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Howard H. Chen – Analyst, Credit Suisse Securities (USA) LLC (Broker)
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to The NASDAQ OMX First Quarter 2013 Results Conference Call. [Operator Instructions] Later we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, today's conference call is being recorded.

I'd now like to turn the conference over to your host, Mr. Ed Ditmire, Vice President, Investor Relations. Please go ahead, sir.

Edward P. Ditmire, Vice President-Investor Relations

Good morning, everyone, and thanks for joining us today to discuss NASDAQ OMX's first quarter 2013 earnings results. On the line are: Bob Greifeld, our CEO; Lee Shavel, CFO; Ed Knight, General Counsel; and other members of the management team.

After prepared remarks, we'll open up to Q&A. The press release and presentation are on our website. We intend to use the website as a means of disclosing material, non-public information and complying with disclosure obligations under SEC Regulation FD.

I'd like to remind you that certain statements in this presentation and during Q&A may relate to future events and expectations, and as such, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from these projections. Information concerning factors that could cause actual results to differ from forward-looking statements is contained in our press release and periodic reports filed with the SEC.

I now will turn the call over to Bob.

Robert Greifeld, President, Chief Executive Officer & Director

Thank you, Ed. Good morning, everyone, and thank you for joining us today on this call to discuss NASDAQ OMX's first quarter 2013 earnings results. I would characterize NASDAQ OMX's first quarter results as consistently strong when we look at them from both a strategic, operational and financial level. My intent today is to provide a few highlights from the quarter and then go into a little more detail to give you a greater sense of how our strategy is manifesting itself in our business performance and the earnings power of this franchise.

When we look at all the pieces of our business and how they fit together, it is important that we have a clear view into all aspects of the operation where we weigh, measure and count every action that we take. To this point I want to start by highlighting something that we announced early in the quarter with regard to how we segment our businesses.

We have realigned our businesses to better serve our customers and as a consequence have begun to report them in a way which will provide greater transparency to the investment community. For example we announced a combination of our Corporate Solutions and Market Technology businesses. The combined unit, Technology Solutions, allows us to evaluate this business alongside larger software and financial technology players in the space with similar profiles, companies such as ACI Worldwide, Fidessa, Fiserv, Fidelity National Information Services.

In a similar fashion we have combined our Global Data and Index businesses. The combined unit, Information Services, now has the breadth, depth and similar profile to companies such as MSCI, McGraw-Hill and FactSet. We are also presenting our Market Services segment and Listing services segment separately. This is something new for us and by segmenting our business this way, we are providing greater insight into the way we manage our expansive set of products and services to better serve our clients and create greater transparency for the investment community.

You will see in the presentation a more detailed breakdown of these businesses. I'd like to now turn to some of the highlights that drove our performance. In line with the Jack Welch management maxim, we have built a portfolio of trophy assets that are truly remarkable. Virtually all of our businesses, including our two most recent acquisitions, are number one or number two in their category. All this will help us to deliver consistent returns for our shareholders and will best position us to seize opportunities in the segments in which we compete.

First quarter 2013 non-GAAP EPS of $0.64 is tied for the second highest quarterly performance in our history. Subscription and recurring revenues accounted for 72% of the total first quarter net revenues, the highest level in our history, further emphasizing the balance of our model.

Despite a flat to down volume environment versus last year, significant investment in our GIFT initiatives, and especially soft U.S. equity trading quarter, our portfolio of corporate trading technology and information solutions continue to deliver consistent revenue and earnings performance. In particular, our revenues rose $4 million to $418 million, increasing slightly year-over-year despite these flat to down volumes. Subscription and recurring revenues grew $13 million or 5% while transaction driven revenues declined by $9 million.

Some of the standouts in terms of the performance this quarter were our Market Technology, Corporate Solutions, Data and Index businesses. Revenue in European cash equity trading did increase from fourth quarter to $22 million while on the European derivatives side; we did benefit from higher contract volumes in equity derivatives, stock index and short-term interest rate products.

In addition, our investment in TOM, the Dutch equity derivatives platform has been tremendous. During the first quarter of 2013, TOM's share of the Dutch equity derivatives market has risen to

20%. We just announced a closing of that transaction, and look forward to further expansion in the European derivatives space.

Corporate Solutions revenue was up 14% to $24 million as compared to the prior-year quarter. This was driven by a strong customer demand for our core multimedia, PR and governance offerings. The performance of this business continues to validate that our model is working, and we will go from strength to strength with the closing of the Thomson businesses.

Our Market Technology business increased revenues from the prior-year quarter by $4 million to $49 million, and now includes BWise, which we believe will enjoy greater opportunities when offered alongside our SMARTS surveillance offering.

Equally as positive are the constructive discussions we're having with potential market technology clients around the globe. While not yet reflected in our backlog, I can tell you that I'm particularly encouraged with both the breadth and the quality of our prospect conversations. They have never been higher, and we feel we are extremely well positioned to compete for new business around the globe.

Earlier, I referenced the combination of our data and index businesses into what is now called Information Services. We continue to see strong performance in both our market data and index businesses. Total market data revenues was $91 million, up $4 million from a year ago, and our indexed, licensing and services revenue was $17 million, up $2 million from a year ago. The continued positive performance over many years is certainly indicative of a strong appetite for efficient and cost effective information technology and data solutions which enable greater transparency and insight into the market as well as our growing presence in the index landscape.

In cash equities in addition to a generally mediocre to weak industry volumes our market share and revenue capture are weaker in the first quarter and certainly below our expectations. We did experience an inflection point in market share with February and March enjoying rising share trends but capture rates suffered more than was warranted. We have adjusted certain programs and incentives on an interim basis and in the months since, we have improved both our share and our capture. Going forward we will continue to look for ways to optimize our pricing and share.

Investments in Glide and BWise acquisitions continued to progress and we are encouraged by the opportunities we see in terms of client uptake and corresponding revenue growth. That said it's important to note that the sales cycle for these products has been elongated by the current environment and revenue has yet to reach the critical mass necessary to make material contributions to our profitability.

In 2012 we generated approximately $134 million in revenue based on the investments we've made in new initiatives over the past four years. On average our track record with our GIFT initiatives is very good delivering over 20% return on our investments as we detailed in Slide 16 in the investor presentation.

On to an area of recent activity, like the organic GIFT initiatives we similarly look to generate attractive returns on capital with our M&A activities. In particular we saw expansion opportunities across our core business areas with the Corporate Solutions and Transactions Services businesses at the forefront of our approach. When we think about strategy at NASDAQ OMX it is our job to have an expansive understanding of the areas we operate in and importantly a clear direction that delivers a competitive value proposition to our clients in leading returns for our shareholders.

We have always stated that our approach was to diversify the asset classes we trade while expanding the depth and breadth of our stable, recurring revenue profile. It is this direction and disciplined approach that has enabled us to create a diversified customer centered portfolio of corporate, trading, technology and information solutions that comprise market leading businesses in each of their respective categories.

A significant development for us in the quarter with regard to our strategic direction was the announcement earlier this month of the agreement to acquire the eSpeed platform, a fully executable center limit order book for electronic trading of on-the-run U.S. treasuries.

ESpeed is a high-quality business which represents an entry point into the fixed income execution business that does fit squarely within our broader strategic direction, in particular because of the highly liquid electronic nature of this marketplace. We look forward to executing on opportunities in the near and medium term to add new market participants to broaden the product portfolio and to leverage our world-class expertise in trading systems, access services, market data distribution and other technologies and solutions to grow eSpeed.

We have had an extraordinarily encouraging reaction from the customers of eSpeed, from our customers. They're all enthusiastic about the enhancements and the product expansion that we plan to implement in the near future. Also, in the short time we've had to interact with the eSpeed employees, we're certainly impressed with the focused intensity of this small group of professionals. We're in the process of finalizing the eSpeed transaction which is subject to regulatory approval. We hope to close it sometime in the first half of 2013 or going into the summer. It is truly a game changer for us and one that we are fundamentally excited about.

I just want to repeat. We intend to add value to the eSpeed business by using our world-class connectivity and market data distribution to enhance the customer experience and improve market share within its core product set. We will certainly cross market eSpeed to our client base and we will expand the product set over time. It's important to note we'll be able to do this without regard to concerns of voice brokers. We expect to dramatically accelerate the deployment of new products once we complete the acquisition. In addition, we also expect at some point in time to enjoy the tailwinds of a structurally expanding treasury marketplace.

Another area of keen focus for us during the quarter, of course, was the Corporate Solutions business. We are in the final stages of completing the acquisition of Thomson Reuters IR, PR, and multimedia businesses in the first half of 2013. Once we do that, we'll triple the size and the scope of our Corporate Solutions business with over $300 million in annual revenue. This is a tremendous opportunity as we seize on the convergence of marketing, communications and investor relations functions as well as deliver on the growing stakeholder management needs of both mature and immerging corporations.

Our starting point for this will be a global customer base of over 10,000 clients in 60 countries. Over the last several months we've been working closely with the Thomson Reuters team on preparing to close the proposed transaction and to integrate their businesses. We are making great progress on all fronts. We're excited and proud to be involved with the superb team at Thomson Reuters and are fundamentally excited about what this organization can accomplish in the years to come.

In closing, when I look at this quarter and the things I've just highlighted for you, I believe they speak directly to the soundness of our strategy, and the strong execution of our business plan by everyone on this team. Undoubtedly, we have had pockets of businesses that have delivered and areas also where we will perform better. That being said, we were still able to deliver $0.64 a share, and demonstrate the earnings power of this franchise, that will get nothing but stronger. While we here are not satisfied with the $0.64, I am excited about our future, and anxious to see this model deliver for clients and shareholders.

We have much to look forward to and accomplish in the quarters ahead. We are on a direct course to seize the opportunities that will continue to redefine and reshape our business. And to me, as the

CEO, speaking for all our employees, it is certainly both invigorating, and incredibly exciting to be a part of NASDAQ OMX at this particular point in time.

And with that, I'd like to turn the call over to Lee.

Lee Shavel, Chief Financial Officer & EVP-Corporate Strategy

Thanks, Bob. The following comments will focus on our non-GAAP results, reconciliations of GAAP to non-GAAP results can be found in the attachments to our press release, and in the presentation that's available on our website at ir.nasdaqomx.com.

On Page 3, I will start by reviewing our first quarter revenue performance relative to the prior-year quarter. Net exchange revenues, as Bob mentioned, increased $4 million to $418 million. Contributing to this increase was a $13 million or 5% increase in subscription and recurring revenue, which now represents 72% of total revenues, up from 69%. Offsetting this growth was a $9 million decline in transaction driven revenues, due primarily to lower volumes globally and lower U.S. cash equity market share in the period.

On an organic basis, which is constant currency and excluding acquisitions, net exchange revenues were down $8 million or 2%. I'm now going to go over some highlights along the lines of our new reporting segments. All comparisons will be to the prior-year period unless otherwise noted, and prior periods have been re-stated for comparability, and I would note on Page 4, we've provided a mapping of our re-segmentation of the various business units.

Starting on Page 5, Information Services, which includes our market data and index businesses increased revenues by $6 million or 6% to $108 million, which represents a quarter of our trailing 12 months revenues, and operating profit increased by $6 million or 8% to $81 million, representing 41% of our trailing 12 months operating profit, and operating margin increased by 1% to 75% from the prior year.

The market data revenue component grew 5% on a balanced mix of healthy new product sales, in particular NASDAQ Basic, select pricing actions such as an increase for level 2 quotes and an extra $1 million in audit fees versus the prior year period, mitigated somewhat by lower tape plan revenues.

In Index, Licensing and Services, revenues grew 13% including the full quarter impact of the Index business of Mergent including Indxis, with the number of licenses products increasing 28% to 82 and assets in these rising 42%.

On Page 8, Technology Solutions, which includes our Corporate Solutions business and Market Technology, increased revenues by $7 million or 11% to $73 million, representing 18% of our trailing 12 months revenues, in part due to the 2012 BWise acquisition. Operating profit declined from $4 million to $1 million due to the inclusion of BWise which is still ramping to profitability and margins and certain cost reallocations associated with the re-segmentation.

Corporate Solutions increased revenue by 11% with strong demand for leading products like Directors Desk where 255 new clients were added, investor relations tools, press release services and Glide where new clients more than doubled. Market Technologies revenues grew 9% though it experienced a slow quarter in terms of order intake at $19 million as a number of customers delayed purchase decisions into the second quarter where we expect to see substantial improvement. The backlog at $525 million remains above year ago levels.

A note here on new segment profitability numbers. Global Technology Services is reporting single digit operating margins, lower than we've described for either the Market Technology or Corporate

Solutions in the past. This change is driven, one, by the impact of lower margin recently acquired businesses such as BWise as I described. And two, adjustments to allocated revenues and costs between certain businesses that work together.

We expect this margin to improve meaningfully over the near term from operating leverage, the increased margin contribution from recent acquisitions of BWise and Glide as they ramp to material profitability and thirdly, as we incorporate the higher margin Thomson Reuters business into the segment and finally, as we execute on significant cost synergies expected from that transaction.

On Page 11 we present Market Services which includes our derivatives and equity trading both in the U.S. and Europe as well as associated access and broker services where we saw an $8 million or 4% decline in revenues to $182 million, representing 44% of our trailing 12 month revenues mostly due to lower market volumes and market share in U.S. equities.

Operating profit declined $7 million or 9% to $73 million. Again, 44% of our trailing 12 months operating profit, and operating margin of 40% was 2% lower than the prior year. In access and broker services, revenues increased $1 million or 2% to $63 million. We mentioned last quarter that there was some consolidation in cabinet footprints by some clients, and that had an impact, but as the quarter developed we started to see some pickup in demand again, while new products like FinQloud and microwave connectivity are seeing early sales success and should more meaningfully contribute to revenues soon.

Derivatives trading was flattish on higher U.S. revenues as share and capture increases more than offset lower industry volume offset by lower Euro derivatives revenue on broadly lower industry volumes with mitigation from stronger commodities. Equities trading fell 15%, mostly on the U.S. side, as a lower industry volume was compounded by lower share and capture at NASDAQ, as Bob touched upon earlier.

On Page 15, listing services, which includes U.S. and European listings saw a slight $1 million, or 2% decline in revenues to $55 million, representing 13% of our trailing revenues due to lower listing fees. Operating profit increased $3 million or 13% to $26 million, also representing 13% of our trailing operating income due to cost savings from our cost reduction program.

Operating margin of 47% improved 6% from 41% in the prior period. While IPOs priced in the quarter fell 28% from 47 to 34, our IPO wins of 18 were down only 14% from the prior year. We attracted two of the three largest private equity-sponsored IPOs this quarter, Norwegian Cruise Line and West Corp, who raised $872 million in combined proceeds. Our IPO win rate increased from 45% to 53% over the prior year. In addition to the IPO wins, we continued our success on switches as four companies switched to NASDAQ, and we lost no listing clients in the period to a competing exchange.

Moving to the expense side on Page 16, we continue to show solid expense control with non-GAAP operating expenses of $237 million in the first quarter up $5 million or 2% compared to the prior year. It's important to note that our core expenses decreased $13 million from the prior-year period, as a result of our effective cost reduction program. Acquisitions increased expenses by $13 million from the prior year, and an increase in GIFT spending added $3 million. Foreign Exchange changes also increased expenses by $2 million from the prior year.

We continue to believe strongly in the return opportunities that we are investing in with our GIFT investments and acquisitions. As evidence of our success, our return on invested capital for our GIFT projects that have either graduated or been terminated is 25%. Importantly, this is a calculation at the point of graduation where it is reabsorbed into the sponsoring business and doesn't reflect the expected higher returns achieved that the initiative continues to grow.

I also want to note with regard to expenses, that in the fourth quarter of 2012 we did benefit from a tax benefit of $5 million and in this quarter we benefited from an unclaimed property benefit of $4 million that will not benefit future quarters.

And so, moving on to our 2013 expense guidance on Page 20, we're updating our 2013 non-GAAP expense guidance for one accounting adjustment. Previously we'd accounted for certain partner sales in Corporate Solutions on a net basis, i.e., not including partner revenue in our revenue or expense. We are reclassifying this revenue on a gross basis where we recognize the partner revenue in our revenues and an equal expense for the payment to our partner in our expenses. This will add approximately $12 million to our revenues and an equal $12 million to our expenses in Corporate Solutions, but again, there's no economic change to our core spending plan.

And so, our 2013 non-GAAP operating expense guidance sums to a range of $972 million to $1.02 billion. Non-GAAP operating income in the first quarter of 2013 was $181 million, down $1 million compared to the prior year and non-GAAP operating margin came in at 43%, down slightly from 44% in the prior-year period, primarily the result of lower revenues in our higher margin transaction businesses.

Net interest expense was $21 million in the first quarter of 2013, a decrease of $1 million versus the prior year. The non-GAAP effective tax rate for the first quarter of 2013 was 32% versus 34% for the full year 2012, due to a permanent tax benefit associated with taxable foreign exchange revaluation losses, which are not reflected in pre-tax earnings. Excluding this tax benefit, our tax rate would have been 34%.

We previously provided guidance that our 2013 tax rate would be in the 34% to 37% range due to the potential impact of tax law changes in Sweden. While uncertainty remains as we pursue our tax position, based on the opinions of our external tax experts and on accounting requirements, we are reflecting the lower tax in our GAAP financial statements. Going forward, we expect our tax rate to be in the 34% to 36% range.

Non-GAAP net income was $109 million or $0.64 per diluted share compared to $107 million or $0.61 per diluted share in the first quarter of 2012. The $0.03 increase in our EPS reflects a $0.03 improvement in our core operating profitability, a $0.03 benefit from our share repurchase activity, reduced by a $0.03 cost of our acquisitions and increased spending on GIFT initiatives.

Moving on to the balance sheet on Slide 22. We are showing our debt structure and debt maturities. Our relatively low leverage, strong cash flow generation and space maturities give the company considerable latitude for our ongoing capital deployment initiatives in particular announced acquisitions of the Thomson Reuters Corporate Services business and the eSpeed fixed income platform.

As we mentioned in the announcement of our eSpeed acquisition, we anticipate our leverage will temporarily increase slightly above three times as a result of funding the Thomson Reuters and eSpeed acquisitions. However, as we have in the past, we will be prioritizing capital generation to de-leveraging quickly and bringing our leverage ratio back in the mid two times range in the near term.

Both of these deals meet our key acquisition criteria. They are strategically consistent and leverage our capabilities and resources. Secondly, they deliver EPS accretion within 12 months of closing. And thirdly, they will generate attractive returns in excess of our cost of capital.

We continue to be very excited about our opportunity to expand these businesses, improve their profitability and deliver significant value and returns on the capital that we're investing. And we've outlined on Page 17 all of the near and intermediate term opportunities that will drive the value that we create in these transactions.

In closing out, in the first quarter of 2013 NASDAQ OMX generated cash flow from operations of $149 million. Capital expenditures were $20 million in the first quarter which is equivalent to approximately 5% of our net revenues. Deducting capital expenditures of $20 million from the first quarter operating cash flow results in free cash flow of $129 million. This relatively high level of free cash flow generation means that NASDAQ OMX is currently valued at an 11% free cash flow yield at the current market cap, a substantial discount compared to the other U.S. exchange companies.

On Slide 28 we show our track record of cash flow generation and utilization since 2009. And as you can see, NASDAQ OMX has generated over $2 billion in free cash flow in little more than four years.

Thank you for your attention. I will now turn it back over to Ed.

Edward Ditmire, Vice President of Investor Relations

Okay. Thank you. Operator, will you open up the line for questions?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Rich Repetto of Sandler O'Neill. Please go ahead.

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: Yeah. Good morning, Bob and Lee and Ed. I guess my question is on the equity pricing, Bob. And I know you commented on sort of the iterative process you use. But I guess the question is broader. Because the way we looked at it you had two inverted pricing programs in the quarter. So is your broader strategy now – and again you're emphasizing non-transaction revenues, but is it to get more aggressive where the capture isn't as relevant to gain market share? Because in the past you've talked about how important it was, you know, to have some level of market share to protect the overall franchise.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: I would say first, Rich, the broad theme is segmentation of pricing. So when we look at our pricing, Eric and the team think about it surgically, and how can we address different customer segmentations. And obviously that segmentation strategy is limited or governed by what the SEC will approve. But that's what we want to do, and I applaud the team for trying different things. What we tried in the last quarter didn't necessarily work the way we wanted. In certain ways, we were victimized by our success a little bit, but we've been changing that. Our capture rate's getting back to a normalized level. Our shares increased. So the business is in a lot better shape second quarter than it was first quarter.

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: Okay. And then, Bob, I know it's been in the press that the three exchange leaders spoke to certain SEC officials, I think it was last week. Could you talk about maybe the one or two points that at least you tried to emphasize, and then what you thought the reaction, and whether you think there'll be any actions taken in this calendar year by the SEC?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, I would say this. A couple things. One is I have been pessimistic over the last number of years that any action would come out of the SEC. And while I'm not changing that position officially, I would say that we're seeing a climate that's more receptive to consideration of change. And that's driven not just by the fact the three exchange heads are unified in their position, but we're seeing really strong support from the buy side, and a little surprising to us, I think, there is an increasing number of sell side firms that recognize that the market has problems that need to be addressed. And I think this cause is also aided and abetted by the fact we've seen different parts of the world take steps in response to the problems we see here in the U.S.

So certainly we had the benefit of the data available to us with the moves taken both in Canada and Australia to restrict the increasing darkness of the market. And I've always felt all along that sooner or later, the increasing darkness of the market would run into trouble based upon their own success. So we have, you know, thousands of stocks that have 40% to 50% of their volume happening in the dark right now. And that's not just – that is not a good public policy position to be in. So we are on this mission to educate people, both on the buy, the sell side and obviously the regulators and the legislators. We're joined not just by our colleagues and our peers, by others in the ecosystem. So I think we're definitely in a better position than we have been in a very long time to affect change.

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: Thanks. And then the last question, Bob, on eSpeed. I agree – I can see the potential cyclical rebound for all the reasons that you all have cited. I guess my question is, I covered eSpeed prior to the merger with BGCP. The way the eSpeed platform was looked at before was it was highly electronic, treasuries, I don't know where you put it, but sort of close behind cash equities as far as the automation and in some ways the commoditization. And I guess so my question is, when you talk about all the new, the cross selling to your customers, at least it was a thought that the on-the-run treasury market was highly electronic, had algorithmic traders, was deeply penetrated. Is that not the correct view?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, it's not incorrect, but I would say this, you probably have, round numbers, 40% of the customer base in the U.S. treasury market as compared to what we have in the equity market. So there's a large opportunity to broaden that customer base, Rich. So we were encouraged – I said this previously. You saw in the options marketplace a lot of the traders in the core equity had difficulty moving their models to the options world. That has not been the case in the treasury world, so we know it has been done before. It's worked successfully. It's just not as pervasive as it should be.

And with them – with us moving the matching engine to Carteret, New Jersey, making it basically part of our infrastructure and bringing the technology into the itch and the ouch world will, I think, dramatically broaden that customer base. I also want to repeat what I said in my prepared comments. It is a fundamentally different state of being when you have this electronic asset in the electronic NASDAQ organization. We do not have any cross currents of belief driven by the voice brokerage trying to keep control over franchises that they have historically been responsible for.

So we are in a somewhat unique position as compared to competitors, and compared to how the markets work to bring electronification to other aspects of the fixed income market, and we will do that in close consultation with our customers and unhindered by any opinions coming from the voice brokerage community. That cannot be, I think, over-emphasized. So this acquisition has the perfect opportunity, one, to deliver alpha returns, which we're talking about here with products and customer sets coming on board, and we do have a core belief that there's going to be a beta return as the Fed either stops or slows down the buying in the marketplace.

<A – Edward Ditmire – The NASDAQ OMX Group, Inc.>: Thanks a lot, Rich.

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: Okay. Thank you.

Operator: Our next question comes from Howard Chen of Credit Suisse. Please go ahead.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Hi. Good morning, everyone.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: How are we doing, Howard?

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Good. How are you, Bob?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Wonderful.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Bob, last quarter, you were pretty upbeat on the improvement in U.S. equity flows that we were seeing earlier in the year, but overall consolidated volumes remain pretty lackluster. I was just hoping to get your latest views on that flow versus volume picture, and as you dig into the data a little bit more, are there any interesting trends that you're gleaning from that?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, I would say, I hope I wasn't too upbeat, but I would say that we have not seen the transference from equity flows into volume in the market at this point in time. And so, we think that's a latent benefit, it's an off-balance sheet benefit to us today. We do see flows coming back into the market. It's certainly not a bad thing. It has not yet turned into a good thing. We think in the fullness of time, it will. I think the missing ingredient here is just some level of volatility in the marketplace. I'm looking at Eric as I'm saying these things, but it's been a market bereft of volume.

So our viewpoint here, and it ties back to some of my eSpeed comments, there will be a beta return, a cyclical return to equity volumes. We'll be the beneficiary of that, and we'll enjoy that, but clearly, our job is not to sit around and wait for that, to make sure that we're building our business independent of the volume environment. And what you're seeing us do over the last number of quarters is clearly indicative of that strategy working. With that being said, we do wish or hope for volume to come back every day, but we don't spend too much time thinking about it.

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: And Howard, I would just add two things to that. One is, bear in mind that we really saw consistent equity outflows over the prior two years. We've had three months of inflows. We think there is a lag effect. And the other factor is that we continue to see actually net inflows into fixed income or bond funds. I think one of the real catalysts that we expect down the road, particularly as we move into a higher interest rate environment, is that we'll see a shift out of fixed income in a more material way into equities driven by that dynamic, and clearly that process hasn't begun yet.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: I would say you have to understand the management approach to this. We have to deliver to our shareholders increased financial returns assuming quite negative volume environment. So if this volume environment persists for the next 12, 24 months, so be it. Our job is still the same. We have to increase the earnings per share to our shareholders and we're going to do that irrespective of the volume environment.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Understood. Thanks for all those thoughts. And my follow-up for Lee, you touched on one aspect of this relating to technology solutions, but just given some of the recasting and reclassification of the business and financials, could you just refresh us on business unit by business unit revenue growth and margin targets now?

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: We don't provide, Howard, formal guidance in terms of growth expectations and margins. What I would encourage you to do is look at the revenue growth on a year-over-year basis that we've provided, as well as the margins that we've set, which is a new level of disclosure that we've provided. But we don't want to I think, outside of our annual investor day when we set some guidance, provide that specific level of detail.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Okay. Thanks.

Operator: Our next question comes from Brian Bedell of The ISI Group. Please go ahead.

<Q – Brian Bedell – International Strategy & Investment Group, Inc.>: Thanks. Good morning, guys.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: How are we doing?

<Q – Brian Bedell – International Strategy & Investment Group, Inc.>: Good. Good. How are you? Just a follow-up on Rich's question on the market share. Maybe taking that one step further, Bob. What do you think, or maybe if you can throw out a couple of the solutions that you think are possible in the U.S. cash equities market, such as improving the quality of the order flow on the exchanges and reducing high frequency trading. If you think that's a component of the issue with the high market share in the dark pools and in...

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. I'll give you a quick answer, here. We're in – Our approach to this, we're trying to boil it down to something that's actionable and understandable. The first point is, I think, we as the exchanges do not have a structural issue with the concept of dark pools. We're not against that. But what we're saying here is, understand that price discovery happens in the lit market and that is for the common good. And the quality of price discovery is improved when more and more participants contribute to that price discovery. So to the extent that you opt out and don't contribute to price discovery for the common good, for the common process, then you really need to be doing something that's not available in the lit market.

So we define that in two ways. One is, if you have large size we fundamentally understand that if you show up in a lit market with large size, you'll have an impact. So we'd want a dark pool to be focused on providing size, executions to the market place. The second is, if you have a clear and noticeable price improvement opportunity that you want to provide to an individual customer, we're not opposed to that. So we're saying dark pools are fine but we want them to be focused on providing size and meaningful price improvement. And it's important to note that the average dark pool size execution today is actually smaller than what we see in the lit market. And that's an upside down state of affairs.

So you know that's the focus of our message and I said, it's not just the exchanges agreeing to this but you certainly understand talking to the buy side that they are coming to the realization that 200 share executions in the dark is certainly providing massive information that works against them as they try to get their blocks executed. So as I said, we're more optimistic that this I getting a broad based support and a fundamental recognition that there's a problem. And what's also interesting is when you look at the results of Canada who have implemented the rule in the fourth quarter of last year, you see that displayed liquidity has increased and also the bid offer spread in those lit markets is also declined. So we have those facts for us.

<Q – Brian Bedell – International Strategy & Investment Group, Inc.>: That's a great answer, Bob. And then just on the timing on that, obviously there's a lot of complexities and a lot of constituents involved. Do you still not see this as a 2013 change and more of a change around 2014? Or do you think something...

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: I really can't predict. I'm just, it's just, the Jobs Act happened remarkably fast and we hope 2013, the dark pools is a Jobs Act equivalent. But you can't predict that.

<Q – Brian Bedell – International Strategy & Investment Group, Inc.>: Okay. Yep. Sure. That's fine. And just my follow up on the Thomson and eSpeed deals if you could just sort of comment on the revenue run rate currently versus the, say the $233 million annualized for Thomson when you announced the deal and $100 million for eSpeed. And then, your contribution or I would say, the timing of the impact of your roll out of new products in terms of the revenue synergies that you think you're going to get. How should we be looking at that in the second part of the year assuming these close around mid-year?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: All right. So I want to make sure I understand your first question. I would say the answer I'd give you, and tell me if I'm not answering, is both as far as we know eSpeed and Thomson are performing as we anticipated at the time we did the deal.

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Yeah.

<Q – Brian Bedell – International Strategy & Investment Group, Inc.>: Okay.

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Yeah. With the revenues that we disclosed, eSpeed was approximately $100 million, and with the Thomson Reuters, $233 million on an LTM basis.

<Q – Brian Bedell – International Strategy & Investment Group, Inc.>: Right, right. And then just, in terms of your thoughts of how revenue synergies as your roll out new product? Is this more of an intermediate to long-term material contribution, or do you think we'll start actually seeing some traction, say, as early as the fourth quarter?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah, I would say this, that the fourth quarter would be our optimistic viewpoint. So I think that's possible. It's too soon for me to commit to that, but it's in those kind of time frames. It's interesting is that when you look at the eSpeed technology, it's impressive, and they have the ability to trade a lot more diversity of instruments than they trade today. So that's rocking and ready to go. And we have to do that in consultation with our customers. On the Thomson side, we have products that they don't have that we want to sell into their base, and they have products that we don't have that we want to sell into our base. So that will also be in the short to medium-term that we'll be on with that mission.

<Q – Brian Bedell – International Strategy & Investment Group, Inc.>: Great. Thanks so much for taking my question.

Operator: [Operator Instructions] Our next question comes from Niamh Alexander of KBW. Please go ahead.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: Hi. Thanks for taking my questions. I'm sorry, I'm down to one at this point, but Lee, can you just walk me through these expenses, the non-recurring or what you've excluded, and just help me understand better some of the M&A, but there's strategic initiative. I would have thought they are part of the expenses to include. What's the special legal, should they continue. And then the $4 million tax benefit, why was that not excluded as well? So can you help me understand why so many non-recurrings, basically.

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Sure, Niamh. And, you know, what I'll do is just refer you to Page 31 in the investor presentation, where we provide the reconciliation of the non-GAAP. Obviously the big component for the period is the $62 million voluntary accommodation program charge of $62 million. And, so that, we certainly don't expect to be recurring.

In addition, we have the merger-related costs, and these are related primarily to Titan, Velocity, and a number of other transactions that we looked at. But, clearly it's not part of our operating business, and they were specific to transactions. And so I would say that we had clearly a higher level of activity in the first quarter given everything that was going on around Titan and Velocity, and that represents the bulk of that. We don't expect to see that level of merger-related on a regular, ongoing basis.

Moving to the restructuring and repositioning charges of $9 million, this is the final repositioning charge that we are taking in connection with our cost reduction program that we announced in the first quarter. We had exceeded the $50 million in annual cost savings from that program, and the bulk of this is severance associated with that amount. So I think those are the major elements in the non-recurring expense that we've excluded from our non-GAAP results.

As regards to the question on the tax benefit, the reason we haven't excluded that is that we have, for the past five quarters, included both positive and negative impacts from that specific revaluation permanent tax benefit. And consequently, it would be inappropriate to exclude it in this period, when it's positive or negative over that timeframe. I do want to also mention that we expect to make an adjustment to eliminate this exposure going forward, so this will no longer be an impact to our P&L.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: Okay. Fair enough. So the merger and strategic initiative, Lee, that was all mostly mergers? Because I guess the strategic initiatives, I would think that, that's something you shouldn't be excluding if it's not a big part of it. Is it?

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Yeah, I want to be clear. These are all specific merger-related transaction costs. So in addition to Thomson Reuters and eSpeed, it also includes costs associated with our TOM investment, with our acquisition of Mergent and others. So they are one-time costs, they are not recurring elements that are part of our overall strategic activities or GIFT activities. That clearly is something that falls within our operating results.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: Okay. Fair enough. Thanks so much. And then, just on the expenses still, the guidance hasn't changed, it's just a contra revenue that's been reclassed into expenses from what we can see. Are there any other contra revenues in the top line now?

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: No. No, that is the only adjustment, and it was a one-for-one adjustment in revenues and expenses.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: Okay. Thanks.

Operator: Our next question comes from Chris Harris of Wells Fargo. Please, go ahead.

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Hello, Chris.

<Q – Chris Harris – Wells Fargo Securities LLC>: Thanks, guys. So my question here is on capital. I think you guys would agree that investors are probably a little disappointed that we've suspended the share buyback. Are there any assets on your balance sheet that you guys would potentially consider selling to maybe free up some extra capital for incremental buybacks here, and what one asset that comes to mind is your stake in LCH, but I didn't know if there's any others that you could potentially look to monetize.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well we just took our stake in LCH, so I think the answer would be, no, there. I have an investment in DFM, which is not strategic but something that is of value to us. But outside of that, we do like our core portfolio of assets which we own. And with respect to LCH, we're a strong supporter of the horizontal clearing model. It's our intention to lever around that, and most notably through our NLX effort which is due to go live by the end of the second quarter. It's important to recognize customers do want to avoid a vertical silo as much as they can, and we think it's important to have that out there as an option to them, and then we have the opportunity to provide trading solutions that lever that core infrastructure. So it's an important investment for us in terms of strategically where we want to go with our trading strategies. Okay?

Operator: Our next question comes from Chris Allen of Evercore. Please go ahead.

<Q – Chris Allen – Evercore Partners (Securities)>: Good morning, guys.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: How are you doing, Chris?

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Morning, Chris.

<Q – Chris Allen – Evercore Partners (Securities)>: Good. Just wanted to dive into the technological solutions and margins a little bit. You mentioned that they're negatively impacted by deals. I'm just wondering how those deals, BWise, et cetera, measure up versus your accretion targets for M&A. And also, if I recall correctly, you talked about BWise specifically potentially reaching 20% to 25% margins. So I'm just wondering where do you think margin can get to in this business once the expenses come out and the impact of Thomson comes in?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. The way we define the world, here, is that world-class for this business would be a 30% margin. That's a difficult goal, and certainly would be indicative of the fact that you're number one or two in the space, and the space is growing. So we hold that as a long-term goal.

In the medium-term, we certainly have to make incremental steps. As you see, the margin in this business has, one, been negatively impacted by the segmentation as we remove some of the support levels it was getting from basically our listings business. In addition to that, we did have the sales cycle stretch out in particular for BWise. So direct answer to your question, BWise is not at this point meeting the board model, and it's not anywhere near where we want it to be.

That being said, the product's competitiveness is very strong. The prospect list which we spent a long time reviewing is in fact very strong, and we do believe that the sales cycles will come to fruition and also hopefully accelerate as we go forward in time. In addition, we'll do a, I think an increasingly effective job of having BWise be part of the integrated suite of products we offer and that's one of the reasons why we put the segments together. The SMARTS business was in Market Technology. BWise was in Corporate Solutions. And now as one group they're able to work together more completely and we'll see the benefits of that in the time to come.

So we're not happy with the margin in the business today based upon the re-segmentation, the stretching out of the sales cycle. As one big group we get to look at it. We know what the goal is. Certainly we want to get to double digits as soon as possible and the next step would be to get to a margin in and around 20%.

<Q – Chris Allen – Evercore Partners (Securities)>: So will Thomson get you to double digits?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yes.

<Q – Chris Allen – Evercore Partners (Securities)>: Good. Thanks a lot, guys.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. And when I say, but let me clear. When I say double digits, obviously we'll be reporting as one segment. But I'm saying the business that exists today will be in double digits very quickly and obviously with Thomson we'll improve upon that.

<Q – Chris Allen – Evercore Partners (Securities)>: Got it.

Operator: Our next question comes from Mike Carrier of Bank of America Merrill Lynch. Please go ahead.

<Q – Mike Carrier – Bank of America Merrill Lynch>: All right. Thanks, guys.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: How are you doing, Mike?

<Q – Mike Carrier – Bank of America Merrill Lynch>: Good. Just on the, sort of the non-transaction portion of the business. Is it, the growth there you know has been pretty consistent the past few years. But some of that's been driven by some of the bolt-on new transactions that you've done. When you think about whether it's a tech business, the market data, the corporate solutions and you think about it over the next two to three years, what's the expectations in terms of growth in that business, more from organic versus deals? And maybe just when you think about it from new products that you're launching, penetration into customer bases that you're not already in, or pricing improvement in areas where you actually have some leverage? I'm just trying to gauge those areas of the business because they're slightly more difficult to track.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. I say that's a great question. And it probably leads to an overall theme that I think we will be increasingly trying to communicate. It's important to recognize in each and every one of those businesses there is some basic level of investment we're making in new product or services. And if we were going to run any of those businesses for the given quarter or the given year the margin profile would be different. But each and every one of those businesses we see some fundamental opportunities to grow and we're building the product and services that allow us to grow. So one thing you did not mention, which is tied to the data business, is the index business, right? So we've made a significant investment in that.

The global index product is rolled out in the fourth quarter, and we're in the process of really intensive interaction with the community, and we expect that to be an engine of growth going forward. In a corporate solutions business, we mentioned Glide and BWise in our prepared comments. Glide has the ability to really take a leading position in the PR space. We're making some fundamental investments in that technology, and it's not helping us at this point in time, but it will certainly be a fundamental way we grow. That space is large and growing. Likewise, BWise is, I think, perfectly positioned in the space it wants to be in, and so we're making those level investments in our whole corporate solutions business, and what we're calling the Dragon project.

We'll be the first and only people coming together with an out-of-the-box, built-in, integrated suite of products for both PR, IR, really for the whole corporate suite. And, so we'll be unique in that regard. So the investment level here, from GIFT and non-GIFT is very strong, and we're doing that, obviously for our future. $0.64 could be a lot larger number today if we chose it to be, but we clearly see great growth opportunities in all those different segments that you mentioned.

<Q – Mike Carrier – Bank of America Merrill Lynch>: Okay. And then, just as a follow-up, based on some of the investments that you're making, the expense guidance makes sense. If we continue to be in a sluggish environment or if we even get weaker, if it's possible on the volume side, do you still have some areas of expense flexibility whether it's on the transaction side of the business or some of the investments that you might say maybe it makes more sense to delay some of those, obviously balancing that you still want to keep the focus on the long-term growth outlook in some of those areas.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: It's always an unlimited opportunity to cut your expenses. So we still believe that we could run this company with about five or six people if we really had to. But it's not what we choose to do. So the answer is yes, there's always opportunities. But we have, I think, the right balance here between managing this business for the quarter, we're delivering strong results quarter-on-quarter, but beneath those strong results is a very strong investment in our future. So we'll do that, clearly if the economic environment goes downhill, we will do new things or we'll re-do what we did last year on the lease leadership we put in the cost reduction program, and so we always have that flexibility to shrink the expense base.

<Q – Mike Carrier – Bank of America Merrill Lynch>: Okay. Thanks, guys.

<A – Edward Ditmire – The NASDAQ OMX Group, Inc.>: Operator, I think we have time for one more question.

Operator: Our final question comes from Jillian Miller of BMO Capital Markets. Please go ahead.

<Q – Jillian Miller – BMO Capital Markets (United States)>: Thanks, guys. The NASDAQ options market has been gaining a lot of share over the past couple quarters, and I was just wondering if there's anything going on there, like new pricing, new order types. Just looking for what's driving the share grades and whether that's sustainable. Then kind of related to that, on the options fee rates. Is there any way you can give us an idea of how NOM's net capture rate compares to Silex's?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: All right. Good. I'll let Mr. Noll answer that question. And he's happy it's not an equity question.

<A – Eric Noll – The NASDAQ OMX Group, Inc.>: So on NOM, yes, we do think it's sustainable. We've spent a great deal of time over the last couple of quarters reformatting and reformulating the way NOM works and integrates with our customers. We see some unique opportunities because they trade in the same SRO as the NASDAQ equities market to combine pricing for both options and equities, which we think it's just customers on both sides of that. So we do think that our share growth there is sustainable. Our capture in that business, while we don't break out capture venue-by-venue, is consistent with our capture across our options market altogether. We're pleased with where it is, and hope to be able to grow that as we go forward. And the second part of your question, Jillian?

<Q – Jillian Miller – BMO Capital Markets (United States)>: The second part was actually on the capture rate, so you already answered it.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Great. Okay. Ed, we're done?

<A – Edward Ditmire – The NASDAQ OMX Group, Inc.>: Yeah. If you want to...

Robert Greifeld, President, Chief Executive Officer & Director

Yeah, I'll just close. One, I want to thank everybody for their time today. Another strong quarter as we covered during the call. We're clearly delivering to our investors quarter-on-quarter, but more excitingly we have many exciting things in the pipeline and also the pending acquisitions really represent fundamental opportunities to change NASDAQ OMX in new and diverse ways, which will deliver in turn for our shareholders. And as I said in my opening comments speaking for myself, and I believe all the other employees here at NASDAQ, it's an exciting time to be here.

So I thank you for your time today, and look forward to getting together next quarter.

Operator: Ladies and gentlemen, this does conclude today's conference. You may all disconnect, and have a wonderful day.