the Transactions. 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 the affiliate.

We have \$232.1 million of equity interest in our equity method investments, which consist primarily of DIFX and Orc Software, included in other assets in the Condensed Consolidated Balance Sheets as of June 30, 2008. Our equity interest in the net income of these affiliated companies was \$1.3 million for the three months ended June 30, 2008 and \$1.6 million for the six months ended June 30, 2008 and is included in income from unconsolidated investees, net, within other income (expense), net in the Condensed Consolidated Statements of Income. For DIFX, we record our equity interest on the earnings and losses of the company on a quarter lag.

DIFX is a related party, as DIFX is owned by Borse Dubai, who through the completion of the Transactions, owns 19.99% of the share capital of NASDAQ OMX, in addition to shares held by the Trust for their benefit.

### 6. Financial Investments, at Fair Value

Financial investments, at fair value were \$137.0 million as of June 30, 2008 and are comprised of Swedish government debt securities. These securities, which are classified as trading securities, are restricted assets to meet regulatory capital requirements for our Nordic Exchange clearing operations.

#### *Investment in the LSE*

During 2006 and 2007, Nasdaq, through its wholly owned subsidiary Nightingale Acquisition Limited, or NAL, acquired share capital of the LSE, totaling 28.4%, or 28.8% after taking into effect LSE's buybacks.

In November 2006, we announced the terms of final offers to acquire all of the ordinary share capital of the LSE not already owned by us at a price of 1,243 pence per share and all of the B share capital of LSE at a price of 200 pence (plus accrued dividend) per share. In order to hedge the foreign currency exposure on our acquisition bid for the LSE, we purchased foreign currency option contracts. See Note 13, "Derivative Financial Instruments and Hedging Activities," for further discussion. These final offers lapsed on February 10, 2007.

During the first six months of 2007, we incurred costs, such as legal and advisory, of \$26.5 million in connection with our strategic initiatives related to the LSE, including our acquisition bid. In conjunction with the lapse of our final offers for the LSE in February 2007, these costs were charged to expense in 2007, of which \$1.6 million was expensed in the second quarter 2007. These costs are included in strategic initiative costs in the Condensed Consolidated Statements of Income.

On September 25, 2007, Nasdaq, through NAL, sold shares, representing at that time 28.0% of the share capital of the LSE, to Borse Dubai for \$1,590.7 million in cash. Nasdaq sold the substantial balance of its remaining holdings in the LSE in open market transactions for approximately \$193.5 million in cash on September 26, 2007 for total proceeds of \$1,784.2 million. As a result of the sale, Nasdaq recognized a \$431.4 million pre-tax gain, which is net of \$18.0 million of costs directly related to the sale, primarily broker fees. On September 28, 2007, Nasdaq used approximately \$1,055.5 million of the proceeds from the above transactions to repay in full and terminate our then-outstanding credit facilities.

### 7. Deferred Revenue

Our deferred revenue at June 30, 2008 primarily related to Listing Services and Market Technology fees and will be recognized in the following years:

	<u>Initial Listing Fees</u>	<u>Listing of Additional Shares</u>	<u>Annual and Other</u> (in thousands)	<u>Market Technology</u>	<u>Total</u>
Fiscal year ended:					
2008	\$10,485	\$ 18,648	\$ 91,594	\$ 13,622	\$134,349
2009	18,682	29,622	609	7,505	56,418
2010	14,929	20,051	—	7,429	42,409
2011	10,715	10,132	—	7,429	28,276
2012	6,532	1,210	—	7,429	15,171
2013 and thereafter	2,722	—	—	16,095	18,817
	<u>\$64,065</u>	<u>\$ 79,663</u>	<u>\$ 92,203</u>	<u>\$ 59,509</u>	<u>\$295,440</u>

## Table of Contents

Our deferred revenue for the six months ended June 30, 2008 and 2007 is reflected in the following table. The additions primarily reflect Issuer Services revenues from listing fees and Market Technology revenues from client contracts charged during the period, as well as Market Technology deferred revenue related to the contribution of technology licenses to DIFX. OMX's beginning balances since the date of the business combination have been included in additions. The amortization primarily reflects Issuer Services revenues from listing fees and Market Technology revenues including revenues earned from the technology licenses contributed to DIFX and from client contracts recognized during the period in accordance with U.S. GAAP.

	Initial Listing Fees	Listing of Additional Shares	Annual and Other (in thousands)	Market Technology	Total
Balance at January 1, 2008	\$ 71,208	\$ 79,382	\$ 3,992	\$ —	\$ 154,582
Additions	4,239	20,869	176,286	74,827	276,221
Amortization	(11,382)	(20,588)	(88,075)	(15,318)	(135,363)
Balance at June 30, 2008	<u>\$ 64,065</u>	<u>\$ 79,663</u>	<u>\$ 92,203</u>	<u>\$ 59,509</u>	<u>\$ 295,440</u>
Balance at January 1, 2007	\$ 71,054	\$ 73,829	\$ 2,208	\$ —	\$ 147,091
Additions	11,774	27,879	142,790	—	182,443
Amortization	(10,904)	(19,836)	(74,003)	—	(104,743)
Balance at June 30, 2007	<u>\$ 71,924</u>	<u>\$ 81,872</u>	<u>\$ 70,995</u>	<u>\$ —</u>	<u>\$ 224,791</u>

## 8. Debt Obligations

The following table presents the changes in our debt obligations during the six months ended June 30, 2008:

	December 31, 2007	Additions	Payments, Conversions and Accretion	June 30, 2008
		(in thousands)		
3.75% convertible notes due October 22, 2012 (net of discount)	\$ 118,438	\$ —	\$ 145	\$ 118,583
2.50% convertible senior notes due August 15, 2013	—	475,000	—	475,000
\$2,000.0 million senior secured term loan facility credit agreement due February 27, 2013 (average interest rate of 4.88% for the period February 27, 2008 through June 30, 2008)	—	1,050,000	—	1,050,000
Debt obligations assumed from the business combination with OMX <sup>(1)</sup>	—	352,918	(352,918)	—
Total debt obligations	118,438	1,877,918	(352,773)	1,643,583
Less current portion	—	(98,438)	—	(98,438)
Total long-term debt obligations	<u>\$ 118,438</u>	<u>\$ 1,779,480</u>	<u>\$ (352,773)</u>	<u>\$ 1,545,145</u>

<sup>(1)</sup> OMX's debt obligations were refinanced with a combination of proceeds from the issuance of the 2.50% convertible senior notes and credit facilities.

### 3.75% Convertible Notes

The 3.75% convertible notes were originally issued to Hellman & Friedman, or H&F, (\$300.0 million), Silver Lake Partners, or SLP, (\$141.4 million) and other partners (\$3.6 million) in order to finance the INET transaction. 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 partners (39,175 shares). The warrants became exercisable on April 22, 2006 and expire on December 8, 2008, the third anniversary of the closing of the INET acquisition.

### Conversion of the 3.75% Convertible Notes

In the fourth quarter of 2007, H&F sold its entire stake in Nasdaq in a public offering which included (i) shares issued through the conversion of the 3.75% convertible notes, (ii) shares acquired through the cashless exercise of warrants and shares held outright by H&F, which were previously purchased from us in a separate transaction. Also in the fourth quarter of 2007, SLP and other partners sold 1,732,491 shares of our common stock. The shares sold by SLP and other partners consisted of a portion of shares issued through the conversion of the 3.75% convertible notes issued to SLP and other partners, and the cashless exercise of a portion of the warrants issued to other partners. SLP did not exercise any of their warrants. As a result of the above, as of December 31, 2007, approximately \$120.1 million in aggregate principal amount of the 3.75% convertible notes remained outstanding.

## [Table of Contents](#)

In the first six months of 2008, SLP converted 2,000 shares of the 3.75% convertible notes into common stock. As a result of this conversion, approximately \$120.1 million in aggregate principal amount of the 3.75% convertible notes remained outstanding as of June 30, 2008. There were no warrants exercised in the first six months of 2008. At June 30, 2008, all of the warrants issued to SLP and 16,164 warrants issued to other partners remained outstanding.

On an as-converted basis at June 30, 2008, SLP owned an approximate 4.6% equity interest in us as a result of its ownership of \$118.6 million in aggregate principal amount of the 3.75% convertible notes, which are convertible into 8,177,715 shares of our common stock, and 1,523,325 shares underlying warrants. We have registered the shares underlying SLP's and other partners' notes on a Form S-3 registration statement.

### **2.50% Convertible Senior Notes**

On February 26, 2008, in connection with the business combination with OMX, we completed the offering of \$475.0 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 June 30, 2008, the 2.50% convertible senior notes are convertible into 8,615,999 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.

### **Debt Issuance Costs**

In conjunction with the issuance of the 2.50% convertible senior notes, we incurred debt issuance costs of \$9.5 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 was recorded as additional interest expense was \$0.4 million for the three months ended June 30, 2008 and \$0.6 million for the six months ended June 30, 2008.

### **Credit Facilities**

In connection with the business combination with OMX, on February 27, 2008, or the Closing Date, NASDAQ OMX entered into a Credit Agreement among NASDAQ OMX, as borrower, the financial institutions party thereto as lenders, Bank of America, N.A., as administrative agent, collateral agent, swingline lender and issuing bank, JPMorgan Chase Bank, N.A., as syndication agent, Bank of America Securities LLC and JP Morgan Securities Inc., as joint lead arrangers and joint bookrunners, and Wachovia Bank, National Association, as documentation agent, or collectively the Banks. The Credit Agreement provides for up to \$2,075.0 million of senior secured loans, which include (i) a five-year, \$2,000.0 million senior secured term loan facility, or the Term Loan Facility, which consists of (a) a \$1,050.0 million term loan facility allocated to the OMX business combination; (b) a \$650.0 million term loan facility allocated to the acquisition of PHLX, and (c) a \$300.0 million delayed draw term loan facility allocated to fund the acquisition of certain businesses of Nord Pool, which will be available for drawdown until August 27, 2008 (with the possibility of being held in a segregated account of NASDAQ OMX until the earlier of: the closing of the Nord Pool transaction, such time as we determine the Nord Pool transaction will not close, or November 1, 2008), and (ii) a five-year, \$75.0 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, or the Credit Facilities. The Revolving Credit Facility was undrawn as of June 30, 2008. In addition, NASDAQ OMX may request that prospective additional lenders under the Credit Agreement agree to make available incremental term loans and incremental revolving commitments from time to time after the Closing Date in an aggregate amount not to exceed \$200.0 million.

In addition to financing the business combination with OMX, the acquisition of PHLX and the proposed acquisition of certain businesses of Nord Pool (see Note 15, "Commitments, Contingencies and Guarantees," for further discussion of the proposed acquisition of certain businesses of Nord Pool), we are using the debt financing under the Credit Facilities to (i) pay fees and expenses incurred in connection with such transactions, (ii) repay certain indebtedness of OMX, PHLX and their respective subsidiaries and (iii) provide ongoing working capital and provide for other general corporate purposes of NASDAQ OMX and its subsidiaries.

Borrowings under the Credit Facilities (other than swingline loans) will 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

## [Table of Contents](#)

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, defined in the Credit Facilities.

The Credit Facilities also contain customary affirmative covenants, including access to financial statements, notice of defaults and certain other material events, and 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 is required to use for repayments varies depending on our leverage ratio at the end of the year for which cash flow is calculated, starting in 2008, with the maximum repayment percentage set at 50.0% of excess cash flow.

### *Debt Issuance Costs*

In conjunction with our Credit Facilities, we incurred debt issuance costs of \$38.5 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 was recorded as additional interest expense was \$1.9 million for the three months ended June 30, 2008 and \$2.6 million for the six months ended June 30, 2008.

At June 30, 2008, we were in compliance with the covenants of all of our debt obligations.

In addition to the \$75.0 million Revolving Credit Facility discussed above, we also have credit facilities related to our clearinghouses in order to meet liquidity requirements. These credit facilities which are available in multiple currencies, primarily Swedish Krona, totaled \$257.4 million at June 30, 2008, of which \$6.8 million was drawn.

## **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 Supplemental Executive Pension Plan, or SERP, for certain senior executives and other benefit plans for eligible employees in the U.S. For information on our Pension Plan, SERP and post-retirement plan actuarial assumptions, see our Annual Report on Form 10-K for the year ended December 31, 2007.

In the first quarter of 2007, we announced that our Pension Plan and SERP were frozen effective May 1, 2007. Future service and salary for all participants do not count toward an accrual of benefits under the Pension Plan and SERP after April 30, 2007. All of the other features of the Pension Plan and SERP remain unchanged. As a result of the Pension Plan and SERP freeze, a curtailment gain of approximately \$6.5 million was recognized in compensation and benefits expense in the Condensed Consolidated Statements of Income for the quarter ended March 31, 2007. During the second quarter of 2007, the estimate of the remaining unrecognized prior service cost at May 1, 2007 was updated and an additional SERP curtailment loss of \$0.4 million was recognized. Additionally, as a result of the Pension Plan and SERP freeze, there was a \$12.6 million reduction in our year end benefit obligation since future service

## [Table of Contents](#)

and salary for all participants no longer count toward the accrual of benefits. This reduction was a component of the total underfunded status of the Pension and SERP Plans that is included in other liabilities and accrued personnel costs in the Condensed Consolidated Balance Sheets.

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.

### Components of Net Periodic Benefit Cost

The following table sets forth the components of net periodic pension, SERP and post-retirement benefits cost recognized in compensation and benefits expense in the Condensed Consolidated Statements of Income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
(in thousands)				
<b>Components of net periodic benefit cost</b>				
Service cost	\$ 5	\$ 403	\$ 9	\$ 2,293
Interest cost	805	811	1,611	1,849
Expected return on plan assets	(656)	(720)	(1,312)	(1,390)
Amortization of unrecognized transition asset	3	(9)	6	(19)
Recognized net actuarial loss	114	206	228	524
Prior service cost recognized	—	(73)	—	(200)
Curtailement (gain)/settlement loss recognized	—	435	—	(6,028)
<b>Benefit cost (gain)</b>	<b>\$ 271</b>	<b>\$ 1,053</b>	<b>\$ 542</b>	<b>\$(2,971)</b>

### 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 \$0.9 million for the three months ended June 30, 2008 compared with \$0.8 million in the three months ended June 30, 2007 and \$1.7 million for the six months ended June 30, 2008 and 2007.

We also added a new profit-sharing contribution feature to our 401(k) plan. Eligible U.S. employees will receive employer retirement contributions, or ERCs, when we meet our annual corporate goals. In addition, we adopted a supplemental ERC for a select highly compensated employees whose ERCs are limited by the annual Internal Revenue Service compensation limit. The ERC and supplement ERC began on July 1, 2007. ERC expense was \$1.0 million for the three months ended June 30, 2008 and \$2.0 million for the six months ended June 30, 2008 and is included in compensation and benefits expense in the Condensed Consolidated Statements of Income.

### 10. Share-Based Compensation

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 and performance share units are designed to reward employees for their long-term contributions to us and provide incentives for them to remain with us. Restricted stock awards and units are generally time-based and vest 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 vest 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 vest 25% on each anniversary of the grant date over four years and also expire ten years from the grant date. In 2004 we granted Performance Accelerated Stock Options, or PASOs, for officers and a select group of non-officer employees. These PASOs included a performance based accelerated vesting feature based on us achieving specific levels of performance. Since we achieved the specific levels of performance for accelerated vesting, 50.0% of the PASO awards vested on January 15, 2008 and the remaining 50.0% will vest on January 15, 2009.

In December 2007 and 2006, we granted non-qualified stock options and restricted stock awards to all active employees. Both of these grants included a performance based accelerated vesting feature based on us achieving specific levels of performance. For the 2007 grant, if we achieve the applicable performance parameters in 2008, the grant will vest on the fourth anniversary of the grant date. If we exceed the applicable performance parameters in 2008, the grant will vest on the third anniversary of the grant date, and if we do not meet the applicable performance parameters in 2008, the grant will extended to vest on the fifth anniversary of the grant date. For the 2006 grant, we exceeded the applicable performance parameters in 2007. Therefore, 50% of the 2006 award will vest on the third anniversary of the grant date and 50% of the 2006 award will vest of the fourth anniversary of the grant date. In accordance with SFAS 123(R), we accelerated the related stock option expense on a prospective basis in 2007 as the award will vest over a shorter period. Options issued under both the 2006 and 2007 grants expire ten years from the grant date.

## [Table of Contents](#)

In 2007, certain executive officers also received grants of 181,152 performance share units, or PSUs. Like our PASOs, the PSUs are based on performance levels. However, for PASOs, the performance measure impacts the vesting period, and for PSUs, the performance measure impacts the amount of shares that each executive will receive upon vesting. For each grant of PSUs, an employee may receive from 0% to 150% of the target amount granted, depending on the achievement of performance measures. We report the target number of PSUs granted, unless we have determined that it is more likely than not, based on the actual achievement of performance measures, that an employee will receive a different amount of shares underlying the PSUs, in which case we report the amount of shares the employee is likely to receive.

Of the 181,152 PSUs granted, 120,000 units are subject to a three year performance period and vest at the end of the period. The remaining 61,152 units are subject to a one year performance period and vest three years after the end of the performance period. In the first quarter of 2008, certain executive officers received grants of 120,896 PSUs. Of these PSUs granted, 80,000 units are subject to a three year performance and vest at the end of the period. The remaining 40,896 units are subject to a one year performance period and vest three years after the end of the performance period. The total expense for these PSUs was \$0.4 million for the three months ended June 30, 2008 and \$0.7 million for the six months ended June 30, 2008. The expense for these PSUs for the three and six months ended June 30, 2007 was immaterial.

In addition to the PSUs, in December 2006, there was an executive grant of 960,000 stock options, which vest over six years. The total expense for this grant was \$0.7 million for the three months ended June 30, 2008 compared to \$0.9 million for the three months ended June 30, 2007 and \$1.3 million for the six months ended June 30, 2008 compared to \$1.8 million for the six months ended June 30, 2007.

Our ESPP allows eligible employees to purchase a limited number of shares of our common stock at six-month intervals, called offering periods, at 85.0% of the lower of the fair market value on the first or the last day of each offering period. The 15.0% discount given to our employees is included in compensation and benefits expense in the Condensed Consolidated Statements of Income.

As of June 30, 2008, we had approximately 5.7 million shares of common stock reserved for future issuance under our equity award plan and ESPP. Shares issued as a result of equity awards and our ESPP were generally first issued out of common stock in treasury. However, as a result of the conversion of the 3.75% convertible notes and exercise of related warrants, we have depleted the majority of our treasury stock balance. Therefore, shares issued as a result of equity awards and our ESPP will generally be issued out of common stock as newly issued shares in the future.

The following table shows the total share-based compensation expense resulting from equity awards and the 15.0% discount for the ESPP for the three and six months ended June 30, 2008 and 2007 in the Condensed Consolidated Statements of Income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Share-based compensation expense before income taxes	\$ 6,041	\$ 4,089	\$ 11,488	\$ 7,564
Income tax benefit	(2,389)	(1,617)	(4,544)	(2,992)
Total share-based compensation expense after income taxes	<u>\$ 3,652</u>	<u>\$ 2,472</u>	<u>\$ 6,944</u>	<u>\$ 4,572</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Expected life (in years)	5	5	5	5
Weighted-average risk free interest rate	2.81%	4.58%	2.66%	4.61%
Expected volatility	35.0%	35.0%	35.0%	35.0%
Dividend yield	—	—	—	—
Weighted-average fair value at grant date	\$ 13.97	\$ 12.29	\$ 14.01	\$ 12.14

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 prohibit us from paying dividends. Before our credit facilities were in place, it was not our policy to declare or pay cash dividends on our common stock.

## [Table of Contents](#)

A summary of stock option activity for the six months ended June 30, 2008 is as follows:

	Stock Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2008	9,998,114	\$ 16.25	7.1	\$ 332,316
Grants	257,288	41.41		
Exercises	(264,225)	10.72		
Forfeitures or expirations	(87,724)	27.96		
Outstanding at June 30, 2008	<u>9,903,453</u>	<u>\$ 16.92</u>	<u>6.6</u>	<u>\$ 128,818</u>
Exercisable at June 30, 2008	<u>5,815,471</u>	<u>\$ 9.41</u>	<u>5.6</u>	<u>\$ 102,522</u>

We received net cash proceeds from the exercise of approximately 0.1 million stock options of \$0.8 million for the three months ended June 30, 2008 and received net cash proceeds from the exercise of approximately 0.3 million stock options of \$2.8 million for the six months ended June 30, 2008. We received net cash proceeds from the exercise of approximately 0.3 million stock options of \$3.0 million for the three months ended June 30, 2007 and received net cash proceeds from the exercise of approximately 0.5 million stock options of \$5.3 million for the six months ended June 30, 2007. In accordance with SFAS 123(R), we present excess tax benefits from the exercise of stock options, if any, as financing cash flows.

The aggregate intrinsic value in the above table represents the total pre-tax intrinsic value (i.e., the difference between our closing stock price on June 30, 2008 of \$26.55 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 \$26.55 as of June 30, 2008, which would have been received by the option holders had the option holders exercised their stock options at that date. This amount changed based on the fair market value of our common stock. The total number of in-the-money stock options exercisable as of June 30, 2008 was 5.5 million. As of June 30, 2007, 5.1 million outstanding stock options were exercisable and the weighted-average exercise price was \$9.11.

Total fair value of stock options vested was \$0.5 million for the three months ended June 30, 2008, \$4.5 million for the six months ended June 30, 2008, \$0.6 million for the three months ended June 30, 2007 and \$4.5 million for the six months ended June 30, 2007. The total pre-tax intrinsic value of stock options exercised was \$1.9 million for the three months ended June 30, 2008, \$7.6 million for the six months ended June 30, 2008, \$6.2 million for the three months ended June 30, 2007 and \$11.1 million for the six months ended June 30, 2007.

At June 30, 2008, \$20.0 million of pre-tax total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.8 years.

The following table summarizes our RSA, RSU and PSU activity for the six months ended June 30, 2008:

	Restricted Stock	Weighted- Average Grant Date Fair Value	PSUs	Weighted- Average Grant Date Fair Value
Unvested balances at January 1, 2008	994,723	\$ 37.23	181,152	\$ 37.31
Granted	194,471	38.08	120,896	40.57
Vested	(136,496)	21.43	—	—
Forfeited	(41,173)	36.90	—	—
Unvested balances at June 30, 2008	<u>1,011,525</u>	<u>\$ 39.50</u>	<u>302,048</u>	<u>\$ 38.61</u>

At June 30, 2008, \$24.5 million of total unrecognized compensation cost related to restricted stock is expected to be recognized over a weighted-average period of 2.0 years and \$7.1 million of total unrecognized compensation cost related to PSU's is expected to be recognized over a weighted-average period of 1.6 years.

Under our ESPP employees may purchase shares having a value not exceeding 10.0% of their annual compensation, subject to applicable annual Internal Revenue Service limitations. As of June 30, 2008 employees purchased 72,806 shares at a price of \$22.57 and as of June 30, 2007 employees purchased 61,281 shares at a price of \$25.28. The next purchase will be at the end of December 2008. We recorded \$0.2 million for the three months ended June 30, 2008 and \$0.3 million for the six months ended June 30, 2008 of compensation expense for the 15.0% discount that is given to our employees. We recorded \$0.2 million for the three months ended June 30, 2007 and \$0.3 million for the six months ended June 30, 2007 of compensation expense for the 15.0% discount that is given to our employees.

## 11. Earnings Per Common Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
(in thousands, except share and per share amounts)				
<b>Numerator:</b>				
<b>Net income:</b>				
Net income for basic earnings per share	\$ 101,637	\$ 56,128	\$ 223,000	\$ 74,445
Interest impact of 3.75% convertible notes, net of tax	681	2,522	1,361	5,044
Net income for diluted earnings per share	\$ 102,318	\$ 58,650	\$ 224,361	\$ 79,489
<b>Denominator:</b>				
Weighted-average common shares outstanding for basic earnings per share <sup>(1)</sup>	199,721,424	112,742,000	180,350,043	112,591,524
Weighted-average effect of dilutive securities:				
Employee stock options and awards	5,492,058	5,840,070	5,623,077	5,851,621
3.75% convertible notes assumed converted into common stock	8,281,162	30,689,655	8,281,173	30,689,655
Warrants	916,036	2,694,614	961,754	2,695,067
Denominator for diluted earnings per share	214,410,680	151,966,339	195,216,047	151,827,867
<b>Basic and diluted earnings per share:</b>				
Basic earnings per share	\$ 0.51	\$ 0.50	\$ 1.24	\$ 0.66
Diluted earnings per share	\$ 0.48	\$ 0.39	\$ 1.15	\$ 0.52

<sup>(1)</sup> The three and six months ended June 30, 2008, amounts include 60,561,515 shares of common stock issued to Borse Dubai and the Trust in conjunction with the business combination with OMX on a weighted-average basis from the date of the business combination.

Options to purchase 9,903,453 shares of common stock, 1,313,573 shares of restricted stock and warrants exercisable into 1,539,489 shares of common stock were outstanding at June 30, 2008. The 3.75% convertible notes have been accounted for under the if-converted method of SFAS 128 as we will settle the convertible notes in shares of our common stock. As such, the 3.75% convertible notes are convertible into 8,281,162 shares of common stock as of June 30, 2008. The 2.50% convertible notes are accounted for under the treasury stock method of SFAS 128 as it is our intent and policy to settle the principal amount of the notes in cash. Based on the settlement structure of the notes, which permit 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 months ended June 30, 2008, we included 6,981,854 of the options outstanding, 618,382 shares of restricted stock, 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 are 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 six months ended June 30, 2008, we included 6,981,854 of the options outstanding, 881,453 shares of restricted stock, all of the shares underlying the 3.75% convertible notes, which includes all outstanding 3.75% convertible notes and 3.75% convertible notes converted into 2,000 shares of common stock during the first six 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 are antidilutive, and the conversion spread of our 2.50% convertible senior notes was out of the money, and as such, they were properly excluded.

Options to purchase 10,874,754 shares of common stock, 749,121 shares of restricted stock, 3.75% convertible notes convertible into 30,689,655 shares of common stock and warrants exercisable into 4,962,500 shares of common stock were outstanding at June 30, 2007. For both the three and six months ended June 30, 2007, we included 8,387,478 of the options outstanding, 636,928 shares of restricted stock, all of the shares underlying the 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 were considered antidilutive and were properly excluded.

## 12. Fair Value of Financial Instruments

**Fair Value Measurement—Definition and Hierarchy.** As of January 1, 2008, we adopted on a prospective basis certain required provisions of SFAS 157, as amended by FSP 157-2. Under SFAS 157, 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. SFAS 157 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 June 30, 2008.

	Balance as of June 30, 2008	Fair Value Measurements		
		(Level 1)	(Level 2) (in thousands)	(Level 3)
<b>Financial Assets Measured at Fair Value on a Recurring Basis</b>				
Market value, outstanding derivative positions <sup>(1)</sup>	\$ 716,632	\$ —	\$716,632	\$ —
Financial investments, at fair value <sup>(2)</sup>	136,971	136,971	—	—
Other assets <sup>(3)</sup>	83,495	64,343	19,152	—
<b>Total</b>	<b>\$ 937,098</b>	<b>\$201,314</b>	<b>\$735,784</b>	<b>\$ —</b>
<b>Financial Liabilities Measured at Fair Value on a Recurring Basis</b>				
Market value, outstanding derivative positions <sup>(1)</sup>	\$ 716,632	\$ —	\$716,632	\$ —
<b>Total</b>	<b>\$ 716,632</b>	<b>\$ —</b>	<b>\$716,632</b>	<b>\$ —</b>

(1) Represents net amounts associated with our clearing operations in the derivatives market on the Nordic Exchange. See Note 13, “Derivative Financial Instruments and Hedging Activities,” for further discussion.

(2) See “Financial Investments” of Note 2, “Summary of Significant Accounting Policies” and Note 6, “Financial Investments, at Fair Value,” for further discussion.

(3) Includes our long-term available-for-sale investment securities and derivative financial instruments. See “Financial Investments” of Note 2, “Summary of Significant Accounting Policies” and Note 13, “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 June 30, 2008, the carrying value of our debt obligations was approximately \$71.1 million less than fair value primarily due to the stock appreciation on the 3.75% convertible notes’ convertible option feature from \$14.50 at the time of issuance to \$26.55 at June 30, 2008, partially offset by a decrease in fair value on the 2.50% convertible senior notes with a convertible option feature equivalent to a conversion price of approximately \$55.13 compared to the closing price of \$26.55 at June 30, 2008. At December 31, 2007, the carrying value of our debt obligations was approximately \$266.9 million less than fair value due to the stock appreciation on the 3.75% convertible notes option feature from \$14.50 at time of issuance to \$49.49 at December 31, 2007. See Note 8, “Debt Obligations,” for further discussion.

**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, receivables, net, certain other assets, accounts payable and accrued expenses, Section 31 fees payable to SEC, accrued personnel costs, and other current liabilities.

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

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.
- *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 are an integral component of our market risk and related asset/liability management strategy and processes.

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 in accordance with SFAS 133, these derivative contracts are designated as fair value hedges. Changes in fair value on the derivatives and the related hedged items are recognized in other income (expense), net in the Condensed Consolidated Statements of Income.

**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 SFAS 133 hedge requirements cannot be achieved or management decides not to apply SFAS 133 hedge accounting.

In order to economically hedge the foreign currency exposure on our business combination with OMX, we entered into foreign currency option and forward contracts beginning at the time of the announcement of the proposed combination. In accordance with SFAS 133, 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 other income (expense), net each reporting period. For additional discussion of the combination with OMX, see Note 3, "Business Combinations." For our proposed acquisition of certain businesses from Nord Pool, we also entered into a forward contract.

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 mature within one year and changes in fair value of these derivatives are recognized in other income (expense), net in the Condensed Consolidated Statement of Income.

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

[Table of Contents](#)

	<u>Purchase</u>	<u>Sale/Expiration</u>	<u>Cumulative Realized Gain (Loss)</u> (in thousands)	<u>Change in Unrealized Gain (Loss)</u>	<u>Total Gain/(Loss) for the Six Months Ended June 30, 2008</u>
SEK 2007 Option Contract <sup>(1)</sup>	\$39,026	\$ 66,515	\$ 27,489	\$(21,682)	\$ 5,807
SEK 2008 Option Contract	12,500	—	(12,500)	—	(12,500)
SEK 2008 Forward Contracts	—	—	33,712	—	33,712
NOK 2008 Forward Contract	—	—	—	7,790	7,790
Other <sup>(2)</sup>	—	—	266	5,062	5,328
<b>Total</b>	<u>\$51,526</u>	<u>\$ 66,515</u>	<u>\$ 48,967</u>	<u>\$ (8,830)</u>	<u>\$ 40,137</u>

(1) This contract, which was originally purchased in October 2007, had a fair value at December 31, 2007 of \$60.7 million.

(2) Represents market technology forward currency contracts used to limit our exposure to foreign currency exchange rate fluctuations on contracted revenue streams.

On January 7, 2008, we sold the SEK 2007 option contract for \$66.5 million and recorded a \$5.8 million gain in the first quarter of 2008. On the same date, we purchased a new contract for \$12.5 million which expired out-of-the-money in February of 2008 and we recorded a loss for the purchase amount of \$12.5 million. Also, 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 and to hedge the NOK cash payment for the proposed acquisition of certain businesses from Nord Pool. In the first quarter of 2008, we recorded a gain of \$33.7 million at the time of the business acquisition relating to the cash payments for the SEK forward contracts and we recognized an unrealized gain of \$7.8 million for the NOK forward contract.

The loss on foreign currency contracts was \$9.5 million in the first six months of 2007. In addition to the \$1.7 million loss recorded in the second quarter of 2007 discussed above, a \$7.8 million loss was recorded in the first quarter of 2007 related to our hedge of the foreign currency exposure on our acquisition bid for the LSE. At the time of the commencement of the bid for the LSE in the fourth quarter of 2006, we purchased foreign currency option contracts. In conjunction with the lapse of our final offers for LSE, we traded out of these foreign exchange contracts in February 2007. Due to the improving exchange rate of the dollar when compared to the pound sterling a \$7.8 million loss was recorded on these foreign currency option contracts.

**Other Derivative Positions at the Nordic Exchange**

Through our clearing operations on the Nordic Exchange, we act as the legal counterparty in each derivative transaction and thereby guarantee the fulfillment of each contract, exposing us to counterparty risk. 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. These derivative contracts may include stock options and futures, index options and futures, fixed income options and futures and stock loans.

The change in market value of the abovementioned derivative contracts 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 June 30, 2008, our market value, outstanding derivative positions on the Condensed Consolidated Balance Sheet was \$716.6 million. See 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 June 30, 2008. Assets and liabilities included in the table represent gross unrealized gains and losses prior to netting.

	<u>Asset</u>	<u>Liability</u>
	<u>(in millions)</u>	
Stock options and futures	\$ 594.9	\$ 594.9
Index options and futures	344.2	344.2
Fixed income options and futures	305.5	305.5
<b>Total</b>	<u>\$1,244.6</u>	<u>\$ 1,244.6</u>

## [Table of Contents](#)

### 14. Comprehensive Income

Comprehensive income is composed of net income and other comprehensive income, which includes the after-tax change in unrealized gains and losses on available-for-sale securities, foreign currency translation adjustments and employee benefit adjustments. The changes in the components of comprehensive income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	\$ 101,637	\$ 56,128	\$ 223,000	\$ 74,445
Other comprehensive income:				
Change in unrealized gains and losses on available-for-sale investments, net of tax <sup>(1)</sup>	(5,809)	94,884	(9,769)	54,457
Change in foreign currency translation adjustments <sup>(2)</sup>	(1,774)	21	9,771	(154)
<b>Total</b>	<b>\$ 94,054</b>	<b>\$ 151,033</b>	<b>\$ 223,002</b>	<b>\$ 128,748</b>

(1) The 2008 amount represents an unrealized loss on our long-term available-for-sale investments included in other assets in the Condensed Consolidated Balance Sheets. The 2007 amount includes the unrealized gain related to our investment in the LSE, net of tax, which includes foreign currency gains. See Note 6, "Financial Investments, at Fair Value," for further discussion.

(2) This amount includes after-tax gains and losses on foreign currency translation from operations for which the functional currency is other than the U.S. dollar.

### 15. Commitments, Contingencies and Guarantees

#### *Proposed Acquisition of The Boston Stock Exchange*

On October 1, 2007, we entered into a definitive agreement to acquire The Boston Stock Exchange, or BSX, for \$61.0 million in cash. The BSX acquisition will provide us with an additional license for trading both equities and options and a clearing license. After the close of the BSX acquisition, we expect that BSX's current operations will be discontinued and will not be integrated into our current operations. We expect the acquisition of the BSX to close in the third quarter of 2008.

#### *Proposed Acquisition of Certain Businesses from Nord Pool ASA*

On February 22, 2008, OMX entered into a definitive agreement to acquire certain businesses from Nord Pool for \$410.5 million, of which \$322.1 million would be comprised of cash funded by our Credit Agreement and \$88.4 million would be in the form of a vendor note due to the current owners of Nord Pool within 18 months of closing. The acquisition is subject to customary closing conditions and regulatory approvals. NASDAQ OMX may also be obligated to pay further earn-out payments of \$157.4 million, based on volume over a five-year period. Through this transaction, NASDAQ OMX will acquire Nord Pool's clearing and consulting operations and international products business, including carbon dioxide products and international power contracts. We expect this acquisition to close in the second half of 2008.

#### *Escrow Agreements*

In connection with our acquisitions of Directors Desk in 2007, PrimeNewswire and Shareholder.com in 2006 and Carpenter Moore in 2005, we entered into escrow agreements for the designation of funds to secure the payment of post-closing adjustments and other closing conditions. In addition, we entered into an agreement in the second quarter of 2008 to purchase an equity interest in Virtu OTC Clearinghouse LLC and designated \$5.0 million to an escrow account for certain purchase consideration adjustments. For the six months ended June 30, 2008, NASDAQ OMX paid \$1.9 million for PrimeNewswire and \$0.1 million for Directors Desk from the escrow accounts for the settlement of closing conditions related to the acquisitions. At June 30, 2008, these escrow agreements provide for future payments of \$7.3 million in 2008 and \$0.5 million in 2009.

#### *Brokerage Activities*

In accordance with FASB Interpretation 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," 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.

## [Table of Contents](#)

### **Obligations Under Guarantee**

In connection with our registration as a national securities exchange, Nasdaq completed an internal reorganization in November 2006. As part of the reorganization, Nasdaq transferred the ownership of some of its subsidiaries, including its broker-dealer subsidiaries, to the Exchange. The Exchange assumed Nasdaq's obligations under the 3.75% convertible notes due October 22, 2012 and the related indenture. Nasdaq has guaranteed the obligations of the Exchange under the indenture.

As discussed in Note 8, "Debt Obligations," in the fourth quarter of 2007 and the first half of 2008, a portion of the 3.75% convertible notes were converted from debt to equity. The Exchange continues to assume NASDAQ OMX's obligation under the remaining 3.75% convertible notes.

### **Guarantees Issued and Collateral Received for Clearing Operations**

Through our Nordic Exchange clearing operations, we act as a counterparty in each transaction 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 bank guarantees, which are guaranteed by us through counter indemnities. At June 30, 2008 these bank guarantees totaled \$513.3 million. 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 June 30, 2008, total customer pledged collateral was \$2.7 billion. The pledged collateral is held by a custodian bank. Since these funds are not held by NASDAQ OMX and they are not available for NASDAQ OMX to use, we do not receive any interest income on these funds. We believe that the potential for us to be required to make payments under these arrangements is mitigated through the pledged collateral and our risk management policies. Accordingly, no contingent liability is recorded in the Condensed Consolidated Balance Sheets for these arrangements.

### **Other Guarantees**

We have also provided guarantees as of June 30, 2008 of \$28.7 million, primarily related to obligations for our rental and leasing contracts. We have received financial guarantees from various financial institutions to support these 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. Other Income (Expense), net**

The following table presents the components of other income (expense), net:

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2008	2007	2008	2007
	(in thousands)			
Interest income	\$ 8,004	\$ 7,695	\$ 18,150	\$ 13,318
Interest expense	(20,860)	(23,586)	(29,547)	(47,054)
Net interest expense <sup>(1)</sup>	(12,856)	(15,891)	(11,397)	(33,736)
Dividend and investment income <sup>(2)</sup>	2,890	14,625	3,287	14,586
Income from unconsolidated investees, net <sup>(3)</sup>	1,305	—	27,641	—
Gain (loss) on foreign currency contracts <sup>(4)</sup>	4,883	(1,668)	40,137	(9,509)
Strategic initiative costs <sup>(5)</sup>	—	(1,584)	—	(26,511)
Total other income (expense), net	<u>\$ (3,778)</u>	<u>\$ (4,518)</u>	<u>\$ 59,668</u>	<u>\$ (55,170)</u>

## Table of Contents

- (1) The decrease in net interest expense in the three months ended June 30, 2008 compared with the same period in 2007 is primarily due to a decrease in interest rates. The decrease in net interest expense for the six months ended June 30, 2008 compared with the same period in 2007 was primarily due to the repayment in full of our outstanding debt obligations in September 2007 from the proceeds of the sale of the share capital of the LSE, partially offset by the financing obtained for our business combination with OMX in February 2008. See Note 8, "Debt Obligations," for further discussion.
- (2) The decrease in dividend and investment income in the three and six months ended June 30, 2008 compared with the same periods in 2007 primarily relates to ordinary dividends declared from our investment in the LSE in 2007.
- (3) During the three months ended June 30, 2008, the income from unconsolidated investees relates to our share of the earnings or losses of our equity method investees. The income in the six months ended June 30, 2008 primarily relates to the gain on the non-monetary contribution of the Nasdaq trade name to obtain an equity interest in DIFX. See "Equity Investment in DIFX" in Note 3, "Business Combinations," for further discussion.
- (4) The gain in the three months ended June 30, 2008 primarily relates to forward currency contracts used to economically hedge our market technology contracted revenue streams, while the gain in the six months ended June 30, 2008 primarily relates to our business combination with OMX and our proposed acquisition of certain businesses of Nord Pool. The loss in the three months ended June 30, 2007 is also related to our business combination with OMX while the loss in the six months ended June 30, 2007 relates to the OMX business combination as well as our acquisition bid for the LSE. See Note 13, "Derivative Financial Instruments and Hedging Activities," for further discussion.
- (5) The strategic initiative costs for the three and six months ended June 30, 2007 were incurred in connection with our strategic initiatives related to the LSE, including our acquisition bid. In conjunction with the lapse of our final offers, these costs were charged to expense. See Note 6, "Financial Investments, at Fair Value," for further discussion.

## 17. 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. The Market Services segment includes our U.S. and European Transaction Services business (cash equity and derivative trading) and our Market Data business, which are interrelated because the Transaction Services business generates the quote and trade information that we sell to market participants and data vendors. Market Services also includes our Broker Services business. The Issuer Services segment includes our U.S. and European Listing Services and Financial Products businesses. The companies listed on The NASDAQ Stock Market represent a diverse array of industries. This diversity of NASDAQ-listed companies allows us to develop industry-specific and other indexes that we use to develop and license financial products and associated derivatives. Listing Services also includes revenues from Corporate services which includes revenues generated through our insurance business, shareholder, directors and newswire services. The Market Technology segment provides technology solutions for trading, clearing and settlement 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.

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, proposed acquisition of certain businesses from Nord Pool and our acquisition bid for the LSE. See below for further discussion.

The following table presents certain information regarding these operating segments for the three and six months ended June 30, 2008 and 2007.

	<u>Market Services</u>	<u>Issuer Services</u>	<u>Market Technology (in thousands)</u>	<u>Corporate Items and Eliminations</u>	<u>Consolidated</u>
<b>Three months ended June 30, 2008</b>					
Total revenues	\$ 694,085	\$87,622	\$ 38,678	\$ 1,093	\$ 821,478
Cost of revenues	<u>(441,325)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(441,325)</u>
Revenues less liquidity rebates, brokerage, clearance and exchange fees	<u>252,760</u>	<u>87,622</u>	<u>38,678</u>	<u>1,093</u>	<u>380,153</u>
Income before income taxes	<u>\$ 126,337</u>	<u>\$21,171</u>	<u>\$ 1,436</u>	<u>\$ 1,273</u>	<u>\$ 150,217</u>
	<u>Market Services</u>	<u>Issuer Services</u>	<u>Corporate Items and Eliminations (in thousands)</u>	<u>Consolidated</u>	
<b>Three months ended June 30, 2007</b>					
Total revenues		\$ 487,390	\$70,742	\$ 69	\$ 558,201
Cost of revenues		<u>(359,521)</u>	<u>—</u>	<u>—</u>	<u>(359,521)</u>
Revenues less liquidity rebates, brokerage, clearance and exchange fees		<u>127,869</u>	<u>70,742</u>	<u>69</u>	<u>198,680</u>
Income before income taxes		<u>\$ 75,951</u>	<u>\$16,196</u>	<u>\$ 2,186<sup>(1)</sup></u>	<u>\$ 94,333</u>

## [Table of Contents](#)

	<u>Market Services</u>	<u>Issuer Services</u>	<u>Market Technology</u> (in thousands)	<u>Corporate Items and Eliminations</u>	<u>Consolidated</u>
<b>Six months ended June 30, 2008</b>					
Total revenues	\$ 1,421,048	\$ 163,310	\$ 49,661	\$ 1,286	\$1,635,305
Cost of revenues	(976,819)	—	—	—	(976,819)
Revenues less liquidity rebates, brokerage, clearance and exchange fees	444,229	163,310	49,661	1,286	658,486
Income (loss) before income taxes	\$ 243,659	\$ 42,402	\$ (2,786)	\$ 63,154 <sup>(2)</sup>	\$ 346,429
<b>Six months ended June 30, 2007</b>					
Total revenues	\$ 982,883	\$ 137,093	\$ 171	\$ 171	\$1,120,147
Cost of revenues	(729,401)	—	—	—	(729,401)
Revenues less liquidity rebates, brokerage, clearance and exchange fees	253,482	137,093	171	171	390,746
Income (loss) before income taxes	\$ 134,257	\$ 30,530	\$ (39,606) <sup>(1)</sup>	\$ (39,606) <sup>(1)</sup>	\$ 125,181

(1) The 2007 amounts primarily include:

- dividend income of \$14.5 million for the three and six months ended June 30, 2007 related to our investment in the LSE;
- strategic initiative costs of \$1.6 million for the three months ended June 30, 2007 and \$26.5 million for the six months ended June 30, 2007 incurred in connection with our acquisition bid for the LSE;
- loss on foreign currency option contracts of \$1.7 million for the three months ended June 30, 2007 which was purchased to hedge the foreign exchange exposure on our business combination with OMX. For the six months ended June 30, 2007, we incurred an additional loss on foreign currency option contracts of \$7.8 million which we entered into to hedge the foreign exchange exposure on the acquisition bid for the LSE; and
- interest expense of \$9.2 million for the three months ended June 30, 2007 and \$18.3 million for the six months ended June 30, 2007 related to our investment in the LSE.

(2) The six months ended June 30, 2008 amount primarily includes:

- gain on foreign currency contracts, net of \$34.8 million, which were purchased to hedge the foreign exchange exposure in connection with our business combination with OMX (\$27.0 million) and our proposed acquisition of certain businesses of Nord Pool (\$7.8 million) (see Note 13, "Derivative Financial Instruments and Hedging Activities," for further discussion) and
- income from unconsolidated investees, net of \$27.6 million, primarily related to our gain on the non-monetary contribution of the Nasdaq trade name to obtain an equity interest in DIFX. See "Equity Investment in DIFX" in Note 3, "Business Combinations," for further discussion.

Total assets increased \$6.0 billion at June 30, 2008 as compared with December 31, 2007, primarily due to the business combination with OMX. See Note 3, "Business Combinations," for further discussion.

## 18. Subsequent Event

### *Acquisition of the Philadelphia Stock Exchange*

On July 24, 2008, we completed our previously announced acquisition of PHLX. We acquired all outstanding shares of PHLX common stock for an aggregate cash purchase price of approximately \$695.7 million. As provided in the related merger agreement, the purchase price consisted of \$652.0 million plus an adjustment of approximately \$43.7 million for PHLX's estimated working capital surplus as of the date of the closing. This amount is subject to further adjustments following a full financial review, and we deposited \$15.0 million of the approximately \$43.7 million surplus amount into an escrow account until the final working capital adjustment is calculated.

## [Table of Contents](#)

To finance the acquisition of PHLX, on July 24, 2008, we borrowed \$650.0 million from a delayed draw term loan facility under our existing Credit Agreement. We financed the remainder of the \$695.7 million purchase price with cash on hand.

The acquisition of PHLX, the third largest options market in the U.S., will significantly diversify our product portfolio by providing us with a premier options trading platform in the U.S.

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

### **Overview**

On February 27, 2008, Nasdaq and OMX 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. The following Management's Discussion and Analysis of Financial Condition and Results of Operations include the consolidated financial results of Nasdaq as of and through June 30, 2008. The financial results of OMX are included in the consolidated financial results beginning on February 27, 2008.

### **Results of Operations**

#### **Financial Highlights**

The comparability of our operating results for the three and six months ended June 30, 2008 to the same periods in 2007 is significantly impacted by our business combination with OMX. In our discussion and analysis of results of operations, we have quantified the contribution of additional revenues or expense resulting from the OMX business combination 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.

Revenues less liquidity rebates, brokerage, clearance and exchange fees increased \$181.5 million, or 91.3%, to \$380.2 million in the second quarter of 2008, compared with \$198.7 million in the second quarter of 2007, and our operating income increased \$55.9 million, or 56.5%, to \$154.8 million in the second quarter of 2008, compared with \$98.9 million in the second quarter of 2007. Net income was \$101.6 million, or \$0.48 per diluted share, in the second quarter of 2008 compared with \$56.1 million, or \$0.39 per diluted share, in the second quarter of 2007.

The following pre-tax items impacted our second quarter 2008 results:

- Improved revenues less liquidity rebates, brokerage, clearance and exchange fees from our Market Services segment which increased \$124.9 million, or 97.7%, to \$252.8 million in the second quarter of 2008 compared with \$127.9 million in the second quarter of 2007 due to the following:
  - Increases in the average daily share volume and trade execution market share for New York Stock Exchange, or NYSE-, American Stock Exchange, or Amex-, and regional-listed securities, partially offset by higher cost of revenues and lower average daily share volume and market share for NASDAQ-listed securities; and
  - The inclusion of OMX Market Services revenues for the second quarter of \$103.9 million.
- Increase in our Issuer Services segment revenues of \$16.9 million, or 23.9%, to \$87.6 million in the second quarter of 2008, compared with \$70.7 million in the second quarter of 2007, primarily due to the inclusion of OMX's Issuer Services revenues for the second quarter 2008 of \$15.0 million and increases in Financial Products licensing and Corporate services revenues.
- Market Technology revenues of \$38.7 million resulting from our business combination with OMX.
- Increase in total operating expenses of \$125.6 million to \$225.4 million in the second quarter of 2008, compared with \$99.8 million in the second quarter of 2007, primarily due to the inclusion of OMX's operating expenses in the second quarter 2008 of \$108.3 million, partially offset by lower operating expenses at NASDAQ.

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

## [Table of Contents](#)

### 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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Market Services</b>				
<b>Cash Equity Trading</b>				
Average daily share volume in NASDAQ securities (in billions)	2.11	2.14	2.28	2.15
Matched market share in NASDAQ securities <sup>(1)</sup>	42.0%	46.1%	44.5%	45.8%
Market share reported to the FINRA/NASDAQ Trade Reporting Facility in NASDAQ securities <sup>(2)</sup>	23.1%	26.2%	21.8%	27.6%
Total market share in NASDAQ securities <sup>(3)</sup>	65.1%	72.3%	66.4%	73.4%
Average daily share volume in NYSE securities (in billions)	4.10	3.06	4.30	3.03
Matched market share in NYSE securities <sup>(1)</sup>	22.1%	15.9%	21.6%	15.5%
Market share reported to the FINRA/NASDAQ Trade Reporting Facility in NYSE securities <sup>(2)</sup>	19.2%	18.6%	17.9%	18.6%
Total market share in NYSE securities <sup>(3)</sup>	41.3%	34.5%	39.4%	34.1%
Matched market share in Amex and regional securities <sup>(1)</sup>	34.3%	32.4%	35.3%	31.0%
Market share reported to the FINRA/NASDAQ Trade Reporting Facility in Amex and regional securities <sup>(2)</sup>	17.0%	20.9%	16.5%	21.7%
Total market share in Amex and regional securities <sup>(3)</sup>	51.3%	53.3%	51.8%	52.7%
Matched share volume in all U.S.-listed equities (in billions)	136.4	101.7	290.1	196.9
Matched market share in all U.S.-listed equities <sup>(1)</sup>	29.6%	28.8%	30.3%	28.4%
Average daily number of equity trades on the Nordic Exchange	194,006	—	198,845	—
Average daily value of shares traded on the Nordic Exchange (in billions)	\$ 6.1	—	\$ 6.2	—
<b>Derivative Trading</b>				
Average daily volume of equity and fixed-income contracts traded on the Nordic Exchange	435,601	—	468,353	—
Average daily volume of Nordic equity contracts traded on EDX London	150,891	—	153,911	—
Average daily volume of Finnish option contracts traded on Eurex	74,108	—	74,956	—
<b>Issuer Services</b>				
Initial public offerings				
NASDAQ	3	38	10	75
Nordic Exchange	9	—	11	—
New listings				
NASDAQ <sup>(4)</sup>	42	71	90	144
Nordic Exchange	12	—	14	—
Number of listed companies				
NASDAQ <sup>(5)</sup>	3,080	3,164	3,080	3,164
Nordic Exchange <sup>(6)</sup>	847	—	847	—
<b>Market Technology</b>				
Order intake (in millions) <sup>(7)</sup>	\$ 78.5	—	\$ 128.1	—
Total order value (in millions) <sup>(8)</sup>	\$ 435.0	—	\$ 435.0	—

(1) Transactions executed on NASDAQ's systems.

(2) Transactions reported to the Financial Industry Regulatory Authority, or FINRA/NASDAQ Trade Reporting Facility LLC, or The FINRA/NASDAQ TRF.

(3) Transactions executed on NASDAQ's systems plus trades reported through the FINRA/NASDAQ TRF.

(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 also includes separately listed ETFs.

(6) Represents companies listed on the Nordic Exchange and companies on its alternative market, First North.

(7) Total contract value of orders signed.

(8) Represents total contract value of orders signed that are yet to be recognized as revenue.

## **Business Environment**

We serve listed companies, market participants and investors by providing high quality cash equity and derivative markets, thereby enabling 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 regarding the outlook for equity investments, government and private sector demands for capital, the regulatory environment for primary and secondary equity markets, and changing technology in the financial services industry. Our future revenues and net income will continue to be influenced by domestic and international trends including:

- The number of companies seeking equity financing, which is affected by factors such as investor demand, the economy, alternative sources of financing, and tax and regulatory policies;
- Trading volumes, particularly in U.S. and Nordic equity and derivative securities, which are driven primarily by overall macroeconomic conditions;
- Competition for listings and trading executions related to pricing, and product and service offerings; and
- Other technological advancements and regulatory developments.

Currently our business drivers are characterized by investor uncertainty about the impact of anti-inflationary monetary policies on global economic growth, ongoing elevated levels of market volatility, industry adaptation to past major regulatory initiatives particularly the Markets in Financial Instruments Directive, or MiFID, in the European economic area, and continued rapid evolution and deployment of new technology in the financial services industry. The business environment that influenced our financial performance during the second quarter of 2008 can be characterized as follows:

- The slowest pace of equity issuance since 2003 with three IPOs in the U.S. and nine on the Nordic Exchange;
- Continued reduced access to debt and equity capital for both new and established companies;
- Very strong 34.1% annual growth relative to the second quarter of 2007 in equity matched trading volume in the U.S. driven by growth in our market share of NYSE-, Amex-, and regional-listed securities and market volatility;
- Higher levels of volatility, as well as decreasing trade size, also drove a robust 14.0% growth relative to the second quarter of 2007 in the number of equity transactions on the Nordic Exchange which was offset by a 27.0% decrease in the value of equity transactions caused in large part by falling equity prices;
- The Nordic Exchange experienced a 0.5% decline relative to the second quarter of 2007 in number of traded derivatives contracts in equity related products;
- Continued instability in the credit markets was the primary cause of very strong 14.0% growth relative to the second quarter of 2007 in number of cleared derivatives contracts in fixed income related products for the Nordic Exchange;
- Intense competition among U.S. exchanges for both equity trading volume and listings and growing competition in Europe as new trading platforms are launched in response to MiFID;
- Globalization of exchanges, customers and competitors extending the competitive horizon beyond national markets;
- 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 increased numbers of new companies surface, and as emerging countries show ongoing interest in developing their financial markets; and
- The introduction of NASDAQ Last Sale continued the recent trend of innovation and development in data products as market operators intensify their competition for market data revenues.

## **Current Business Developments**

On July 24, 2008, we completed our previously announced acquisition of PHLX. With this acquisition we now operate the third largest options market in the U.S. PHLX will be part of our Market Services segment. The PHLX options market will operate as a distinct market alongside The NASDAQ Options Market which was launched in March 2008. With this transaction, we have a combined market share of approximately 17.0% in the U.S. equity options market between our two markets and a much larger footprint in global derivatives.

## **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 business (cash equity and derivative trading) and our Market Data business, which are interrelated because the Transaction Services business generates the quote and trade information that we sell to market participants and data vendors. Market Services also includes our Broker Services business.

## [Table of Contents](#)

- The Issuer Services segment includes our U.S. and European Listing Services and Financial Products businesses. The companies listed on The NASDAQ Stock Market represent a diverse array of industries. This diversity of NASDAQ-listed companies allows us to develop industry-specific and other indexes that we use to develop and license financial products and associated derivatives.
- The Market Technology segment provides technology solutions for trading, clearing and settlement information dissemination and also offers facility management integration and advisory services.

Our management has allocated resources, assessed performance and manages these businesses as three separate segments. See Note 17, “Segments,” to the condensed consolidated financial statements for further discussion.

### Segment Operating Results

Of our total second quarter 2008 revenues of \$821.5 million, 84.5% was from our Market Services segment, 10.7% was from our Issuer Services segment and 4.7% was from our Market Technology segment, compared to our total second quarter 2007 revenues of \$558.2 million, of which 87.3% was from our Market Services segment and 12.7% was from our Issuer Services segment. Of our first six months of 2008 revenues of \$1,635.3 million, 86.9% was from our Market Services segment, 10.0% was from our Issuer Services segment and 3.0% was from our Market Technology segment compared to our first six months of 2007 revenues of \$1,120.1 million, of which 87.8% was from our Market Services segment and 12.2% was from our Issuer Services segment.

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 June 30,		Percentage Change	Six Months Ended June 30,		Percentage Change
	2008 (in millions)	2007		2008 (in millions)	2007	
Market Services	\$ 694.1	\$ 487.4	42.4%	\$1,421.1	\$ 982.9	44.6%
Issuer Services	87.6	70.7	23.9%	163.3	137.1	19.1%
Market Technology	38.7	—	#	49.7	—	#
Other	1.1	0.1	#	1.2	0.1	#
Total revenues	\$ 821.5	\$ 558.2	47.2%	\$1,635.3	\$1,120.1	46.0%
Cost of revenues	(441.3)	(359.5)	22.8%	(976.8)	(729.4)	33.9%
Revenues less liquidity rebates, brokerage, clearance and exchange fees	\$ 380.2	\$ 198.7	91.3%	\$ 658.5	\$ 390.7	68.5%

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

[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 June 30,		Percentage Change	Six Months Ended June 30,		Percentage Change
	2008	2007		2008	2007	
	(in millions)			(in millions)		
<b>Transaction Services</b>						
<b>Cash Equity Trading Revenues:</b>						
U.S. cash equity trading <sup>(1)</sup>	\$ 495.0	\$ 403.3	22.7 %	\$1,092.7	\$ 813.9	34.3 %
Cost of revenues:						
Liquidity rebates	(345.2)	(238.3)	44.9 %	(730.0)	(463.5)	57.5 %
Brokerage, clearance and exchange fees <sup>(1)</sup>	(94.5)	(121.2)	(22.0) %	(245.2)	(265.9)	(7.8) %
<b>Total U.S. cost of revenues</b>	<b>(439.7)</b>	<b>(359.5)</b>	<b>22.3 %</b>	<b>(975.2)</b>	<b>(729.4)</b>	<b>33.7 %</b>
Net U.S. cash equity trading revenues	55.3	43.8	26.3 %	117.5	84.5	39.1 %
European cash equity trading	38.0	—	#	51.3	—	#
<b>Total cash equity trading revenues</b>	<b>93.3</b>	<b>43.8</b>	<b>#</b>	<b>168.8</b>	<b>84.5</b>	<b>99.8 %</b>
<b>Derivative Trading Revenues:</b>						
U.S. derivative trading	2.4	—	#	2.4	—	#
Cost of revenues – liquidity rebates	(1.6)	—	#	(1.6)	—	#
Net U.S. derivative trading revenues	0.8	—	#	0.8	—	#
European derivative trading	19.8	—	#	27.4	—	#
<b>Total derivative trading revenues</b>	<b>20.6</b>	<b>—</b>	<b>#</b>	<b>28.2</b>	<b>—</b>	<b>#</b>
<b>Access Services revenues</b>	<b>22.6</b>	<b>19.0</b>	<b>18.9%</b>	<b>44.4</b>	<b>37.5</b>	<b>18.4 %</b>
<b>Total Transaction Services revenues less liquidity rebates, brokerage, clearance and exchange fees</b>	<b>136.5</b>	<b>62.8</b>	<b>#</b>	<b>241.4</b>	<b>122.0</b>	<b>97.9 %</b>
<b>Market Data</b>						
Net U.S. tape revenue plans	36.2	36.4	(0.5) %	71.1	75.1	(5.3) %
U.S. market data products	25.7	21.1	21.8 %	50.4	40.9	23.2 %
European market data products	25.2	—	#	34.1	—	#
<b>Total Market Data revenues</b>	<b>87.1</b>	<b>57.5</b>	<b>51.5 %</b>	<b>155.6</b>	<b>116.0</b>	<b>34.1 %</b>
<b>Broker Services</b>	<b>12.0</b>	<b>—</b>	<b>#</b>	<b>19.2</b>	<b>—</b>	<b>#</b>
<b>Other Market Services</b>	<b>17.2</b>	<b>7.6</b>	<b>#</b>	<b>28.1</b>	<b>15.5</b>	<b>81.3 %</b>
<b>Total Market Services revenues less liquidity rebates, brokerage, clearance and exchange fees</b>	<b>\$ 252.8</b>	<b>\$ 127.9</b>	<b>97.7 %</b>	<b>\$ 444.3</b>	<b>\$ 253.5</b>	<b>75.3 %</b>

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

(1) Includes Section 31 fees of \$37.3 million in the second quarter of 2008, \$73.1 million in the second quarter of 2007, \$128.4 million in the first six months of 2008 and \$171.6 million in the first six months of 2007. As a result of NASDAQ's operation as a national securities exchange, Section 31 fees are recorded as U.S. cash trading revenues with a corresponding amount recorded in cost of revenues.

**Transaction Services**
**Cash Equity Trading Revenues**

Cash equity trading revenues increased in the second quarter and for the first six months of 2008 compared with the same periods in 2007 primarily due to an increase in trade execution market share in NYSE-, Amex- and regional-listed securities. An increase in average daily share volume in NASDAQ-listed securities in the first six months of 2008 compared with the same period in 2007 also contributed to the year over year increase. Partially offsetting these increases in both periods are lower Section 31 revenues due to lower rates charged beginning January 2008 and lower average daily share volume and market share in NASDAQ-listed securities in the second quarter of 2008 compared with the same period in 2007. Transaction Services revenues also include European cash equity trading revenues of \$38.0 million for the second quarter of 2008 and \$51.3 million for the first six months of 2008 which includes trading and clearing revenues from equity and derivative products traded on the Nordic Exchange.

## [Table of Contents](#)

As discussed above, we record Section 31 fees as trading revenues with a corresponding amount recorded as cost of revenues. 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 \$37.3 million in the second quarter of 2008 compared to \$73.1 million in the second quarter of 2007 and \$128.4 million in the first six months of 2008 compared to \$171.6 million in the first six months of 2007. The decrease in the second quarter and first six months of 2008 compared with the same periods last year was primarily due to a rate reduction in January 2008.

### **Derivative Trading Revenues**

Derivative trading revenues increased in the second quarter and for the first six months of 2008 compared with the same periods in 2007 due to the inclusion of European derivative trading revenues and the launch of The NASDAQ Options Market on March 31, 2008.

### **Access Services Revenues**

Access services revenues increased in the second quarter and first six months of 2008 compared to the same periods in 2007 primarily due to increases in customer demand for network connectivity and exchange and other membership fees.

### **Market Data**

Market Data revenues increased in the second quarter and for the first six months of 2008 compared with the same periods in 2007 primarily due to an increase in U.S. market data products revenues and the inclusion of European market data products revenues of \$25.2 million for the second quarter of 2008 and \$34.1 million for the first six months of 2008, partially offset by a decrease in net U.S. tape revenue plans. U.S. market data products revenues increased in the second quarter and first six months of 2008 compared with the same periods in 2007 primarily due to additional revenues from OpenView Basic which was launched in the second quarter of 2007 and growth in our TotalView revenues due to an increase in subscribers and distributors as well as an increase in other proprietary data products. Net U.S. tape revenues decreased in the second quarter and for the first six months of 2008 compared with the same periods in 2007 primarily due to tape fee revenues shared for NASDAQ-listed securities through the UTP Plan, partially offset by higher tape revenues from Tape A, which represents data related to trading of certain NYSE-listed securities, due to increases in our share of trading and quoting activity in NYSE-listed securities. Under the revenue sharing provision of the UTP Plan, we are permitted to deduct costs associated with acting as the exclusive Securities Information Processor from the total amount of tape fees collected. After these costs are deducted from the tape fees, we distribute to the respective UTP Plan participants, including NASDAQ OMX, their share of tape fees based on a formula, required by Regulation NMS that takes into account both trading and quoting activity. Our tape fee revenue sharing amount allocated to UTP Plan participants increased in the second quarter and first six months of 2008 compared with the same periods in 2007 primarily due to a reduction of our percentage earned of the UTP revenue caused, in part, by the Regulation NMS market data revenue allocation formula, which became effective April 1, 2007 and a decrease in market share from internalized trades.

### **Broker Services**

As a result of our business combination with OMX, Broker Services is a new product within our Market Services segment. Broker Services revenues were \$12.0 million for the second quarter of 2008 and \$19.2 million for the first six months of 2008.

### **Other Market Services**

Other Market Services revenues increased in the second quarter and for the first six months of 2008 compared with the same periods in 2007 primarily due to the inclusion of OMX revenues of \$8.9 million in the second quarter 2008 and \$11.7 million for the first six months of 2008. Other Market Services includes revenues from the OTC Bulletin Board and testing facility.

## [Table of Contents](#)

### ISSUER SERVICES

The following table shows revenues from our Issuer Services segment:

	Three Months Ended June 30,		Percentage Change	Six Months Ended June 30,		Percentage Change
	2008	2007		2008	2007	
	(in millions)			(in millions)		
<b>Listing Services:</b>						
Annual renewal fees	\$ 30.5	\$ 31.1	(1.9)%	\$ 60.8	\$ 61.8	(1.6)%
Listing of additional shares fees	10.2	10.1	1.0 %	20.6	19.8	4.0%
Initial listing fees	5.6	5.5	1.8 %	11.4	10.9	4.6%
Total U.S. listing fees	46.3	46.7	(0.9)%	92.8	92.5	0.3%
European listing fees	15.0	—	#	19.2	—	#
Corporate services	15.4	13.2	16.7%	28.9	25.0	15.6%
Total Listing Services	76.7	59.9	28.0%	140.9	117.5	19.9%
Financial Products	10.9	10.8	0.9%	22.4	19.6	14.3%
Total Issuer Services revenues	\$ 87.6	\$ 70.7	23.9 %	\$ 163.3	\$ 137.1	19.1 %

# Denotes a variance equal to 100.0%.

#### Listing Services Revenues

Listing Services revenues in the U.S. include fees for annual renewals, listing of additional shares fees and initial listing fees for companies listed on The NASDAQ Stock Market. For our U.S. operations, fees are generally calculated based upon total shares outstanding for the issuing company. These fees are initially deferred and amortized over the estimated periods for which the services are provided. Revenues from annual renewal fees are amortized on a pro-rata basis over the calendar year and listing of additional shares fees and initial listing fees are amortized over four and six years, respectively.

Annual renewal fees decreased in the second quarter and first six months of 2008 compared with the same periods in 2007. The number of companies listed on The NASDAQ Stock Market on January 1, 2008 was 3,135, compared to 3,193 on January 1, 2007, the date on which listed companies are billed their annual fees. The decrease in the number of listed companies was due to 348 delistings by Nasdaq during 2007, partially offset by 290 new listings during 2007. The number of listed companies as of January 1, 2008 and 2007 also includes separately listed ETFs.

Listing of additional shares fees and initial listing fees increased in the second quarter and first six months of 2008 compared with the same periods in 2007 primarily due to amortization of fees.

#### European Listing Revenues

European listing fees, which are comprised of issuers' revenues derived from annual fees received from listed companies on the Nordic Exchange, are directly related to the listed companies' market capitalization. These revenues are recognized ratably over the following 12-month period.

#### Corporate Services Revenues

Listing Services revenues also include fees from Corporate services which include commission income from Carpenter Moore, subscription income from Shareholder.com and Directors Desk (beginning July 2, 2007) and fees from PrimeNewswire. Corporate services revenues increased in the second quarter and first six months of 2008 compared with the same periods in 2007 primarily due to expanding customer utilization of our Corporate services.

## [Table of Contents](#)

### Financial Products Revenues

Financial Products revenues primarily include license fees for our trademark licenses related to financial products linked to our indexes issued in the U.S. and abroad. Financial Products revenues increased in the second quarter and first six months of 2008 compared with the same periods in 2007 primarily due to an increase in licensing fees and underlying assets associated with NASDAQ-licensed ETFs and increased licensed derivatives volumes, partially offset by a decrease in Portal applications as a result of economic conditions. Financial Products, through its PORTAL Market, facilitates the eligibility for clearing and settlement services at Depository Trust and Clearing Corporation, or DTCC, of PORTAL/Rule 144A securities.

### MARKET TECHNOLOGY

As a result of our business combination with OMX, Market Technology is a new reporting segment. The following table shows the revenues from our Market Technology segment:

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
(in millions)		
Market Technology:		
License, support and project revenues	\$ 26.8	\$ 33.8
Facility management services	9.5	12.2
Other revenues	2.4	3.7
Total Market Technology revenues	<u>\$ 38.7</u>	<u>\$ 49.7</u>

Market Technology provides technology solutions for trading, clearing and settlement 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, for instance, 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.

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.

Other revenues are derived from advisory services and are recognized in revenue when earned.

### Expenses

#### Direct Expenses

The following table shows our direct expenses:

	Three Months Ended June 30,		Percentage Change	Six Months Ended June 30,		Percentage Change
	2008	2007		2008	2007	
(in millions)						
Compensation and benefits	\$ 115.2	\$ 49.7	#	\$ 188.6	\$ 94.0	#
Marketing and advertising	4.0	4.2	(4.8)%	5.8	9.1	(36.3)%
Depreciation and amortization	22.2	9.8	#	38.1	19.6	94.4%
Professional and contract services	22.5	8.7	#	36.3	17.0	#
Computer operations and data communications	17.4	7.9	#	25.6	16.1	59.0%
Provision for bad debts	(1.1)	(1.4)	(21.4)%	(0.1)	2.1	#
Occupancy	16.6	9.0	84.4%	28.9	17.9	61.5%
Regulatory	7.5	7.1	5.6%	15.0	13.8	8.7%
Merger expenses	5.7	—	#	7.2	—	#
General, administrative and other	15.4	4.8	#	25.3	20.8	21.6%
Total direct expenses	<u>\$ 225.4</u>	<u>\$ 99.8</u>	#	<u>\$370.7</u>	<u>\$210.4</u>	76.2%

## [Table of Contents](#)

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

Compensation and benefits expense increased in the second quarter and first six months of 2008 compared with the same periods in 2007 primarily due to the inclusion of OMX's compensation expense of \$54.1 million in the second quarter of 2008 and \$74.3 million in the first six months of 2008, a curtailment gain of approximately \$6.5 million as a result of the Pension Plan and SERP freeze recognized in the first quarter of 2007 and additional share-based compensation expense due to grants in December 2007 to all active employees. Headcount increased from 887 employees at December 31, 2007 to 2,334 employees at June 30, 2008, primarily due to our business combination with OMX. See Note 9, "Employee Benefits," and Note 10, "Share-Based Compensation," to the condensed consolidated financial statements for further discussion.

Marketing and advertising expense decreased in the second quarter and first six months of 2008 compared with the same periods in 2007. The decrease is primarily due to reduced marketing activity in the first quarter and first six months of 2008 compared with the same periods in 2007.

Depreciation and amortization expense increased in the second quarter and first six months of 2008 compared with the same periods in 2007 primarily due to additional amortization expense of \$6.1 million in the second quarter of 2008 and \$10.0 million in the first six months of 2008 for intangible assets acquired in our business combination with OMX and the inclusion of OMX's depreciation and amortization expense of \$6.1 million in the second quarter of 2008 and \$8.6 million in the first six months of 2008.

Professional and contract services expense increased in the second quarter and first six months of 2008 compared with the same periods in 2007 primarily due to the inclusion of OMX's professional and contract services expense of \$13.9 million in the second quarter of 2008 and \$20.1 million in the first six months of 2008.

Computer operations and data communications expense increased in the second quarter and first six months of 2008 compared with the same periods in 2007 primarily due to the inclusion of OMX's computer operations and data communication expense of \$12.3 million in the second quarter of 2008 and \$15.3 million in the first six months of 2008, partially offset by lower costs due to hardware and software leases which were cancelled in the fourth quarter of 2007.

Provision for bad debts was a credit balance of \$1.1 million in the second quarter of 2008 compared with a credit balance of \$1.4 million in the second quarter of 2007 and was a credit balance in the first six months of 2008 of \$0.1 million compared with an expense of \$2.1 million for the first six months of 2007. The credit balance in all periods is due to the release of a portion of the reserve for doubtful accounts due to better collection results.

Occupancy expense increased in the second quarter and first six months of 2008 compared with the same periods in 2007 primarily due to the inclusion of OMX's occupancy expense of \$7.4 million in the second quarter of 2008 and \$11.3 million in the first six months of 2008.

Regulatory expense increased in the second quarter and first six months of 2008 compared with the same periods in 2007 primarily due to higher trading and quoting activity in 2008. Since we sought to preserve a regulatory separation upon operation as a national securities exchange, FINRA continues to provide regulatory services to the Exchange, including the regulation of trading activity on The NASDAQ Stock Market and surveillance and investigative functions.

Merger expenses were \$5.7 million in the second quarter of 2008 and \$7.2 million in the first six months of 2008. These costs are directly attributable to the business combination with OMX, but do not qualify as purchase accounting adjustments. The costs primarily include consulting and legal costs related to our integration of OMX.

General, administrative and other expense increased in the second quarter and first six months of 2008 compared with the same periods in 2007 primarily due to the inclusion of OMX's general, administrative and other expense of \$10.3 million in the second quarter of 2008 and \$15.5 million in the first six months of 2008, partially offset by a first quarter 2007 charge of \$10.6 million related to a clearing contract. Our single trading platform includes the functionality that enabled us to discontinue the use of services previously provided under the contract.

## [Table of Contents](#)

### Other Income (Expense), net

The following table presents the components of other income (expense), net:

	Three Months Ended June 30,		Percentage Change	Six Months Ended June 30,		Percentage Change
	2008	2007		2008	2007	
	(in millions)			(in millions)		
Interest income	\$ 8.0	\$ 7.7	3.9%	\$ 18.1	\$ 13.3	36.1%
Interest expense	(20.9)	(23.6)	(11.4)%	(29.5)	(47.0)	(37.2)%
Net interest expense	(12.9)	(15.9)	(18.9)%	(11.4)	(33.7)	(66.2)%
Dividend and investment income	2.9	14.6	(80.1)%	3.3	14.5	(77.2)%
Income from unconsolidated investees, net	1.3	—	#	27.6	—	#
Gain (loss) on foreign currency contracts	4.9	(1.7)	#	40.1	(9.5)	#
Strategic initiative costs	—	(1.6)	#	—	(26.5)	#
Total other income (expense), net	\$ (3.8)	\$ (4.6)	(17.4)%	\$ 59.6	\$ (55.2)	#

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

#### *Net Interest Expense*

Net interest expense was \$12.9 million for the second quarter of 2008 compared with \$15.9 million for the second quarter of 2007, a decrease of \$3.0 million and was \$11.4 million for the first six months of 2008 compared with \$33.7 million for the first six months of 2007, a decrease of \$22.3 million. The decrease in the second quarter of 2008 was primarily due to a decrease in interest rates. The decrease in the first six months of 2008 was primarily due to a lower outstanding debt balance prior to February 27, 2008, when we incurred new debt for the business combination with OMX. The lower debt balance prior to February 27, 2008 was primarily due to the repayment in full of our outstanding debt obligations in September 2007 from the proceeds of the sale of our share capital of the LSE. In addition, \$324.9 million of the principal amount of the 3.75% convertible notes that were outstanding in the first six months of 2007 were converted primarily in the fourth quarter of 2007, which reduced the principal amount outstanding and contributed to the decrease in the first six months of 2008 and second quarter of 2008. Further contributing to the decrease in the first six months of 2008 was additional interest income on higher cash balances due to the cash proceeds received from the sale of the share capital of the LSE.

#### *Dividend and Investment Income*

Dividend and investment income was \$2.9 million in the second quarter of 2008 compared with \$14.6 million in the second quarter of 2007, a decrease of \$11.7 million and was \$3.3 million in the first six months of 2008 compared with \$14.5 million in the first six months of 2007, a decrease of \$11.2 million. The decrease in both periods is primarily due to the receipt of ordinary dividends declared from our investment in the LSE in 2007.

#### *Income from Unconsolidated Investees, net*

Income from unconsolidated investees, net was \$1.3 million in the second quarter of 2008 and \$27.6 million in the first six months of 2008. The income in the first six months of 2008 primarily relates to the DIFX transaction. In connection with the DIFX transaction, we contributed intangible assets and \$50.0 million in cash to DIFX in exchange for a 33 1/3% equity ownership in DIFX. 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 \$26.0 million gain for the difference between Nasdaq's carrying value and the fair value of the contributed asset on this non-monetary exchange. See "Equity Investment in DIFX" in Note 3, "Business Combinations," to the condensed consolidated financial statements for further discussion. Also included in this line item are earnings and losses from our ownership in unconsolidated equity method investees.

#### *Gain (Loss) on Foreign Currency Contracts*

The gain on foreign currency contracts was \$4.9 million in the second quarter of 2008, compared with a loss of \$1.7 million in the second quarter of 2007, an increase of \$6.6 million. The gain on foreign currency contracts was \$40.1 million in the first six months of 2008, compared with a loss of \$9.5 million in the first six months of 2007, an increase of \$49.6 million. The gain in the second quarter of 2008 primarily related to gains on forward currency contracts used to economically hedge our market technology contracted revenue streams. The gain in the first six months of 2008 related to our business combination with OMX (\$27.0 million), our proposed acquisition of certain businesses of Nord Pool (\$7.8 million) and gains on forward currency contracts used to limit our

## [Table of Contents](#)

exposure to foreign currency exchange rate fluctuations on contracted revenue streams. The loss in the second quarter of 2007 was related to our business combination with OMX while the loss for the first six months of 2007 related to our acquisition bid for OMX as well as our acquisition bid for the LSE. See Note 13, "Derivative Financial Instruments and Hedging Activities," to the condensed consolidated financial statements for further discussion.

### *Strategic Initiative Costs*

Strategic initiatives costs were \$1.6 million in the second quarter of 2007 and \$26.5 million in the first six months of 2007. We incurred these costs in connection with our strategic initiatives related to the LSE, including our acquisition bid. In conjunction with the lapse of our final offers for the LSE in February 2007, these costs were charged to expense. See Note 6, "Financial Investments, at Fair Value," to the condensed consolidated financial statements for further discussion.

### **Minority Interests**

Minority interests were (\$0.8) million in the second quarter 2008 and were (\$1.0) million in the first six months of 2008 compared with \$0.1 million for the first six months of 2007, a decrease of \$1.1 million. The minority interests in 2008 primarily relate to the minority holding of 1.2% in OMX as of June 30, 2008. The 2007 minority interests relate to Reuters' investment in the Independent Research Network, which has been reduced to zero due to losses incurred at the Independent Research Network. All of the Independent Research Network's losses are recorded by us. We have previously announced that we will discontinue the Independent Research Network's operations.

### **Income Taxes**

NASDAQ OMX's income tax provision was \$48.6 million in the second quarter of 2008 and \$123.4 million in the first six months of 2008 compared with \$38.2 million in the second quarter of 2007 and \$50.8 million in the first six months of 2007. The overall effective tax rate was 32.3% in the second quarter of 2008 compared to 40.5% in the second quarter of 2007. The overall effective tax rate was 35.6% in the first six months of 2008 compared to 40.5% in the first six months of 2007. The lower effective tax rate in 2008 is primarily due to a decrease in state tax liabilities as well as non-U.S. earnings taxed at a rate lower than the U.S. statutory tax rate.

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.

NASDAQ OMX and its eligible subsidiaries file a consolidated U.S. federal income tax return, and applicable state and local income tax returns and non-U.S. income tax returns. Federal income tax returns for years 2004-2006 are subject to examination by the Internal Revenue Service. Several state tax returns are currently under examination by the respective tax authorities for years 1996-2006. Non-U.S. tax returns are subject to review by the respective tax authorities. We anticipate that the amount of unrecognized tax benefits at June 30, 2008 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.

### **Liquidity and Capital Resources**

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 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. In the long-term, we may use both internally generated funds and external sources to satisfy our debt and other long-term liabilities. In order to finance our business combination with OMX and acquisition of PHLX, we have incurred additional debt and issued shares of our common stock. In addition, we expect to incur additional debt to finance the proposed acquisition of certain businesses of Nord Pool. See Note 8, "Debt Obligations," to the condensed consolidated financial statements for further discussion.

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:

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

## Table of Contents

- 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.

### Cash and Cash Equivalents and Changes in Cash Flows

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

	<u>June 30, 2008</u>	<u>December 31, 2007</u> (in millions)	<u>Percentage Change</u>
Cash and cash equivalents <sup>(1)</sup>	\$ 740.0	\$ 1,325.3	(44.2)%

<sup>(1)</sup> As of June 30, 2008 our cash and cash equivalents included \$43.3 million of restricted cash which is not available for general use by us due to regulatory requirements.

	<u>Six Months Ended June 30,</u>		
	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
	(in millions)		
Cash provided by operating activities	\$ 272.5	\$ 180.3	51.1%
Cash provided by (used in) investing activities	(1,987.5)	67.7	#
Cash provided by financing activities	1,129.7	5.0	#

# Denotes a variance greater than 100.0%.

*Cash and cash equivalents.* Cash and cash equivalents decreased \$585.3 million from December 31, 2007 primarily due to cash used in connection with the business combination with OMX, payment of OMX debt obligations and Section 31 fees. This decrease was partially offset by proceeds from debt obligations, cash acquired in our business combination with OMX, positive cash flow from operations and cash proceeds received related to the sale of our foreign currency contracts used to economically hedge our acquisition bid for OMX. See Note 3, "Business Combinations," and Note 13, "Derivative Financial Instruments and Hedging Activities," to the condensed consolidated financial statements for further discussion.

### Changes in Cash Flows

*Cash provided by operating activities.* The following items impacted our cash provided by operating activities for the six months ended June 30, 2008:

- Net income of \$223.0 million, partially offset by:
  - Non-cash items of approximately \$49.7 million comprised primarily of the gain on foreign currency contracts of \$40.1 million, deferred taxes, net of \$38.7 million and income from unconsolidated investees, net of \$27.6 million, partially offset by depreciation and amortization of \$38.1 million, share-based compensation of \$11.5 million and foreign currency translation adjustment of \$9.5 million.
- Increase in deferred revenue of \$48.7 million mainly due to Issuer Services' annual billings.
- Increase in accounts payable and accrued expenses and other accrued liabilities of \$50.0 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.

During the six months ended June 30, 2007, the following items impacted our cash provided by operating activities:

- Net income of \$74.4 million.
- Non-cash charges of approximately \$41.4 million, comprised primarily of strategic initiative costs of \$26.5 million, a clearing contract charge of \$10.6 million, a loss on foreign currency option contracts of \$9.5 million, and depreciation and amortization of \$19.6 million, partially offset by deferred taxes, net of \$32.7 million.
- Increase in deferred revenue of \$77.7 million mainly due to Corporate Client Group's annual billings.
- An increase an increase in Section 31 fees payable to SEC of \$72.2 million, partially offset by an increase in receivables, net of \$48.8 million. Section 31 fees payable to SEC increased due to the recording of additional Section 31 fees in connection with The Nasdaq Stock Market's operation as an exchange as well as the recording of additional rebates payable as a result of increases in market share. Receivables, net increased also due to the recording of additional Section 31 fees and Issuer Services' annual billings.

## [Table of Contents](#)

- Decrease in accrued personnel costs of \$21.5 million primarily due to payment of the 2006 employee incentive compensation in February 2007, partially offset by the 2007 accrual for 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.* The decrease in cash provided by (used in) investing activities in the first six months of 2008 compared with the first six months of 2007 is primarily due to the cash used in connection with the business combination with OMX, net of cash acquired, as well as the acquisition of 33 1/3% of the equity of DIFX and, for total cash paid of \$1,976.0 million. In the first six months of 2007, in conjunction with the lapse of our final offers for the LSE in February 2007, we traded out of foreign currency option contracts which were purchased at the time of the commencement of our bid. These contracts were cash settled for \$63.9 million which increased our cash provided by investing activities in the first six months of 2007.

*Cash provided by financing activities.* Cash provided by financing activities for the first six months of 2008 consisted of the proceeds from the issuance of \$475.0 million aggregate principal amount of the 2.50% convertible senior notes and \$1,050.0 million in senior secured indebtedness under our credit facilities, net of debt issuance costs paid of \$48.0 million. See "Credit Facilities" below for further discussion. The proceeds from the 2.50% convertible senior notes and new credit facilities were partially offset by the refinancing of \$352.9 million of OMX outstanding debt obligations at the time of the business combination.

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

Working capital (calculated as current assets less current liabilities) was \$567.8 million at June 30, 2008, compared with \$1,270.8 million at December 31, 2007, a decrease of \$ 703.0 million or 55.3%, primarily due to the cash paid for the business combination with OMX.

We have historically been able to generate sufficient funds from operations to meet working capital requirements. At June 30, 2008, we had debt obligations of \$1,643.6 million, of which \$98.4 million is due within one year. In the first quarter of 2008, in connection with our business combination with OMX, we issued \$475.0 million aggregate principal amount of convertible senior notes and incurred \$1,050.0 million in senior secured indebtedness under our new credit facilities. In the third quarter of 2008, in connection with our acquisition of PHLX, we incurred an additional \$650.0 million in senior secured indebtedness under our new credit facilities See "Credit Facilities" below for further discussion.

At June 30, 2008, none of our lenders were affiliated with NASDAQ OMX, except to the extent, if any, that SLP would be deemed an affiliate of NASDAQ OMX due to its ownership of \$118.6 million aggregate principal amount of the 3.75% convertible notes and associated warrants and representation on our board of directors.

### **3.75% Convertible Notes**

As of June 30, 2008, approximately \$120.1 million in aggregate principal amount of the 3.75% convertible notes remained outstanding, which includes ownership by SLP of \$118.6 million.

### **2.50% Convertible Senior Notes**

On February 26, 2008, in connection with the combination with OMX, we completed the offering of \$475.0 million aggregate principal amount of 2.50% convertible senior notes due 2013. 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.

### **Credit Facilities**

In the first quarter of 2008, we entered into the Credit Facilities to finance the business combination with OMX, the acquisition of PHLX and the proposed acquisition of certain businesses of Nord Pool. The Credit Facilities provides for up to \$2,075.0 million of debt financing, which includes (i) a five-year, \$2,000.0 million senior secured term loan facility which consists (a) a \$1,050.0 million term loan facility allocated to the OMX business combination, (b) \$650.0 million term loan facility allocated to our acquisition of PHLX and (c) \$300.0 million delayed draw term loan facility allocated to fund our proposed acquisition of certain businesses of Nord Pool and (ii) a five-year, \$75.0 million senior secured revolving credit facility. At June 30, 2008, the revolving credit facility was unused. Total debt obligations outstanding under the Credit Facilities at June 30, 2008 were \$1,050.0 million.

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

## [Table of Contents](#)

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.

In addition to the \$75.0 million revolving credit facility discussed above, we also have credit facilities related to our clearinghouses in order to meet liquidity requirements. These credit facilities which are available in multiple currencies, primarily Swedish Krona, totaled \$257.4 million at June 30, 2008, of which \$6.8 million was drawn.

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

Our broker-dealer subsidiaries, Nasdaq Execution Services, LLC 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 June 30, 2008, Nasdaq Execution Services was required to maintain minimum net capital of \$0.3 million and had total net capital of approximately \$10.2 million or \$9.9 million in excess of the minimum amount required. At June 30, 2008, NASDAQ Options Services was also required to maintain minimum net capital of \$0.3 million and had total net capital of approximately \$4.6 million or \$4.3 million in excess of the minimum amount required.

### **Other Capital Requirements**

The NASDAQ Options Market launched on March 31, 2008, with the first option trade occurring on that date. The NASDAQ Options Market is required to maintain certain minimum levels of net capital under our clearing arrangement with The Options Clearing Corporation. The initial requirement for the first three months of membership was \$2.5 million and decreased to \$2.0 million after the initial period.

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

We are required to maintain minimum levels of regulatory capital for our Nordic Exchange clearing operations. The level of regulatory capital required to be maintained is dependent upon many factors including market conditions and creditworthiness of the counterparty. At June 30, 2008, we had regulatory capital of \$137.0 million in trading securities comprised of Swedish government debt securities.

## **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, credit risk and equity 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. The NASDAQ OMX Treasury group is responsible for identifying risk exposures and monitoring and managing such risks on a daily basis.

The Treasury group performs sensitivity analyses to determine the effects that market risk exposures may have. Treasury may use derivative instruments solely to hedge financial risks related to its 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 June 30, 2008:

	<u>Financial Assets</u>	<u>Financial Liabilities</u>	<u>Currency Forwards</u> (in millions)	<u>Total Net Exposure</u>	<u>Negative impact of a 100 bp adverse shift in interest rate <sup>(2)</sup></u>
<b>Floating rate <sup>(1)</sup> positions in:</b>					
U.S. Dollars	\$ 588.5	\$1,050.0	\$(312.0)	\$(773.5)	\$ 7.7
Swedish Krona	103.9	—	(56.8)	47.1	0.5
Euro	11.5	—	(55.7)	(44.2)	0.4
Danish Krona	5.1	—	119.4	124.5	1.2
Norwegian Krona	—	—	337.2	337.2	3.4
<b>Fixed rate positions in:</b>					
U.S. Dollars	—	593.0	—	(593.0)	—
Swedish Krona <sup>(3)</sup>	137.0	—	—	137.0	1.3
Total	<u>\$ 846.0</u>	<u>\$1,643.0</u>	<u>\$ 32.1</u>	<u>\$(764.9)</u>	<u>\$ 14.5</u>

## [Table of Contents](#)

- (1) Includes floating rate and fixed interest rates with a maturity or reset date due within 12 months.  
 (2) Annualized impact of a 100 basis point parallel adverse shift in the yield curve.  
 (3) Consists of our Swedish government debt securities, which are classified as trading investment securities, and include interest rate securities with an average duration of 2.25 years.

In order to hedge interest rate exposures, we may enter into interest rate derivative instruments, such as swaps, with counterparties that meet minimum creditworthiness and rating standards.

We are exposed to cash flow risk on floating rate positions. Because we are a net lender in Swedish, Norwegian and Danish Krona including currency forward positions, when interest rates in these currencies decrease, net interest and investment income decreases. Based on June 30, 2008 positions, each 1.0% increase in the Swedish, Norwegian and Danish Krona interest rates would impact annual pre-tax income by \$5.1 million in total as reflected in the table above. Because we are a net borrower in U.S. dollars and Euro including currency forward positions, when interest rates in these currencies increase, our net interest cost increases. Based on June 30, 2008 positions, a 1.0% increase in U.S. dollar interest rates would impact annual pre-tax income by \$7.7 million and a 1.0% increase in Euro interest rates would impact annual pre-tax income by \$0.4 million.

We are exposed to a price risk on our fixed rate positions held in our Swedish government debt securities portfolio. At June 30, 2008, fixed rate positions with an average outstanding maturity or reset date falling in more than one year amounted to \$46.0 million. A shift of 1.0% of the interest rate curve would in aggregate impact the fair value of these positions by approximately \$3.2 million. The average duration of the portfolio was 2.25 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 by \$1.3 million.

### *Foreign Currency Exchange Rate Risk*

As an international company, we are subject to currency translation risk. Some of our assets, liabilities, revenues and expenses are denominated in Swedish, Danish and Icelandic Krona and Euro. Assets, liabilities, revenues and expenses of foreign subsidiaries are generally denominated in the local functional currency of such subsidiaries.

Our primary exposure to foreign denominated earnings for the three months ended June 30, 2008 is presented by foreign currency in the following table:

	<u>Swedish Krona</u>	<u>Euro</u> (in millions, except currency rate)	<u>Danish Krona</u>	<u>Icelandic Krona</u>
Average foreign currency rate to the U.S. dollar second quarter 2008	0.1671	1.5623	0.2095	0.0131
Average foreign currency rate to the U.S. dollar in second quarter 2007	0.1457	1.3478	0.1810	0.0157
Foreign denominated operating income	\$ (3.3)	\$ 35.6	\$ 3.2	\$ 3.4
Impact of the currency fluctuations <sup>(1)</sup>	\$ (0.1)	\$ 7.6	\$ 0.1	\$ —

- (1) Represents the impact of currency fluctuations for the three months ended June 30, 2008 compared to the same period in 2007.

Our significant exposure to net investments in foreign currencies is presented below:

### *Equity Risk*

	<u>Net Investment</u>	<u>Impact on Consolidated Equity of a 10% Decrease in Foreign Currency</u> (millions of dollars)
Swedish Krona	\$ 266.5	\$ 26.6
Euro	112.6	11.3
Danish Krona	114.9	11.5
Norwegian Krona	75.1	7.5

### *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

## [Table of Contents](#)

credit risk by rigorously 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 Nasdaq Execution Services and NASDAQ Options Services provides for our trading customers. System trades in NASDAQ-listed securities, NYSE-listed securities and trades routed to other market centers for Exchange members are cleared by Nasdaq Execution Services, as a member of the NSCC. System trades in derivative contracts for the opening and closing cross and trades routed to other market centers for Exchange members are cleared by NASDAQ Options Services, as member of the OCC.

Pursuant to the rules of the NSCC and Nasdaq Execution Services' clearing agreement, Nasdaq Execution Services is liable for any losses incurred due to 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 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.

In addition, through our Nordic Exchange clearing operations, we act as a counterparty in each transaction 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 bank guarantees, which are guaranteed by us through counter indemnities. At June 30, 2008 these bank guarantees totaled \$513.3 million. 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 June 30, 2008, total customer pledged collateral was \$2.7 billion. The pledge collateral is held by a custodian bank. We believe that the potential for us 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.

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 counterparties creditworthiness.

Credit losses such as those described above could adversely affect our consolidated financial position and results of operations.

### **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:

<u>Contractual Obligations</u>	<u>Payments due by period</u>				
	<u>Total</u>	<u>Remainder of 2008</u>	<u>2009-2010 (in millions)</u>	<u>2011-2012</u>	<u>2013-thereafter</u>
Debt obligations by contract maturity (Note 8, "Debt Obligations") <sup>(1)</sup>	\$1,890.0	\$ 76.4	\$ 354.3	\$ 885.7	\$ 573.6
Minimum rental commitments under non-cancelable operating leases, net	373.6	25.1	93.5	76.7	178.3
Other obligations	12.5	11.3	1.2	—	—
Total	<u>\$2,276.1</u>	<u>\$ 112.8</u>	<u>\$ 449.0</u>	<u>\$ 962.4</u>	<u>\$ 751.9</u>

<sup>(1)</sup> Our debt obligations include both our expected principal and interest obligations. We used the weighted-average interest rate of 4.64% at June 30, 2008 to compute the amount of the contractual obligation for interest on the variable rate debt obligations. For our 3.75% convertible notes, the contractual obligation for interest was calculated on a 360 day basis at the contractual fixed rate

## [Table of Contents](#)

of 3.75% multiplied by the remaining aggregate principal amount of \$120.1 million at June 30, 2008. 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 \$475.0 million at June 30, 2008.

In addition to the above obligations, in 2007 we entered into definitive agreements to acquire certain business from Nord Pool. The proposed acquisition of certain business of Nord Pool is expected to close in the second half of 2008. See “Proposed Acquisition of Certain Businesses from Nord Pool ASA,” in Note 15, “Commitments, Contingencies and Guarantees,” to the condensed consolidated financial statements for further discussion.

### **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.** On February 27, 2008, Nasdaq completed its acquisition of OMX. Management has considered the transaction material to the results of operations, cash flows and financial position from the date of the acquisition through June 30, 2008, and believes that the internal controls and procedures of OMX have a material effect on internal controls over financial reporting. In accordance with SEC guidance, management has elected to exclude OMX from its December 31, 2008 assessment of and report on internal controls over financial reporting. NASDAQ OMX is currently in the process of incorporating the internal controls and procedures of OMX into the internal controls over financial reporting for our assessment of and report on internal controls over financial reporting for December 31, 2009. There have been no other changes in NASDAQ OMX’s internal controls over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) that occurred during NASDAQ OMX’s 2008 fiscal first six months that have materially affected, or are reasonably likely to materially affect, NASDAQ OMX’s internal controls over financial reporting.

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We are not currently a party to any litigation that we believe could have a material adverse effect on our business, consolidated 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**

The risks listed below reflect only material changes to the risk factors we disclosed in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2008. Please refer to these reports to read about the additional risk factors we face.

#### **Risks Relating to Our Business**

##### ***We may not be able to successfully combine the Nasdaq, OMX and PHLX businesses.***

Rationalizing, coordinating and integrating the operations of Nasdaq, OMX and PHLX involves complex technological, operational and personnel-related challenges. This process is time-consuming and expensive and may disrupt our business. The difficulties, costs and delays that could be encountered may include:

- unforeseen difficulties, costs or complications in combining the companies’ operations, which could lead to us not achieving the synergies we anticipate;
- unanticipated incompatibility of systems and operating methods;
- inability to use capital assets efficiently to develop the business of the combined company;
- the difficulty of complying with government-imposed regulations in both the United States and Europe, which may be different from each other;
- resolving possible inconsistencies in standards, controls, procedures and policies, business cultures and compensation structures between Nasdaq, OMX and PHLX;
- the diversion of management’s attention from ongoing business concerns and other strategic opportunities;
- the integration of Nasdaq’s, OMX’s and PHLX’s respective businesses, operations and workforces;

## Table of Contents

- unforeseen difficulties in operating acquired businesses in parallel with similar businesses that Nasdaq operated previously, including unforeseen difficulties in operating the PHLX options market in parallel with the NASDAQ Options Market;
- unforeseen difficulties in operating businesses Nasdaq has not operated before, such as PHLX's trading floor and futures and clearing businesses;
- unanticipated difficulty of integrating multiple acquired businesses simultaneously;
- the retention of key employees and the management of Nasdaq, OMX and PHLX;
- the implementation of disclosure controls, internal controls and financial reporting systems at OMX to enable us to comply with U.S. GAAP and U.S. securities laws and regulations, including the Sarbanes Oxley Act of 2002, required as a result of our status as a reporting company under the Exchange Act;
- the coordination of geographically separate organizations;
- the coordination and consolidation of ongoing and future research and development efforts;
- possible tax costs or inefficiencies associated with integrating the operations of the combined company;
- the retention and recruitment of management and employees to support existing and new aspects of the combined company's business and new technology development;
- pre-tax restructuring and revenue investment costs;
- the retention of strategic partners and attracting new strategic partners; and
- negative impacts on employee morale and performance as a result of job changes and reassignments.

For these reasons, the combined company may not achieve the anticipated financial and strategic benefits, including cost savings from operational efficiencies and synergies, from the combination of the businesses of Nasdaq, OMX and PHLX, and any actual cost savings and synergies may be lower than we currently expect and may take a longer time to achieve than we currently anticipate, and we may fail to realize any of the anticipated benefits of the combination of the three companies.

***We will need to invest in our operations to integrate OMX, PHLX and other transactions and to maintain and grow our business, and we may need additional funds to do so.***

We depend on the availability of adequate capital to maintain and develop our business. We believe that we can meet our current capital requirements from internally generated funds, cash on hand and available borrowings. If we are unable to fund our capital requirements as currently planned, however, it would have a material adverse effect on our business, financial condition and operating results.

In addition to our debt obligations, we will need to continue to invest in our operations for the foreseeable future to integrate OMX, PHLX and other acquired businesses. If we do not achieve the expected operating results, we will need to reallocate our cash resources. This may include borrowing additional funds to service debt payments, which may impair our ability to make investments in our business or to integrate OMX, PHLX and other acquired businesses.

Should we need to raise funds through incurring additional debt, we may become subject to covenants even more restrictive than those contained in our current debt instruments. Furthermore, if we issue additional equity, our equity holders will suffer dilution. Thus, there can be no assurance that additional capital will be available on a timely basis, on favorable terms or at all.

### ***Our leverage limits our financial flexibility.***

Our indebtedness as of June 30, 2008 was approximately \$1.6 billion. In connection with the closing of our combination with OMX on February 27, 2008, we incurred a significant amount of indebtedness, including the issuance of \$475 million aggregate principal amount of 2.50% convertible senior notes due 2013 and the borrowing of \$1,050.0 million of senior secured loans under the Credit Facilities. In addition, on July 24, 2008 in connection with our acquisition of PHLX, we borrowed \$650.0 million of senior secured loans under the Credit Facilities. We may also borrow up to an additional: (i) \$75.0 million under a revolver and (ii) \$300.0 million under a delayed draw term loan facility in connection with our acquisition of certain businesses of Nord Pool.

Our leverage could:

- reduce funds available to us for operations and general corporate purposes or for capital expenditures as a result of the dedication of a substantial portion of our consolidated cash flow from operations to the payment of principal and interest on our indebtedness;
- increase our vulnerability to a downturn in general economic conditions;
- place us at a competitive disadvantage compared with our competitors with less debt; and

## [Table of Contents](#)

- affect our ability to obtain additional financing in the future for refinancing indebtedness, acquisitions, working capital, capital expenditures or other purposes.

In addition, we must comply with the covenants in our Credit Facilities. Among other things, these covenants restrict our ability to grant liens, incur additional indebtedness, pay dividends, sell assets, make certain payments, conduct transactions with affiliates and merge or consolidate. Failure to meet any of the covenant terms of our Credit Facilities could result in an event of default. If an event of default occurs, and we are unable to receive a waiver of default, our lenders may increase our borrowing costs, restrict our ability to obtain additional borrowings, accelerate all amounts outstanding or enforce their interest against all collateral pledged.

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

Repurchases made in the fiscal quarter ended June 30, 2008 (in whole number of shares):

<u>Period</u>	<u>(a) Total Number of Shares (or Units) Purchased</u>	<u>(b) Average Price Paid per Share (or Units)</u>	<u>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</u>
April 2008	372	\$ 41.12	—	—
May 2008	16,079	38.27	—	—
June 2008	146	\$ 32.75	—	—
Total	16,597	—	—	—

The shares repurchased during the second quarter of 2008 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

At our annual meeting of stockholders on May 21, 2008, the following matters set forth in our Proxy Statement dated April 17, 2008, which was filed with the SEC pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, were voted upon with the results indicated below.

1. The nominees listed below were elected directors for one-year terms with the respective votes set forth opposite their names.

	<u>For</u>	<u>Withheld</u>
Soud Ba'alawy	113,469,473	6,136,126
Urban Bäckström	116,947,518	2,658,081
H. Furlong Baldwin	116,851,953	2,753,646
Michael Casey	116,456,858	3,148,741
Lon Gorman	116,478,108	3,127,491
Robert Greifeld	113,460,627	6,144,972
Glenn H. Hutchins	116,458,090	3,147,509
Birgitta Kantola	116,501,422	3,104,177
Essa Kazim	113,500,494	6,105,105
John D. Markese	116,348,711	3,256,888
Hans Munk Nielsen	116,950,463	2,655,136
Thomas F. O'Neill	111,783,768	7,821,831
James S. Riepe	116,880,059	2,725,540
Michael R. Splinter	116,500,700	3,104,899
Lars Wedenborn	116,952,091	2,653,508
Deborah L. Wince-Smith	116,964,273	2,641,326

2. A proposal seeking ratification of the appointment of Ernst & Young LLP as NASDAQ OMX's independent registered public accounting firm for the fiscal year ending December 31, 2008, was approved, with 118,182,196 votes cast for, 1,326,351 votes cast against, and 97,052 abstentions.
3. A proposal seeking approval of NASDAQ OMX's amended and restated equity incentive plan to, among other things, increase the number of authorized shares under the plan, was approved, with 88,768,473 votes cast for, 4,855,607 votes cast against, 121,096 abstentions and 25,860,423 broker non-votes.

---

[Table of Contents](#)

**Item 5. Other Information**

None

**Item 6. Exhibits**

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



**Index**

<u>Exhibit Number</u>	
10.1	Board Compensation Policy, approved as of April 16, 2008.
10.2	First Amendment to Regulatory Services Agreement, dated as of March 28, 2008, among FINRA and The NASDAQ Stock Market LLC.
11	Statement regarding computation of per share earnings (incorporated herein by reference from Note 11 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.

**The NASDAQ OMX Group, Inc.****Board Compensation Policy****Approved April 16, 2008 for Implementation in Conjunction  
with 2008 Annual Shareholders Meeting****Annual Retainer Compensation for Non-Employee Directors**

- Annual Non-Employee Director (“Director”) compensation will be based on a compensation year in connection with the Annual Meeting. This enables Directors to receive equity immediately following election and appointment to the Board at the annual shareholders meeting.
- Annual Retainer compensation will be equal to a total value of \$75,000 for each Director, other than the Chairman of the Board and the Deputy Chairman of the Board.
- Annual Retainer compensation will be equal to a total value of \$125,000 for the Chairman of the Board.
- Annual Retainer compensation will be equal to a total value of \$95,000 for the Deputy Chairman of the Board.
- Directors may annually elect to receive 100% or 50% of the Annual Retainer compensation in cash, equity, or two equal portions of cash and equity. If selected, the equity portion of the annual retainer will be paid in the form of RSAs to be awarded automatically on the date of the annual shareholders meeting immediately following election and appointment to the Board. Each Director will have the opportunity to make this election during the thirty (30) day period preceding the annual shareholders meeting.
- Directors will be given an opportunity to review the Director Compensation Policy in advance of the shareholders meeting, and will be asked to make the election prior to the shareholders meeting if a grant of RSAs is requested. If the Director declines to make an election, the entire Annual Retainer will be paid in cash.
- Calculation of the number of shares of restricted stock to be awarded to Directors who elect to receive part or all of their annual retainer in restricted stock will be valued at 100% of face value and based on the closing price of Common Stock on the date of the grant . Restricted stock awards are non-transferable and must be issued to the Director.
- The cash portion selected will be paid quarterly in equal installments.

- All Director RSAs will be granted under The NASDAQ OMX Group, Inc. Equity Incentive Plan (the “Equity Plan”).
- A Director appointed after the annual shareholders meeting will be eligible to receive a prorated share of the annual retainer compensation.

#### **Annual Equity for Non-Employee Directors**

- All Directors will receive equity in the form of Restricted Stock Awards (“RSAs”) in the amount of \$75,000 per annum. Restricted stock awards are non-transferable and must be issued to the Director.
- The annual equity award will be granted to each Director automatically on the date of the annual shareholders meeting immediately following the Director’s election and appointment to the Board.
- Calculation of the number of shares of restricted stock to be awarded will be valued at 100% of face value and based on the closing price of Common Stock on the date of the grant at a value of \$75,000.
- The RSA vesting schedule and other pertinent information related to the RSAs grants are discussed below in the RSAs section.
- A Director appointed after the annual shareholders meeting will be eligible to receive a prorated equity grant at the Director’s first Board meeting.

#### **Board and Committee Meeting Fees for Non-Employee Directors**

- Each Director will receive a fee of \$1,000 for each Board meeting attended. These fees will be paid quarterly.
- Each Director will receive a fee of \$1,000 for each Committee meeting attended. These fees will be paid quarterly.

#### **Annual Committee Chair Fees**

- The Chairperson of the Audit Committee will receive an Annual Chair Fee of \$25,000.
- Each Chairperson of the Finance, Management Compensation, and Corporate Governance Committees will receive an Annual Chair Fee of \$15,000.
- Annual Chair fees will be paid in the form of cash at the beginning of the annual compensation cycle.

---

### **Audit Committee Member Fees**

- Each Non-Chair Member of the Audit Committee will receive an annual membership fee of \$5,000.
- Annual Member fees will be paid in the form of cash at the beginning of the annual compensation cycle.

### **RSAs**

#### **RSA Vesting**

- RSAs will vest 100% two (2) years from the date of grant. RSAs will also vest upon the scheduled expiration of a Director's term, if such term is not renewed.
- Upon a Director's resignation (other than for death or disability) prior to the end of the Director's term, RSAs will be forfeited.
- Upon termination of a Director for "Misconduct" all RSAs will be forfeited without further consideration to the Director.
- Upon termination of a Director on account of his death or "Disability," RSAs will vest.
- Shortly after vesting, your vested shares will appear in your account at E\*trade. You may view your information by logging directly onto your online E\*Trade account at [https://us.etrade.com/e/t/user/login\\_sp](https://us.etrade.com/e/t/user/login_sp). Additionally, you may contact E\*Trade's Executive Services Team at 1.866.987.2339 or via email at [executive\\_services@etrade.com](mailto:executive_services@etrade.com)

#### **RSA Agreements, Share Restrictions & Voting Rights**

- RSAs will be evidenced by an RSA Agreement to be entered into with each Director and will be governed by the Equity Incentive Plan.
- Once vested, shares will be freely tradable. NASDAQ OMX does not have a repurchase right or obligation.
- As all the private company restrictions on NASDAQ OMX common stock sold in the private placement expired on June 28, 2002, these shares will be freely transferable upon vesting. Trading in these shares, however, will be subject to the Policy Statement On Trading

In NASDAQ OMX and Other Securities By Directors and Officers and to any contractual restrictions on transfer, such as lock-up agreements, that may be applicable

- During the vesting period, unvested restricted shares may be voted.

- **Taxes**

- Taxes on restricted stock are generally not imposed at the time of grant. However, once shares vest, the values of the vested shares are taxed as ordinary income. Alternatively, a Section 83(b) election may be filed with the IRS within **30 days** of the date of grant. An 83(b) election, allows for the taxes to be paid on the value of the unvested RSA on the date of grant, instead of at the time of vesting.
- If an 83(b) election is not made, tax will be due on the value of the **vested portion** of the RSA on the date of vesting using NASDAQ OMX's "Fair Market Value." The payment of these taxes will be made by the Director directly to the IRS based upon the Director's own personal tax situation. NASDAQ OMX will provide the Director with the appropriate 1099M in the year following the vesting (additional tax information will be provided if the Director is filing taxes on a quarterly basis).
- Any future appreciation realized when a Director sells or transfers the vested RSA shares will be taxed at the applicable capital gains rate.
- NASDAQ OMX encourages its Directors to consult with a tax advisor before making a Section 83(b) election.

- **Reporting and Disclosure**

- SEC Form 4s (Change in Beneficial Ownership) must be filed by each Director with the SEC within 2 days of RSA grants. The Director may request NASDAQ's assistance in the preparation and filing of Section 16 reports via the "COMPANY ASSISTANCE WITH SECTION 16 REPORTING" form and by providing a completed Power of Attorney and CIK/CCC Code, if the Director has a CIK/CCC Code currently assigned.
- RSAs will be reflected as stock owned by Directors in the Beneficial Ownership Table of the NASDAQ OMX Proxy and will be disclosed under the general Director compensation section of the Proxy.

---

- **Accounting**

- RSAs are expensed by the issuer over the vesting period.

**FIRST AMENDMENT TO REGULATORY SERVICES AGREEMENT**

THIS FIRST AMENDMENT TO REGULATORY SERVICES AGREEMENT (the "First Amendment") is made and entered into this 28th day of March, 2008, by and between The NASDAQ Exchange LLC, a Delaware limited liability company and assignee of The Nasdaq Stock Market, Inc. ("Nasdaq"), and the Financial Industry Regulatory Authority, Inc., a Delaware nonprofit corporation and successor in interest to NASD Regulation, Inc. ("FINRA").

## WITNESSETH:

WHEREAS, Nasdaq and FINRA entered into a Regulatory Services Agreement bearing an Effective Date of June 28, 2000 ("Agreement");

WHEREAS, the Parties have reached agreement that Nasdaq will design and build the System used for regulation of The NASDAQ Options Market and that FINRA will provide its expertise and collaborate with Nasdaq on the development of certain algorithms to be incorporated into this System; and

WHEREAS, the Parties wish to clarify their respective rights and obligations with respect to this collaboration in this First Amendment;

NOW, THEREFORE, for good and valuable consideration, the receipt of which and sufficiency of which is hereby acknowledged, Nasdaq and FINRA hereby agree to amend the Agreement as set forth below. Capitalized terms used but not defined in the First Amendment shall have the meanings set forth in the Agreement.

**1. Definitions.** Section 1.01 of the Agreement is modified to add the following definitions:

"Alert Algorithm" will mean with respect to the NOM System, only (1) that portion of the code of the Software that is a set of sequenced and ordered steps that will be applied to data loaded into the System to generate regulatory alerts as outputs and (2) the specific parameters used by the Software as part of the steps to filter the data, as these parameters may be configured or modified from time to time along with the business rules behind the Software development of the Alert Algorithm. For the avoidance of doubt, the term Alert Algorithm will not include any other Software or Machines related to the NOM System, including without limitation, the user front interface of the System, Software for loading and storing data (including data bases) and data feeds used by the NOM System to access information.

"FINRA Algorithms" will mean those Alert Algorithms whose purpose is to generate alerts used by FINRA in the performance of its regulatory Services with respect to the NOM. A list of the FINRA Algorithms is attached to the First Amendment as Exhibit A, as such Exhibit may be amended from time to time as new FINRA Algorithms are developed consistent with the terms of the Agreement.

"NOM" will mean The NASDAQ Options Market operated by The NASDAQ Option Market, LLC.

"NOM System" will mean collectively the System or Systems to be designed and built by Nasdaq to conduct regulation of the NOM by FINRA. The NOM System, in Nasdaq's sole discretion, may be designed to include other functionality in addition to that used by FINRA.

**2. Proprietary Rights.** Section 10.01 of the Agreement is hereby amended to renumber all of its existing provisions as subsection (1) and to add the following text as a new subsection (2):

(2) Notwithstanding anything to the contrary contained elsewhere in the Agreement, for purposes of determining the rights and obligations of the Parties, FINRA shall be deemed as having developed the FINRA Algorithms and any information related to the FINRA Algorithms that otherwise meets the definition of Intellectual Property under the Agreement shall be considered FINRA's Intellectual Property, subject to Nasdaq's right to a royalty-free license to use such Intellectual Property in the NOM System for the term of and in accordance with the terms of the Agreement. Except as set forth in the preceding sentence, this subsection 10.01(2) shall not modify or alter the rights and obligations of the Parties under the Agreement.

**3. Effect of First Amendment.** The definitions, terms and conditions of the Agreement shall remain in full force and effect except to the extent expressly modified by the First Amendment.

**4. Counterparts.** The First Amendment may be executed in one or more counterparts, each of which will be deemed an original, but all of which together shall constitute one and the same instrument.

**IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed as of the date set forth above.**

The NASDAQ Exchange LLC ("Nasdaq")

Financial Industry Regulatory Authority, Inc. ("FINRA")

By: /s/ Edward S. Knight

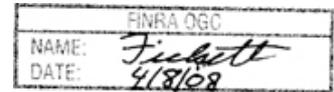
By: /s/ Stephen Luparello

Name: Edward S. Knight  
Title: EVP, General Counsel & CRO  
Authorized Officer

Name: Stephen Luparello  
Title: Sr. Exec Vice President  
Authorized Officer

Date: 3/28/08

Date: April 8, 2008



## CERTIFICATION

I, Robert Greifeld, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The NASDAQ OMX Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert Greifeld

Name: Robert Greifeld

Title: Chief Executive Officer

Date: August 8, 2008

## CERTIFICATION

I, David P. Warren, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The NASDAQ OMX Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David P. Warren

Name: David P. Warren

Title: Executive Vice President and Chief Financial Officer

Date: August 8, 2008

**Certification of CEO and CFO Pursuant to  
18 U.S.C. Section 1350  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of The NASDAQ OMX Group, Inc. (the "Company") for the quarter ended June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Robert Greifeld, as Chief Executive Officer of the Company and David P. Warren, as Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of the operations of the Company.

/s/ Robert Greifeld

\_\_\_\_\_  
Name: Robert Greifeld

Title: Chief Executive Officer

Date: August 8, 2008

/s/ David P. Warren

\_\_\_\_\_  
Name: David P. Warren

Title: Executive Vice President and Chief Financial Officer

Date: August 8, 2008

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.