NASDAQ OMX GROUP, INC.
Form 10-Q
August 06, 2014
Table Of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company

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

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

Class	Outstanding at July 25, 2014
Common Stock, $.01 par value per share	168,736,034 shares

Table Of Contents

The NASDAQ OMX Group, Inc.

Form 10-Q

For the Quarterly Period Ended June 30, 2014

INDEX

Table Of Contents

About This Form 10-Q

Throughout this Form 10-Q, unless otherwise specified:

- "NASDAQ OMX," "we," "us" and "our" refer to The NASDAQ OMX Group, Inc.
- "The NASDAQ Stock Market" and "NASDAQ" refer to the registered national securities exchange operated by The NASDAQ Stock Market LLC.
- "NASDAQ OMX Nordic" refers to collectively, NASDAQ OMX Clearing AB, NASDAQ OMX Stockholm, NASDAQ OMX Copenhagen, NASDAQ OMX Helsinki and NASDAQ OMX Iceland.
- "NASDAQ OMX Baltic" refers to collectively, NASDAQ OMX Tallinn, NASDAQ OMX Riga and NASDAQ OMX Vilnius.
- "NASDAQ OMX Nordic Clearing" refers to collectively, the clearing operations conducted through NASDAQ OMX Nordic and NASDAQ OMX Commodities.

* * * * * *

Aces®, Auto Workup®, AXE®, BX Venture Market®, CCBN®, Directors Desk®, Dream It. Do It®, E and Design®, eSpeed and Design®, eSpeed®, e-Speed®, eSpeed Elite®, eSpeed Filing®, eSpeedoMeter®, EVI®, FINQLOUD®, FTEN®, GlobeNewswire®, INET®, ITCH®, Kleos®, Market Intelligence Desk®, Market Mechanics®, MarketSite®, MYCCBN®, NASDAQ®, NASDAQ Biotechnology®, NASDAQ Capital Market®, NASDAQ Competitive VWAP®, NASDAQ Composite®, NASDAQ Composite Index®, NASDAQ Computer Index®, NASDAQ-Financial®, NASDAQ-Financial Index®, NASDAQ Financial-100 Index®, NASDAQ Global Market®, NASDAQ Global Select Market®, NASDAQ Industrial Index®, NASDAQ Interact®, NASDAQ Internet Index®, NASDAQ Market Analytix®, NASDAQ Market Center®, NASDAQ Market Forces®, NASDAQ Market Velocity®, NASDAQ MarketSite®, NASDAQ MAX®, NASDAQ National Market®, NASDAQ OMX®, NASDAQ OMX Advantage®, NASDAQ OMX Alpha Indexes®, NASDAQ OMX BX®, NASDAQ OMX Futures Exchange®, NASDAQ OMX Green Economy Index®, NASDAQ OMX Nordic®, NASDAQ Q-50 Index®, NASDAQ Telecommunications Index®, NASDAQ TotalView®, NASDAQ Trader®, NASDAQ Transportation®, NASDAQ US ALL Market®, NASDAQ Volatility Guard®, NASDAQ Workstation®, NASDAQ Workstation II®, NASDAQ-100®, NASDAQ-100 European®, NASDAQ-100 Index®, NASDAQ-100 Index Tracking Stock®, NDX®, NFX World Currency®, NFX XL®, PHLX®, PORTAL Alliance®, QQQ®, QTARGET®, QView®, R3®, RX®, Sidecar®, SX®, The NASDAQ OMX Group®, The NASDAQ Stock Market®, The Stock Market for the Next 100 Years® and UltraFeed® are significant registered trademarks of The NASDAQ OMX Group, Inc. and its affiliates in the U.S. and other countries.

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

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

* * * * * *

This Quarterly Report on Form 10-Q includes market share and industry data that we obtained from industry publications and surveys, reports of governmental agencies and internal company surveys. Industry publications and surveys generally state that the information they contain has been obtained from sources believed to be reliable, but we cannot assure you that this information is accurate or complete. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position are based on the most currently available market data. For market comparison purposes, The NASDAQ Stock Market data in this Quarterly Report on Form 10-Q for initial public offerings, or IPOs, is based on data generated internally by us, which includes best efforts underwritings and closed-end funds; therefore, the data may not be comparable to other publicly-available IPO data. Data in this Quarterly Report on Form 10-Q for new listings of equity securities on The NASDAQ Stock Market is based on data generated internally by us, which includes best efforts underwritings, issuers that switched from other listing venues, closed-end funds and exchange traded funds, or ETFs. Data in this Quarterly Report on Form 10-Q for IPOs and new listings of equity securities on the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic also is based on data generated internally by us. IPOs and new listings data is presented as of period end. While we are not aware of any misstatements regarding industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors. We refer you to the “Risk Factors” section in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, the “Risk Factors” section in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 that was filed with the U.S. Securities and Exchange Commission, or SEC, on May 9, 2014 and the “Risk Factors” section in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 that was filed with the SEC on February 24, 2014.

Table Of Contents

Forward-Looking Statements

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

- our 2014 outlook;
- the scope, nature or impact of acquisitions, divestitures, investments or other transactional activities;
- the integration of acquired businesses, including accounting decisions relating thereto;
- the effective dates for, and expected benefits of, ongoing initiatives, including strategic, technology, de-leveraging and capital return initiatives;
- the impact of pricing changes;
- tax matters;
- the cost and availability of liquidity; and
- any litigation or regulatory or government investigation or action to which we are or could become a party.

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

- our operating results may be lower than expected;
- loss of significant trading and clearing volume, market share, listed companies or other customers;
- economic, political and market conditions and fluctuations, including interest rate and foreign currency risk, inherent in U.S. and international operations;
- government and industry regulation;
- our ability to keep up with rapid technological advances;
- our ability to successfully integrate acquired businesses, including the fact that such integration may be more difficult, time consuming or costly than expected, and our ability to realize synergies from business combinations and acquisitions;
- covenants in our credit facilities, indentures and other agreements governing our indebtedness which may restrict the operation of our business; and
- adverse changes that may occur in the securities markets generally.

Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the uncertainty and any risk related to forward-looking statements that we make. These risk factors are discussed under the caption “Part II. Item 1A. Risk Factors,” in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 that was filed with the SEC on May 9, 2014 and more fully described in the “Risk Factors” section in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 that was filed with the SEC on February 24, 2014. 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 Quarterly Report on Form 10-Q, including “Part 1. Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the condensed consolidated financial statements and the related notes. Except as required by the federal securities laws, we undertake no obligation to update any forward-looking statement, release publicly any revisions to any forward-looking statements or report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Table Of Contents

PART 1—FINANCIAL INFORMATION

Item 1. Financial Statements.

The NASDAQ OMX Group, Inc.

Condensed Consolidated Balance Sheets

(in millions, except share and par value amounts)

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 314	$ 398
Restricted cash	39	84
Financial investments, at fair value	203	189
Receivables, net	395	393
Deferred tax assets	22	12
Default funds and margin deposits	2,579	1,961
Other current assets	166	126
Total current assets	3,718	3,163
Property and equipment, net	280	268
Non-current deferred tax assets	482	404
Goodwill	6,068	6,186
Intangible assets, net	2,313	2,386
Other non-current assets	255	170
Total assets	$ 13,116	$ 12,577
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 188	$ 228
Sections 31 fees payable to SEC	154	82
Accrued personnel costs	100	154
Deferred revenue	230	151
Other current liabilities	135	141
Deferred tax liabilities	38	38
Default funds and margin deposits	2,579	1,961
Current portion of debt obligations	-	45
Total current liabilities	3,424	2,800
Debt obligations	2,408	2,589
Non-current deferred tax liabilities	697	708

Non-current deferred revenue	232	143
Other non-current liabilities	148	153
Total liabilities	6,909	6,393
Commitments and contingencies		
Equity		
NASDAQ OMX stockholders' equity:		
Common stock, $0.01 par value, 300,000,000 shares authorized, shares issued: 216,640,867 at June 30, 2014 and 214,419,155 at December 31, 2013; shares outstanding: 168,588,156 at June 30, 2014 and 169,357,084 at December 31, 2013	2	2
Preferred stock, 30,000,000 shares authorized, series A convertible preferred stock: shares issued: none at June 30, 2014 and 1,600,000 at December 31, 2013; shares outstanding: none at June 30, 2014 and December 31, 2013	-	-
Additional paid-in capital	4,328	4,278
Common stock in treasury, at cost: 48,052,711 shares at June 30, 2014 and 45,062,071 shares at December 31, 2013	(1,117)	(1,005)
Accumulated other comprehensive loss	(142)	(67)
Retained earnings	3,134	2,976
Total NASDAQ OMX stockholders' equity	6,205	6,184
Noncontrolling interests	2	-
Total equity	6,207	6,184
Total liabilities and equity	$ 13,116	$ 12,577

See accompanying notes to condensed consolidated financial statements.

Table Of Contents

The NASDAQ OMX Group, Inc.

Condensed Consolidated Statements of Income

(Unaudited)

(in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Market Services	$ 544	$ 553	$ 1,126	$ 1,060
Listing Services	60	58	117	113
Information Services	123	107	246	212
Technology Solutions	138	96	273	172
Total revenues	865	814	1,762	1,557
Cost of revenues:				
Transaction rebates	(252)	(276)	(536)	(518)
Brokerage, clearance and exchange fees	(90)	(87)	(174)	(170)
Total cost of revenues	(342)	(363)	(710)	(688)
Revenues less transaction rebates, brokerage, clearance and exchange fees	523	451	1,052	869
Operating expenses:				
Compensation and benefits	145	126	303	243
Marketing and advertising	9	8	18	15
Depreciation and amortization	35	28	69	55
Professional and contract services	42	35	81	64
Computer operations and data communications	23	20	45	35
Occupancy	24	23	49	46
Regulatory	7	8	14	16
Merger and strategic initiatives	14	25	42	33
General, administrative and other	33	19	56	42
Restructuring charges	-	-	-	9
Voluntary accommodation program	-	-	-	62
Total operating expenses	332	292	677	620
Operating income	191	159	375	249
Interest income	1	2	3	5
Interest expense	(30)	(26)	(59)	(50)
Asset impairment charges	-	-	-	(10)
Income before income taxes	162	135	319	194
Income tax provision	61	47	114	64

Net income	101	88	205	130
Net (income) loss attributable to noncontrolling interests	-	-	-	-
Net income attributable to NASDAQ OMX	$ 101	$ 88	$ 205	$ 130
Per share information:				
Basic earnings per share	$ 0.60	$ 0.53	$ 1.21	$ 0.78
Diluted earnings per share	$ 0.59	$ 0.52	$ 1.18	$ 0.77
Cash dividends declared per common share	$ -	$ 0.13	$ 0.28	$ 0.26

See accompanying notes to condensed consolidated financial statements.

3

Table Of Contents

The NASDAQ OMX Group, Inc.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$ 101	$ 88	$ 205	$ 130
Other comprehensive income (loss):				
Net unrealized holding gains on available-for-sale investment securities:	-	14	-	15
Foreign currency translation gains (losses):				
Net foreign currency translation losses	(124)	(110)	(137)	(152)
Income tax benefit	54	176	62	183
Total	(70)	66	(75)	31
Total other comprehensive income (loss), net of tax	(70)	80	(75)	46
Comprehensive income	31	168	130	176
Comprehensive (income) loss attributable to noncontrolling interests	-	-	-	-
Comprehensive income attributable to NASDAQ OMX	$ 31	$ 168	$ 130	$ 176

See accompanying notes to condensed consolidated financial statements.

Table Of Contents

The NASDAQ OMX Group, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in millions)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$ 205	$ 130
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	69	55
Share-based compensation	30	18
Excess tax benefits related to share-based compensation	(6)	(13)
Deferred income taxes	(21)	(28)
Non-cash merger and strategic initiatives	20	-
Non-cash restructuring charges	-	1
Asset impairment charges	-	10
Other reconciling items included in net income	18	1
Net change in operating assets and liabilities, net of effects of acquisitions:		
Receivables, net	(10)	(22)
Other assets	(10)	(61)
Accounts payable and accrued expenses	(36)	83
Section 31 fees payable to SEC	72	48
Accrued personnel costs	(54)	(30)
Deferred revenue	99	47
Other liabilities	7	16
Net cash provided by operating activities	383	255
Cash flows from investing activities:		
Purchases of trading securities	(201)	(187)
Proceeds from sales and redemptions of trading securities	200	250
Purchases of available-for-sale investment securities	(17)	-
Purchase of equity and cost method investments	-	(39)
Acquisitions of businesses	-	(1,121)
Purchases of property and equipment	(66)	(45)
Other investment activities	(10)	-
Net cash used in investing activities	(94)	(1,142)
Cash flows from financing activities:		
Payments of debt obligations	(754)	(23)
Proceeds from debt obligations	519	825
Cash paid for repurchase of common stock	(93)	(10)
Cash dividends	(47)	(43)

Proceeds received from employee stock activity	18	19
Payments related to employee shares withheld for taxes	(23)	(4)
Excess tax benefits related to share-based compensation	6	13
Other financing activities	1	-
Net cash provided by (used in) financing activities	(373)	777
Effect of exchange rate changes on cash and cash equivalents	-	(8)
Net decrease in cash and cash equivalents	(84)	(118)
Cash and cash equivalents at beginning of period	398	497
Cash and cash equivalents at end of period	$ 314	$ 379
Supplemental Disclosure Cash Flow Information		
Cash paid for:		
Interest	$ 76	$ 40
Income taxes, net of refund	$ 103	$ 100
Non-cash investing activities:		
Cost method investment	$ 75	$ -
Acquisition of eSpeed contingent future issuance of NASDAQ OMX common stock	$ -	$ 484

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

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

In the U.S., we operate The NASDAQ Stock Market, a registered national securities exchange. The NASDAQ Stock Market is the largest single cash equities securities market in the U.S. in terms of listed companies and in the world in terms of share value traded. As of June 30, 2014, The NASDAQ Stock Market was home to 2,709 listed companies with a combined market capitalization of approximately $7.6 trillion. In addition, in the U.S. we operate two additional cash equities trading markets, three options markets and an electronic platform for trading of U.S. Treasuries. In March 2014, we launched NASDAQ Private Market, or NPM, a marketplace for private growth companies.

In Europe, we operate exchanges in Stockholm (Sweden), Copenhagen (Denmark), Helsinki (Finland), and Iceland, as well as the clearing operations of NASDAQ OMX Clearing AB, as NASDAQ OMX Nordic. We also operate exchanges in Tallinn (Estonia), Riga (Latvia) and Vilnius (Lithuania) as NASDAQ OMX Baltic. Collectively, NASDAQ OMX Nordic and NASDAQ OMX Baltic offer trading in cash equities, bonds, structured products and ETFs, as well as trading and clearing of derivatives and clearing of resale and repurchase agreements. Through NASDAQ OMX First North, our Nordic and Baltic operations also offer alternative marketplaces for smaller companies. As of June 30, 2014, the exchanges that comprise NASDAQ OMX Nordic and NASDAQ OMX Baltic, together with NASDAQ OMX First North, were home to 782 listed companies with a combined market capitalization of approximately $1.3 trillion. We also operate NASDAQ OMX Armenia.

In addition, NASDAQ OMX Commodities operates a power derivatives exchange regulated in Norway and a European carbon exchange. In the U.K., we operate NASDAQ OMX NLX, a London-based market for trading of listed short-term and long-term European (Euro and Sterling denominated) interest rate derivative products.

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

2. Basis of Presentation and Principles of Consolidation

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

As permitted under U.S. GAAP, certain footnotes or other financial information can be condensed or omitted in the interim condensed consolidated financial statements. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in NASDAQ OMX’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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

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

We have evaluated subsequent events through the issuance date of this Quarterly Report on Form 10-Q.

Tax Matters

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

Table Of Contents

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

As shown in the Condensed Consolidated Statements of Comprehensive Income, the income tax benefit in the second quarter and first six months of 2013 was impacted due to an assertion made by NASDAQ OMX to permanently reinvest the earnings of certain foreign subsidiaries. As a result of this assertion, adjustments were made to our deferred tax balances relating to cumulative translation adjustments pertaining to these subsidiaries.

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 the years 2007 through 2010 are currently under audit by the Internal Revenue Service and we are subject to examination for 2011 and 2012. Several state tax returns are currently under examination by the respective tax authorities for the years 2005 through 2012. Non-U.S. tax returns are subject to examination by the respective tax authorities for the years 2006 through 2012. We anticipate that the amount of unrecognized tax benefits at June 30, 2014 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 will not have a material impact on our consolidated financial position or results of operations.

In the fourth quarter of 2010, we received an appeal from the Finnish Tax Authority challenging certain interest expense deductions claimed by NASDAQ OMX in Finland for the year 2008. The appeal also demanded certain penalties be paid with regard to the company’s tax return filing position. In October 2012, the Finnish Appeals Board disagreed with the company’s tax return filing position for years 2009 through 2011, even though the tax return position with respect to this deduction was previously reviewed and approved by the Finnish Tax Authority. In June 2014, the Finnish Administrative Court also disagreed with the company’s tax return filing position. Through June 30, 2014, we have recorded tax benefits of $21 million associated with this filing position. Of this amount we have paid $12 million to the Finnish tax authorities. We have also paid $11 million in interest and penalties. In 2014, we will pay $9 million, which represents the benefit taken in 2013 and the first six months of 2014. We expect the Finnish Supreme Administrative Court to agree with our position, which would result in an expected refund to NASDAQ OMX of $32 million.

From 2009 through 2012, we recorded tax benefits associated with certain interest expense incurred in Sweden. Our position is supported by a 2011 ruling we received from the Swedish Supreme Administrative Court. However, under new legislation effective January 1, 2013, limitations are imposed on certain forms of interest expense. Because this legislation is unclear with regard to our ability to continue to claim such interest deductions, NASDAQ OMX filed an application for an advance tax ruling with the Swedish Tax Council for Advance Tax Rulings. In June 2014, we received an unfavorable ruling from the Swedish Tax Council for Advance Tax Rulings. We will appeal this ruling to the Swedish Supreme Administrative Court. We expect to receive a favorable decision from the Swedish Supreme Administrative Court. Since January 1, 2013, we have recorded tax benefits of $24 million, or $0.14 per diluted share, related to this matter. We expect to record recurring quarterly tax benefits of $4 million to $5 million with respect to this issue for the foreseeable future.

In December 2012, the Swedish Tax Agency approved our 2010 amended value added tax, or VAT, tax return and we received a cash refund for the amount claimed. In 2013, we filed VAT tax returns for 2011 and 2012 and utilized the same approach which was approved for the 2010 filing. However, even though the VAT return position was previously reviewed and approved by the Swedish Tax Agency, we were informed by the Swedish Tax Agency that our VAT refund claims for 2011 and 2012 are not valid. However, they will not seek reimbursement of the 2010 refund. We have appealed the finding by the Swedish Tax Agency to the Administrative Court. For the period January 1, 2011 through June 30, 2014, we have recorded benefits of $16 million associated with this position.

Recently Announced Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2014-09, “Revenue from Contracts with Customers (Topic 606),” which supercedes the revenue recognition guidance in Accounting Standards Codification, or ASC, 605, “Revenue Recognition.” The new revenue recognition standard sets forth a five-step revenue recognition model to determine when and how revenue is recognized. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to receive in exchange for those goods or services. The standard also requires more detailed disclosures. The standard provides alternative methods of initial adoption and is effective for us on January 1, 2017. Early adoption is not permitted. We are currently assessing the impact that this standard will have on our consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,” which raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under the new guidance, only disposals representing a strategic shift in operations that have or will have a major effect on an entity’s operations and financial results should be presented as discontinued operations. This guidance is effective for us on January 1,

Table Of Contents

2015. Early adoption is permitted provided that the disposal was not previously disclosed. We will prospectively apply this new standard to applicable transactions.

3. Restructuring Charges

During the first quarter of 2012, we performed a comprehensive review of our processes, organizations and systems in a company-wide effort to improve performance, cut costs, and reduce spending. This restructuring program was completed in the first quarter of 2013.

The following table presents a summary of restructuring charges in the Condensed Consolidated Statements of Income for the six months ended June 30, 2013:

	Six Months Ended June 30, 2013 (in millions)
Severance	$ 6
Facilities-related	1
Asset impairments	1
Other	1
Total restructuring charges	$ 9

During the first six months of 2013, we recognized restructuring charges totaling $9 million, including severance costs of $6 million related to workforce reductions of 31 positions across our organization, $1 million for facilities-related charges related to lease rent accruals for facilities we no longer occupy due to facilities consolidation, $1 million for asset impairments, primarily consisting of fixed assets and capitalized software that have been retired, and $1 million of other charges.

Restructuring Reserve

Severance

The accrued severance balance was $3 million at December 31, 2013 and is included in other current liabilities in the Condensed Consolidated Balance Sheets. The accrued severance balance as of December 31, 2013 was paid during the first quarter of 2014.

Facilities-related

Facilities-related reserves are calculated using a present value of future minimum lease payments, offset by an estimate for future sublease income. The facilities-related reserve balance was $1 million at December 31, 2013. The majority of the facilities-related reserve balance as of December 31, 2013 was utilized during the first quarter of 2014.

4. Acquisitions

We completed the following acquisitions in 2014 and 2013. Financial results of each transaction are included in our Condensed Consolidated Statements of Income from the dates of each acquisition.

2014 Acquisition

On March 31, 2014, we completed the acquisition of the remaining 28% ownership interest in BWise Beheer B.V. and its subsidiaries, or BWise, a Netherlands-based service provider that offers enterprise governance, risk management and compliance software and services to help companies track, measure and manage key organizational risks. BWise is part of our Market Technology business within our Technology Solutions segment.

2013 Acquisitions

	Purchase Consideration	Total Net Assets (Liabilities) Acquired	Purchased Intangible Assets	Goodwill
	(in millions)			
eSpeed	$ 1,239	$ 5	$ 715	$ 519
TR Corporate Solutions businesses	366	(37)	91	312

Acquisition of eSpeed for Trading of U.S. Treasuries

Table Of Contents

On June 28, 2013, we acquired from BGC Partners, Inc. and certain of its affiliates, or BGC, certain assets and assumed certain liabilities, including 100% of the equity interests in eSpeed Technology Services, L.P., eSpeed Technology Services Holdings, LLC, Kleos Managed Services, L.P. and Kleos Managed Services Holdings, LLC; the eSpeed brand name; various assets comprising the fully electronic portion of BGC's benchmark U.S. Treasury brokerage, market data and co-location service businesses, or eSpeed, for $1.2 billion. We acquired net assets, at fair value, totaling $5 million and purchased intangible assets of $715 million, which consisted of $578 million for the eSpeed trade name, $121 million in customer relationships and $16 million in technology. The eSpeed businesses are part of our Market Services and Information Services segments.

The purchase price consisted of $755 million in cash and contingent future annual issuances of 992,247 shares of NASDAQ OMX common stock, which approximated certain tax benefits associated with the transaction of $484 million. Such contingent future issuances of NASDAQ OMX common stock will be paid ratably through 2027 if NASDAQ OMX's total gross revenues equal or exceed $25 million in each such year. The contingent future issuances of NASDAQ OMX common stock are subject to anti-dilution protections and acceleration upon certain events.

We finalized the allocation of the purchase price for eSpeed in the second quarter of 2014. There were no adjustments to the provisional values for this acquisition during the first six months of 2014.

Acquisition of the Investor Relations, Public Relations and Multimedia Solutions Businesses of Thomson Reuters

On May 31, 2013, we acquired from Thomson Reuters their Investor Relations, Public Relations and Multimedia Solutions businesses, or the TR Corporate Solutions businesses, which provide insight, analytics and communications solutions, for $390 million ($366 million cash paid plus $24 million in working capital adjustments). We acquired net liabilities, at fair value, totaling $37 million and purchased intangible assets of $91 million, which consisted of $89 million in customer relationships and $2 million in technology. The TR Corporate Solutions businesses are part of our Corporate Solutions business within our Technology Solutions segment.

We finalized the allocation of the purchase price for the TR Corporate Solutions businesses in the second quarter of 2014. There were no adjustments to the provisional values for this acquisition during the first six months of 2014.

In the first quarter of 2014, we performed a review of our legacy Corporate Solutions' technology platforms in an effort to leverage our scale and expertise as well as improve the efficiencies that we deliver to our customers and reduce our costs. This review resulted in the consolidation and retirement of several technology platforms, resulting in a charge of $18 million in the first quarter of 2014. In addition, other merger costs of $19 million relating to our acquisition of the TR Corporate Solutions businesses were recorded in the first six months of 2014. These charges are included in merger and strategic initiatives expense in the Condensed Consolidated Statements of Income.

Formation of The NASDAQ Private Market Joint Venture

In March 2013, we formed a joint venture with SharesPost, Inc. creating NPM, a marketplace for private growth companies. We own a majority interest in NPM, combining NASDAQ OMX's resources, market and operating expertise with SharesPost's web-based platform. NPM launched in March 2014 and is part of our U.S. Listing Services business within our Listing Services segment.

We finalized the allocation of the purchase price for NPM in the first quarter of 2014. There were no adjustments to the provisional values for this acquisition during the first quarter of 2014.

EMCF and EuroCCP Merger

In December 2013, European Multilateral Clearing Facility N.V., or EMCF, merged with EuroCCP, creating EuroCCP N.V., a new combined clearinghouse. In connection with the merger, NASDAQ OMX purchased an additional ownership interest in EuroCCP N.V. for an immaterial amount. NASDAQ OMX previously had a 22% equity interest in EMCF and, upon completion of the merger, currently has a 25% equity interest in EuroCCP N.V. We account for our investment in EuroCCP N.V. under the equity method of accounting and this investment is part of our Market Services segment. See "Equity Method Investments," of Note 6, "Investments," for further discussion of our equity method investments.

Acquisition of Dutch Cash Equities and Equity Derivatives Trading Venue

In April 2013, we acquired a 25% equity interest in The Order Machine, or TOM, a Dutch cash equities and equity derivatives trading venue, for an immaterial amount. The terms of the transaction also provide us an option to acquire an additional 25.1% of the remaining shares at a future date. This transaction expanded our derivatives presence in Europe and this investment is part of our Market Services segment. We account for our investment in TOM under the equity method of accounting. See "Equity Method Investments," of Note 6, "Investments," for further discussion of our equity method investments.

Pro Forma Results and Acquisition-related Costs

Pro forma financial results for the acquisitions completed in 2013 have not been presented since these acquisitions, both individually and in the aggregate, were not material to our financial results.

Table Of Contents

Acquisition-related costs for the transactions described above were expensed as incurred and are included in merger and strategic initiatives expense in the Condensed Consolidated Statements of Income.

5. Goodwill and Purchased Intangible Assets

Goodwill

The following table presents the changes in goodwill by business segment during the six months ended June 30, 2014:

	Market Services	Listing Services	Information Services	Technology Solutions	Total
	(in millions)				
Balance at December 31, 2013	$ 3,433	$ 136	$ 2,019	$ 598	$ 6,186
Goodwill acquired	-	-	-	-	-
Foreign currency translation adjustment	(66)	(1)	(39)	(12)	(118)
Balance at June 30, 2014	$ 3,367	$ 135	$ 1,980	$ 586	$ 6,068

As of June 30, 2014, the amount of goodwill that is expected to be deductible for tax purposes in future periods is $844 million, of which $484 million is related to our acquisition of eSpeed and $289 million is related to our acquisition of the TR Corporate Solutions businesses.

Goodwill represents the excess of the purchase price over the value assigned to the net tangible and identifiable intangible assets of a business acquired. Goodwill is allocated to our reporting units based on the assignment of the fair values of each reporting unit of the acquired company. We perform an annual goodwill impairment test during the fourth quarter of our fiscal year using carrying amounts as of October 1. Should certain events or indicators of impairment occur between annual impairment tests, we will perform the impairment test as those events or indicators occur. We assess goodwill impairment at the reporting unit level. There was no impairment of goodwill for the six months ended June 30, 2014 and 2013, however, events such as economic weakness or unexpected significant declines in operating results of a reporting unit may result in goodwill impairment charges in the future.

Purchased Intangible Assets

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

	June 30, 2014				December 31, 2013			
	Gross Amount	Accumulated Amortization	Net Amount	Weighted-Average Useful Life (in Years)	Gross Amount	Accumulated Amortization	Net Amount	Weighted-Average Useful Life (in Years)
	(in millions)				(in millions)			
Finite-Lived Intangible Assets								
Technology	$ 37	$ (14)	$ 23	5	$ 39	$ (12)	$ 27	5
Customer relationships	1,075	(325)	750	19	1,075	(292)	783	19
Other	6	(3)	3	8	5	(3)	2	8
Foreign currency translation adjustment	(12)	4	(8)		3	-	3	
Total finite-lived intangible assets	$ 1,106	$ (338)	$ 768		$ 1,122	$ (307)	$ 815	
Indefinite-Lived Intangible Assets								
Exchange and clearing registrations	$ 790	$ -	$ 790		$ 790	$ -	$ 790	
Trade names	756	-	756		756	-	756	
Licenses	51	-	51		51	-	51	
Foreign currency translation adjustment	(52)	-	(52)		(26)	-	(26)	

Table Of Contents

Total indefinite-lived intangible assets	$ 1,545	$ -	$ 1,545	$ 1,571	$ -	$ 1,571
Total intangible assets	$ 2,651	$ (338)	$ 2,313	$ 2,693	$ (307)	$ 2,386

Amortization expense for purchased finite-lived intangible assets was $18 million for the three months ended June 30, 2014, $13 million for the three months ended June 30, 2013, $36 million for the six months ended June 30, 2014, and $26 million for the six months ended June 30, 2013.

The estimated future amortization expense (excluding the impact of foreign currency translation adjustment) of purchased finite-lived intangible assets as of June 30, 2014 is as follows:

	(in millions)
2014(1)	$ 35
2015	69
2016	67
2017	65
2018	61
2019 and thereafter	479
Total	$ 776

(1) Represents the estimated amortization to be recognized for the remaining six months of 2014.

Intangible Asset Impairment Charges

In the first quarter of 2013, we recorded non-cash intangible asset impairment charges totaling $10 million related to certain acquired intangible assets associated with customer relationships ($7 million) and a certain trade name ($3 million). These impairments resulted primarily from changes in the forecasted revenues associated with the acquired customer list of FTEN, Inc., or FTEN. The fair value of customer relationships was determined using the income approach, specifically the multi-period excess earnings method. The fair value of the trade name was determined using the income approach, specifically the relief from royalty method. These charges are recorded in asset impairment charges in the Condensed Consolidated Statements of Income for the six months ended June 30, 2013. These impairment charges related to our Market Services segment.

6. Investments

Trading Securities

Trading securities, which are included in financial investments, at fair value in the Condensed Consolidated Balance Sheets, were $186 million as of June 30, 2014 and $189 million as of December 31, 2013. These securities are primarily comprised of Swedish government debt securities, of which $172 million as of June 30, 2014 and $167 million as of December 31, 2013, are assets utilized to meet regulatory capital requirements primarily for our clearing operations at NASDAQ OMX Nordic Clearing.

Available-for-Sale Investment Securities

Available-for-sale investment securities, which are included in financial investments, at fair value in the Condensed Consolidated Balance Sheets, were $17 million as of June 30, 2014. There were no available-for-sale investment securities as of December 31, 2013. These securities are primarily comprised of short-term commercial paper. For both the three and six months ended June 30, 2014, the unrealized holding gain/(loss) associated with these available-for-sale investment securities was immaterial.

Equity Method Investments

The carrying amounts of our equity method investments totaled $28 million as of June 30, 2014 and $30 million as of December 31, 2013 and are included in other non-current assets in the Condensed Consolidated Balance Sheets. At June 30, 2014 and December 31, 2013, our equity method investments consisted primarily of our equity interests in EuroCCP N.V. and TOM. See “EMCF and EuroCCP Merger,” and “Acquisition of Dutch Cash Equities and Equity Derivatives Trading Venue,” of Note 4, “Acquisitions,” for further discussion.

Income recognized from our equity interest in the earnings and losses of these equity method investments was immaterial for both the three and six months ended June 30, 2014 and 2013.

Cost Method Investments

The carrying amounts of our cost method investments totaled $144 million as of June 30, 2014 and are included in other non-current assets in the Condensed Consolidated Balance Sheets. As of June 30, 2014, our cost method investments represent our 5%

Table Of Contents

ownership interest in Borsa Istanbul and our 5% ownership in LCH Clearnet Group Limited, or LCH. As of December 31, 2013, our cost method investment totaled $65 million and consisted of our 5% ownership interest in LCH. We account for these investments as cost method investments as we do not control and do not exercise significant influence over Borsa Istanbul or LCH and there is no readily determinable fair value of these shares since they are not publicly traded.

The Borsa Istanbul shares, which were issued to us in the first quarter of 2014, are part of the consideration to be received under a market technology agreement. This investment has a cost basis of $75 million which is guaranteed to us via a put option negotiated as part of the market technology agreement.

7. Deferred Revenue

Deferred revenue represents consideration received that is yet to be recognized as revenue. At June 30, 2014, we estimate that our deferred revenue, which is primarily Listing Services and Technology Solutions revenues, will be recognized in the following years:

	Initial Listing Revenues	Listing of Additional Shares Revenues	Annual Renewal and Other Revenues	Technology Solutions Revenues(2)	Total
	(in millions)				
Fiscal year ended:					
2014(1)	$ 7	$ 18	$ 98	$ 57	$ 180
2015	12	29	2	41	84
2016	10	20	-	30	60
2017	8	11	-	32	51
2018	6	2	-	34	42
2019 and thereafter	5	-	-	40	45
	$ 48	$ 80	$ 100	$ 234	$ 462

(1) Represents deferred revenue that is anticipated to be recognized over the remaining six months of 2014.

(2) The timing of recognition of our deferred Technology Solutions revenues is primarily dependent upon the completion of customization and any significant modifications made pursuant to existing Market Technology contracts and the timing of Corporate Solutions subscription-based contracts. As such, as it relates to Market Technology revenues, the timing represents our best estimate.

The changes in our deferred revenue during the six months ended June 30, 2014 and 2013 are reflected in the following table.

	Initial Listing Revenues	Listing of Additional Shares Revenues	Annual Renewal and Other Revenues	Technology Solutions Revenues(2)	Total
	(in millions)				
Balance at January 1, 2014	$ 41	$ 75	$ 20	$ 158	$ 294
Additions(1)	13	25	201	320	559
Amortization(1)	(6)	(20)	(120)	(239)	(385)
Translation adjustment	-	-	(1)	(5)	(6)
Balance at June 30, 2014	$ 48	$ 80	$ 100	$ 234	$ 462
Balance at January 1, 2013	$ 36	$ 78	$ 32	$ 149	$ 295
Additions(1)	8	18	190	63	279
Amortization(1)	(7)	(20)	(118)	(57)	(202)
Translation adjustment	-	-	(6)	2	(4)
Balance at June 30, 2013	$ 37	$ 76	$ 98	$ 157	$ 368

(1) The additions and amortization for initial listing revenues, listing of additional shares revenues and annual renewal and other revenues primarily reflect revenues from our U.S. listing services business. The additions to Technology Solutions revenues during the six months ended June 30, 2014 include $75 million related to the Borsa Istanbul market technology agreement. See “Cost Method Investments,” of Note 6, “Investments,” for further discussion.

(2) Technology Solutions deferred revenues primarily include revenues from our Market Technology delivered client contracts in the support phase charged during the period and our Corporate Solutions subscription based contracts, which are primarily billed quarterly in advance. For our Market Technology contracts, where customization and significant modifications to the software are made to meet the needs of our customers, total revenues, as well as costs incurred, are deferred until significant modifications are completed and delivered. Once delivered, deferred revenue and the related deferred costs are recognized over the post contract support period. For these Market Technology contracts, we have included the deferral of costs in other current assets and other non-current assets in the Condensed Consolidated Balance Sheets. The amortization of Technology Solutions

Table Of Contents

deferred revenue primarily includes revenues earned from Market Technology client contracts and Corporate Solutions subscription based contracts recognized during the period.

8. Debt Obligations

The following table presents the changes in the carrying amount of our debt obligations during the six months ended June 30, 2014:

	December 31, 2013	Additions	Payments, Accretion and Other	June 30, 2014
	(in millions)			
4.00% senior unsecured notes repaid June 18, 2014(1)	$ 400	$ -	$ (400)	$ -
5.55% senior unsecured notes due January 15, 2020 (net of discount)(1)	598	-	1	599
5.25% senior unsecured notes due January 16, 2018 (net of discount)(1)	368	-	-	368
3.875% senior unsecured notes due June 7, 2021 (net of discount)(1)	824	-	(4)	820
4.25% senior unsecured notes due June 1, 2024 (net of discount)(1)	-	498	-	498
$1.2 billion senior unsecured five-year credit facility(2):				
$450 million senior unsecured term loan facility credit agreement due September 19, 2016 (average interest rate of 1.53% for the period January 1, 2014 through June 30, 2014)	349	-	(226)	123
$750 million revolving credit commitment due September 19, 2016 (average interest rate of 1.34% for the period January 1, 2014 through June 30, 2014)	95	25	(120)	-
Total debt obligations	2,634	523	(749)	2,408
Less current portion	(45)	-	45	-
Total long-term debt obligations	$ 2,589	$ 523	$ (704)	$ 2,408

(1) See “Senior Unsecured Notes” below for further discussion.

(2) See “2011 Credit Facility” below for further discussion.

Senior Unsecured Notes

4.00% and 5.55% Senior Unsecured Notes

In January 2010, NASDAQ OMX issued $1 billion of senior unsecured notes, or the Notes. The Notes were issued at a discount in two separate series consisting of $400 million aggregate principal amount of 4.00% senior notes due 2015, or the 2015 Notes, and $600 million aggregate principal amount of 5.55% senior notes due 2020, or the 2020 Notes. As a result of the discount, the proceeds received from the issuance were less than the aggregate principal amounts. We repaid the outstanding balance on the 2015 Notes in June 2014. See "Early Extinguishment of 2015 Notes" below for further discussion.

Early Extinguishment of 2015 Notes

In May 2014, NASDAQ OMX issued $500 million of 4.25% senior unsecured notes due June 1, 2024, or the 2024 Notes. For further discussion of the 2024 Notes see "4.25% Senior Unsecured Notes" below. In June 2014, we used the majority of the net proceeds from the 2024 Notes, along with cash on hand, to repay in full and terminate our 2015 Notes and repay a portion of the term loan under our senior credit facility. See "4.25% Senior Unsecured Notes" and "2011 Credit Facility" below for further discussion. In connection with the early extinguishment of the 2015 Notes, we recorded a pre-tax charge of $9 million which is included in general, administrative and other expense in the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2014.

2020 Notes

As of June 30, 2014, the balance of $599 million for the 2020 Notes reflects the aggregate principal amount, less the unamortized debt discount. The unamortized debt discount will be accreted through interest expense over the life of the 2020 Notes.

The 2020 Notes pay interest semiannually at a rate of 5.55% per annum until January 15, 2020. The 2020 Notes are general unsecured obligations of ours and rank equally with all of our existing and future unsubordinated obligations. The 2020 Notes are not

Table Of Contents

guaranteed by any of our subsidiaries and were issued under indentures that, among other things, limit our ability to consolidate, merge or sell all or substantially all of our assets, create liens, and enter into sale and leaseback transactions.

Debt Issuance Costs

We incurred debt issuance and other costs of $5 million in connection with the issuance of the 2020 Notes. These costs, which are capitalized and included in other non-current assets in the Condensed Consolidated Balance Sheets, are being amortized over the life of this debt obligation. Amortization expense, which is recorded as additional interest expense for these costs, was immaterial for both the three and six months ended June 30, 2014 and 2013.

5.25% Senior Unsecured Notes

In December 2010, NASDAQ OMX issued $370 million of 5.25% senior unsecured notes due January 16, 2018, or the 2018 Notes. The 2018 Notes were issued at a discount. As a result of the discount, the proceeds received from the issuance were less than the aggregate principal amount. As of June 30, 2014, the balance of $368 million reflects the aggregate principal amount, less the unamortized debt discount. The unamortized debt discount will be accreted through interest expense over the life of the 2018 Notes.

The 2018 Notes pay interest semiannually at a rate of 5.25% per annum until January 16, 2018 and such rate may vary with NASDAQ OMX's debt rating up to a rate not to exceed 7.25%. The 2018 Notes are general unsecured obligations of ours and rank equally with all of our existing and future unsubordinated obligations. They are not guaranteed by any of our subsidiaries. The 2018 Notes were issued under indentures that among other things, limit our ability to consolidate, merge or sell all or substantially all of our assets, create liens, and enter into sale and leaseback transactions. In addition, upon a change of control triggering event (as defined in the indenture), the terms require us to repurchase all or part of each holder's notes for cash equal to 101% of the aggregate principal amount purchased plus accrued and unpaid interest, if any.

Debt Issuance Costs

We incurred debt issuance and other costs of $3 million in connection with the issuance of the 2018 Notes. These costs, which are capitalized and included in other non-current assets in the Condensed Consolidated Balance Sheets, are being amortized over the life of this debt obligation. Amortization expense, which is recorded as additional interest expense for these costs, was immaterial for both the three and six months ended June 30, 2014 and 2013.

3.875% Senior Unsecured Notes

In June 2013, NASDAQ OMX issued €600 million aggregate principal amount of 3.875% senior unsecured notes due June 2021, or the 2021 Notes, at a discount. As a result of the discount, the proceeds received from the issuance were less than the aggregate principal amount. As of June 30, 2014, the balance of $820 million reflects the aggregate principal amount, less the unamortized debt discount. The unamortized debt discount will be accreted through interest expense over the life of the 2021 Notes.

The 2021 Notes pay interest annually at a rate of 3.875% per annum until June 7, 2021 and such rate may vary with NASDAQ OMX's debt rating up to a rate not to exceed 5.875%. The 2021 Notes are general unsecured obligations of ours and rank equally with all of our existing and future unsubordinated obligations. They are not guaranteed by any of our subsidiaries. The 2021 Notes were issued under indentures that among other things, limit our ability to consolidate, merge or sell all or substantially all of our assets, create liens, and enter into sale and leaseback transactions. In addition, upon a change of control triggering event (as defined in the indenture), the terms require us to repurchase all or part of each holder's notes for cash equal to 101% of the aggregate principal amount purchased plus accrued and unpaid interest, if any.

The 2021 Notes have been designated as a hedge of our net investment in certain foreign subsidiaries to mitigate the foreign exchange risk associated with certain investments in these subsidiaries. The decrease in the carrying amount of $4 million for the six months ended June 30, 2014 reflects the translation of the 2021 Notes into U.S. dollars and is recorded in accumulated other comprehensive loss.

We used the majority of the net proceeds from the offering of the 2021 Notes to fund the cash consideration payable by us for the acquisition of eSpeed and related expenses. We used the remaining proceeds for general corporate purposes. See "Acquisition of eSpeed for Trading of U.S. Treasuries," of Note 4, "Acquisitions," for further discussion of our acquisition of eSpeed.

Debt Issuance Costs

We incurred debt issuance and other costs of $7 million in connection with the issuance of the 2021 Notes. These costs, which are capitalized and included in other non-current assets in the Condensed Consolidated Balance Sheets, are being amortized over the life of this debt obligation. Amortization expense, which is recorded as additional interest expense for these costs, was immaterial for both the three and six months ended June 30, 2014 and 2013.

Table Of Contents

4.25% Senior Unsecured Notes

As discussed above in “Early Extinguishment of 2015 Notes,” in May 2014, NASDAQ OMX issued the 2024 Notes. The 2024 Notes were issued at a discount. As a result of the discount, the proceeds received from the issuance were less than the aggregate principal amount. As of June 30, 2014, the balance of $498 million reflects the aggregate principal amount, less the unamortized debt discount. The unamortized debt discount will be accreted through interest expense over the life of the 2024 Notes.

The 2024 Notes pay interest semiannually at a rate of 4.25% per annum until June 1, 2024 and such rate may vary with NASDAQ OMX’s debt rating up to a rate not to exceed 6.25%. The 2024 Notes are general unsecured obligations of ours and rank equally with all of our existing and future unsubordinated obligations. They are not guaranteed by any of our subsidiaries. The 2024 Notes were issued under indentures that among other things, limit our ability to consolidate, merge or sell all or substantially all of our assets, create liens, and enter into sale and leaseback transactions. In addition, upon a change of control triggering event (as defined in the indenture), the terms require us to repurchase all or part of each holder’s notes for cash equal to 101% of the aggregate principal amount purchased plus accrued and unpaid interest, if any.

We used the majority of the net proceeds from the offering of the 2024 Notes, along with cash on hand, to repay in full and terminate our 2015 Notes and repay a portion of the term loan under our senior credit facility. See “Early Extinguishment of 2015 Notes” above and “2011 Credit Facility” below for further discussion.

Debt Issuance Costs

We incurred debt issuance and other costs of $4 million in connection with the issuance of the 2024 Notes. These costs, which are capitalized and included in other non-current assets in the Condensed Consolidated Balance Sheets, are being amortized over the life of this debt obligation. Amortization expense, which is recorded as additional interest expense for these costs, was immaterial for both the three and six months ended June 30, 2014.

Credit Facilities

2011 Credit Facility

In September 2011, NASDAQ OMX entered into a $1.2 billion senior unsecured five-year credit facility which matures on September 19, 2016, or the 2011 Credit Facility. The 2011 Credit Facility consists of a $450 million funded term loan, or the 2016 Term Loan, and a $750 million revolving credit commitment (including a swingline facility and letter of credit facility). NASDAQ OMX applied the $450 million in proceeds from the 2016 Term Loan to repay in full the remaining $450 million principal amount outstanding on our former credit facility. Under the 2011 Credit Facility, we are required to pay quarterly principal payments equal to 2.50% of the original aggregate principal amount borrowed under the 2016 Term Loan. In the first six months of 2014, we made payments of $226 million consisting of a required quarterly principal payment of $22 million and an optional prepayment of $204 million on our 2016 Term Loan, reflecting all mandatory principal payments required until maturity in September 2016. We utilized cash on hand and borrowings from our 2024 Notes to pay the required payment and optional prepayment. See “4.25% Senior Unsecured Notes” above for further discussion.

In the first six months of 2014, we borrowed $25 million under the revolving credit commitment and utilized the proceeds for general corporate purposes. During the first six months of 2014, we repaid the total amount drawn on the revolving credit commitment of $120 million. As of June 30, 2014, availability under the revolving credit commitment was $750 million.

The loans under the 2011 Credit Facility have a variable interest rate based on either the London Interbank Offered Rate, or LIBOR, or the Federal Funds Rate, plus an applicable margin that varies with NASDAQ OMX's debt rating.

The 2011 Credit Facility contains financial and operating covenants. Financial covenants include an interest expense coverage ratio and a maximum leverage ratio. Operating covenants include limitations on NASDAQ OMX's ability to incur additional indebtedness, grant liens on assets, enter into affiliate transactions and pay dividends. Our credit facilities allow us to pay cash dividends on our common stock as long as certain leverage ratios are maintained. The 2011 Credit Facility also contains customary affirmative covenants, including access to financial statements, notice of defaults and certain other material events, maintenance of business and insurance, and events of default, including cross-defaults to our material indebtedness.

NASDAQ OMX is permitted to repay borrowings under the 2011 Credit Facility at any time in whole or in part, without penalty. We are also required to repay loans outstanding under the 2011 Credit Facility 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 specified exceptions and thresholds.

Debt Issuance Costs

We incurred debt issuance and other costs of $5 million in connection with the entry into the 2011 Credit Facility. These costs, which are capitalized and included in other non-current assets in the Condensed Consolidated Balance Sheets, are being amortized over the life of the 2011 Credit Facility. Amortization expense, which is recorded as additional interest expense for these costs, was immaterial for both the three and six months ended June 30, 2014 and 2013.

Table Of Contents

Other Credit Facilities

In addition to the revolving credit commitment under our 2011 Credit Facility discussed above, we have credit facilities related to our Nordic clearing operations in order to provide further liquidity and default protection. At June 30, 2014, these credit facilities, which are available in multiple currencies, primarily Swedish Krona, totaled $317 million ($227 million in available liquidity and $90 million for default protection), none of which was utilized. At December 31, 2013, these facilities totaled $312 million ($219 million in available liquidity and $93 million for default protection), of which $11 million was utilized.

Debt Covenants

At June 30, 2014, we were in compliance with the covenants of all of our debt obligations.

9. Employee Benefits

U.S. Defined-Benefit Pension and Supplemental Executive Retirement Plans

We maintain non-contributory, defined-benefit pension plans, non-qualified supplemental executive retirement plans, or SERPs, for certain senior executives and post-retirement benefit plans for eligible employees in the U.S., collectively referred to as the NASDAQ OMX Benefit Plans.

Our pension plans and SERPs are frozen. Future service and salary for all participants do not count toward an accrual of benefits under the pension plans and SERPs.

Components of Net Periodic Benefit Cost

The following table sets forth the components of net periodic pension, SERP and post-retirement benefits costs from the NASDAQ OMX Benefit Plans recognized in compensation and benefits expense in the Condensed Consolidated Statements of Income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Components of net periodic benefit cost				
Interest cost	$ 1	$ 1	$ 3	$ 3
Expected return on plan assets	(1)	(1)	(3)	(3)
Recognized net actuarial loss	-	1	1	2
Curtailment loss	-	1	-	1
Net periodic benefit cost	$ -	$ 2	$ 1	$ 3

Non-U.S. Benefit Plans

Most employees outside the U.S. are covered by local retirement plans or by applicable social laws. Benefits under social laws are generally expensed in the periods in which the costs are incurred. These costs are included in compensation and benefits expense in the Condensed Consolidated Statements of Income and were $5 million for both the three months ended June 30, 2014 and 2013, and $10 million for both the six months ended June 30, 2014 and 2013.

U.S. 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 6.0% of eligible employee contributions in 2014 and the first 4.0% of eligible employee contributions in 2013. Savings plan expense included in compensation and benefits expense in the Condensed Consolidated Statements of Income was $2 million for the three months ended June 30, 2014, $1 million for the three months ended June 30, 2013, $5 million for the six months ended June 30, 2014, and $3 million for the six months ended June 30, 2013.

We have a profit-sharing contribution feature to our 401(k) Plan which allows eligible U.S. employees to receive employer retirement contributions, or ERCs, when we meet our annual corporate goals. In addition, we have a supplemental ERC for select highly compensated employees whose ERCs are limited by the annual Internal Revenue Service compensation limit. ERC expense recorded in compensation and benefits expense in the Condensed Consolidated Statements of Income was $1 million for the three months ended June 30, 2014, immaterial for the three months ended June 30, 2013, and $1 million for both the six months ended June 30, 2014 and 2013.

In December 2013, we announced changes to the ERC program. In 2014, we reduced the basic ERC contribution for all plan participants and, effective January 1, 2015, the ERC plan will be discontinued and no future contributions will be made.

Table Of Contents

Employee Stock Purchase Plan

We have an employee stock purchase plan, or ESPP, under which approximately 2.9 million shares of our common stock have been reserved for future issuance as of June 30, 2014.

Our ESPP allows eligible U.S. and non-U.S. 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 and was $1 million for the three months ended June 30, 2014, immaterial for the three months ended June 30, 2013, $2 million for the six months ended June 30, 2014, and $1 million for the six months ended June 30, 2013.

10. Share-Based Compensation

We have a share-based compensation program that provides our board of directors broad discretion in creating employee equity incentives. Share-based awards, or equity awards, granted under this program include stock options, restricted stock (consisting of restricted stock units), and performance share units, or PSUs. Grants of equity awards are designed to reward employees for their long-term contributions and provide incentives for them to remain with us. For accounting purposes, we consider PSUs to be a form of restricted stock.

Restricted stock is generally time-based and vests over three- to five-year periods beginning on the date of the grant. Stock options are also generally time-based and expire ten years from the grant date. Stock option and restricted stock awards granted prior to 2014 generally included performance-based accelerated vesting features based on achievement of specific levels of corporate performance. If NASDAQ OMX exceeded the applicable performance parameters, the grants vest on the third anniversary of the grant date, if NASDAQ OMX meets the applicable performance parameters, the grants vest on the fourth anniversary of the grant date, and if NASDAQ OMX does not meet the applicable performance parameters, the grants vest on the fifth anniversary of the grant date. Beginning in 2014, restricted stock awards granted vest 25% on the second anniversary of the grant date, 25% on the third anniversary of the grant date, and 50% on the fourth anniversary of the grant date.

PSUs are based on performance measures that impact the amount of shares that each recipient will receive upon vesting. PSUs are granted at the fair market value of our stock on the grant date and compensation cost is recognized over the performance period and, in certain cases, an additional vesting period. 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.

We also have a performance-based long-term incentive program for our chief executive officer, co-presidents, executive vice presidents and senior vice presidents that focuses on total shareholder return, or TSR. This program represents 100% of our chief executive officer’s, co-presidents’ and executive vice presidents’ long-term stock-based compensation and 50% of our senior vice presidents’ long-term stock-based compensation. Under the program, each individual receives PSUs with a three-year cumulative performance period that vest at the end of the performance period. Performance will be determined by comparing NASDAQ OMX’s TSR to two peer groups, each weighted 50%. The first peer group consists of exchange companies, and the second peer group consists of all companies in the Standard & Poor’s 500 Index, or S&P 500. NASDAQ OMX’s relative performance ranking against each of these groups will determine the final number of shares delivered to each individual under the program. The payout under this program will be between 0% and 200% of the number of PSUs granted and will be determined by NASDAQ OMX’s overall performance against both peer groups. However, if NASDAQ OMX’s TSR is negative for the three-year performance period, regardless of TSR ranking, the payout will not exceed 100% of the number of PSUs granted. We estimate the fair value of PSU's granted under the TSR program using the Monte Carlo simulation model, as these awards contain a market condition. The following weighted-average assumptions were used to determine the weighted-average fair value of the PSU awards granted under the TSR program for the six months ended June 30, 2014:

	Six Months Ended June 30, 2014
Weighted-average risk free interest rate	0.79%
Expected volatility(1)	29.1%
Weighted-average fair value at grant date	$ 43.13

(1) We use historic volatility for PSU awards issued under the TSR program, as implied volatility cannot be used when simulating multivariate prices for companies in the S&P 500.

17

Table Of Contents

Summary of 2014 Equity Awards

In March 2014, we granted restricted stock to most active employees. During the first six months of 2014, certain officers received grants of 812,985 PSUs. Of these PSUs granted, 548,524 units are subject to the performance measures and vesting schedules of the TSR program as discussed above, and the remaining 264,461 units are subject to a one-year performance period and generally vest ratably on an annual basis from December 31, 2015 through December 31, 2017. See "Summary of Restricted Stock and PSU Activity" below for further discussion.

During 2013, certain grants of PSUs with a one-year performance period exceeded the applicable performance parameters. As a result, an additional 64,330 units were considered granted in the first quarter of 2014.

Common Shares Available Under Our Equity Plan

As of June 30, 2014, we had approximately 7.2 million shares of common stock authorized for future issuance pursuant to NASDAQ OMX's Equity Incentive Plan.

Summary of Share-Based Compensation Expense

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, 2014 and 2013 in the Condensed Consolidated Statements of Income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Share-based compensation expense before income taxes	$ 16	$ 9	$ 30	$ 18
Income tax benefit	(6)	(4)	(12)	(7)
Share-based compensation expense after income taxes	$ 10	$ 5	$ 18	$ 11

We estimated the fair value of stock option awards using the Black-Scholes valuation model. No stock option awards were granted during the three and six months ended June 30, 2014 or 2013.

Summary of Stock Option Activity

A summary of stock option activity for the six months ended June 30, 2014 is as follows:

	Number of Stock Options(1)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
			(in years)	(in millions)
Outstanding at January 1, 2014	4,926,522	$ 25.21	4.97	$ 73
Exercised	(694,914)	18.81		
Forfeited or expired	(29,005)	23.31		
Outstanding at June 30, 2014	4,202,603	$ 26.29	4.41	$ 53
Exercisable at June 30, 2014	4,188,474	$ 26.31	4.40	$ 52

(1) No stock option awards were granted during the three and six months ended June 30, 2014.

We received net cash proceeds of $6 million from the exercise of 327,799 stock options for the three months ended June 30, 2014 and received net cash proceeds of $13 million from the exercise of 694,914 stock options for the six months ended June 30, 2014. We received net cash proceeds of $10 million from the exercise of 1,181,764 stock options for the three months ended June 30, 2013 and received net cash proceeds of $15 million from the exercise of 1,559,189 stock options for the six months ended June 30, 2013. We present excess tax benefits from the exercise of stock options, if any, as financing cash flows.