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Corporate Participants

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Lee Shavel – Chief Financial Officer and Executive Vice President, Corporate Strategy, The NASDAQ OMX Group, Inc.

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Patrick J. O'Shaughnessy – Analyst, Raymond James & Associates, Inc.
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to The NASDAQ OMX Third Quarter 2013 Results Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference is being recorded.

I would now turn the call over to Ed Ditmire, NASDAQ's Vice President of 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 third quarter 2013 earnings results. On the line are Bob Greifeld, our CEO; Lee Shavel, our 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, Chief Executive Officer

Thank you, Ed, and good morning everybody, and thank you for joining us today. We are very pleased to announce a very strong third quarter. And what is noteworthy, this is the first time our acquisitions of eSpeed and Thomson Reuters IR, PR and Multimedia businesses are fully incorporated in our results. You can see our mix of business is evolving and we have set new revenue and operating profit base lines.

In the third quarter 2013 revenues reached a record $506 million, driven largely by our Technology Solutions segment, now a $524 million annualized revenue business as well as our Information Services segment, which set a new high with $472 million in annualized revenue.

In addition, with the inclusion of eSpeed, two-thirds of the transaction-based revenue in our Market Services segment now comes from derivative and fixed income products with one-third now coming from equity trading, a pretty remarkable transformation.

Looking at the bottom line on a non-GAAP basis, third quarter EPS of $0.66 was up 6% over the year – prior year was $0.62. Our non-GAAP operating income was up 12% year-on-year. We are on a good course, and we are seeing positive momentum in a continuing difficult environment. We are executing our strategy, and we are in progress in making progress against our targets and objectives we've outlined in our recent calls.

This quarter provides further evidence that our strategy to leverage our technology and customer relationships to build profitable businesses, which deliver attractive returns for our shareholders is working. Our objective is to become an entrenched provider of a diversified portfolio of services to the financial and investment community.

When we think about our strategy and objectives, clearly the integration of eSpeed and the IR, PR and Multimedia businesses at Thomson Reuters are important to these efforts. We're making good progress with each of these and I'll come back to this later.

I want to turn to some of the broad business highlights that defined our quarter and the results we delivered. Our core listing business continue to demonstrate that our value proposition to issuers is compelling with a recent high of a 59% IPO win rate in what has been a very busy quarter in terms of new issue activity, with activity through the first nine months of 2013 the highest since 2007. We're obviously pleased about that.

We also are having one of our best years on the IPO front, and most recently we won several high-profile IPOs including Rocket Fuel, FireEye, Potbelly Sandwiches, Sprouts Farmers Market and RetailMeNot. And just a few weeks ago, we won one of the largest switches of the year in Marriott, a $12 billion market cap company and in addition to that, Fairchild Semiconductor, another billion dollar plus company, which chose to switch to NASDAQ from our competitor.

What you are seeing in many of our core businesses is a microcosm of our diversification strategy implemented at the corporate level, and there is no better representation of that in our Global Index business. We saw a strong revenue growth in both our Index Licensing business, which grew 20% and the first time has more than half of its licensed AUMs and products other than the Qs.

Our Market Data business grew 19% due to a combination of organic revenue growth led by NASDAQ Basic, the inclusion of eSpeed market data and higher audit collections. In our Market Technology business, within our Technology Solutions segment, we had several key wins in the quarter that featured record new order intake and pushed the backlog to record highs. These include Borsa Istanbul, who are in addition to supplying them with our leading technology, we are forming a strategic partnership to help them expand their global presence.Other notable market tech wins included Boerse Stuttgart and Tadawul, which is the Saudi Stock Exchange. Overall organic revenue growth for the company was 4% year-on-year, and we saw organic growth in all three of our non-trading segments.

With regard to the Corporate Solutions business, which is the other business in our Technology Solutions segment – they don't think they're the other, obviously, the other way around. As I mentioned, we're very pleased with the progress we're making against our plans to integrate the Thomson Reuters' businesses.

Central to our efforts has been the global reorganization of the sales team, which enables us to better execute and serve our base of 10,000 global customers. While we already have strong relationships with a long list of clients, our cross-sell opportunity is significant given that the vast majority of our existing customers are using only one or two of our solutions.

In addition, we have been developing a new platform of shared standards, which will provide a uniform and consistent technology framework for integrating core components across our entire product suite. This product is the product roadmap that the integration team has been working on will create the next generation of IR and PR platforms. Our mission is to create a stronger industry leader in Corporate Solutions, and we believe we're absolutely on target to do so.

Now, let me move on to eSpeed, which is a business we're extremely excited about in our Market Services segment. With the acquisition of eSpeed, we're now one of the leading providers of electronic government bond trading. Leveraging our leading technology is core to what we do, and we have established a near-term goal of achieving best-in-class responsiveness for the eSpeed platform, both in terms of latency and the consistency of that latency under varying volume loads. Right now, we think we're on track to accomplish this target by the end of the year, and we'll look to lever this to improve our market share.

Looking forward a bit more in the first quarter of 2014, we will move the eSpeed matching engine to our Carteret data center, which will bring it closer to more of our customers and enhance its resiliency.

In addition to the work we're doing on the technology front, we've been successful at bringing new market participants on to the platform, with four new customers since we closed the transaction, another four expected to begin trading by year-end. Also, we intend to add value to this eSpeed offering by expanding its product offerings. We expect to launch the first of these new products in early 2014.

Despite continued record levels of quantitative easing, treasury volumes were up almost 20% year-on-year in the third quarter of 2013, and we expect to continue to enjoy market volume tailwinds in the form of both growth in treasury supply and a bias towards higher volatility and turnover of treasuries, something that will be fully realized as QE2 tapers then eventually ends.

In the quarter, we also continue to see solid traction in the internal investments we've made in our future. These include, NLX, our European interest rate derivatives offering; FinQloud, a cloud-based data storage management solution for the brokerage community; and WorkSpace, our virtual data room product offering.

As we move forward through the fourth quarter and into beginning of 2014, we have several areas of critical focus. First, as always, we will continue to manage our franchises with the focus and the discipline, which is our trademark while ensuring we're meeting our customers' needs.

Second, we will continue our strong execution on our plans for both Thompson Reuters and eSpeed. Although they are already contributing to the dynamic evolution of our business, and accreting to our investors it's still early days, and we are, in fact, just getting started. That said, we're on a good path to reach growth and synergy targets we have established for ourselves.

Lastly, we will continue our focused de-levering plan so that we can return to our long-term leverage target sometime in the first half of 2014.

This quarter represents strong progress in a continuing sub-optimal business and political environment. And while w, at NASDAQ OMX are proud of this progress, we are more excited by the opportunities that our diversified business model presents to our employees, our customers and our investors. We look forward to our future.

With this, I'll turn the call over to Lee.

Lee Shavel, Chief Financial Officer and Executive Vice President, Corporate Strategy

Thank you, Bob. Good morning, everyone. The following comments will focus on our non-GAAP and pro forma non-GAAP results. Reconciliations of GAAP to non-GAAP and pro forma 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.

I'll start by reviewing our third quarter revenue performance relative to the prior year quarter. Net revenues increased $94 million to a record $506 million. Contributing to this increase was $78 million or 27% increase in subscription and recurring revenue, primarily from acquisitions but also from material organic growth.

Subscription and recurring revenue now represents 73% of total revenues. Transaction-driven revenues rose $16 million on the inclusion of transaction revenue related to the eSpeed acquisition, partially offset by slightly lower revenue in our legacy trading businesses, in particular by U.S. equities and derivatives. On an organic basis, constant currency and excluding acquisitions, total company net revenues rose $16 million or 4%.

I'm now going to go over some highlights within each of our reporting segments. All comparisons will be to the prior year period unless otherwise noted. Information Services, which includes our Market Data and Index businesses increased revenues by $19 million or 19% to $118 million and operating profit by $14 million or 19% to $86 million.

Operating margin was unchanged at 73% compared to the prior year. Market Data had a $16 million increase in revenues on growth in new product sales, in particular, NASDAQ Basic, select pricing actions such as an increase for level 2 quotes and mutual fund services. The inclusion of eSpeed market data and higher audit collections, which were $7 million higher than the prior period.

Index Licensing and Services grew revenues 20% with a number of licensed exchange traded products up 57% to 143 and assets in these rising 70% to $79 billion. One interesting footnote in Index is that for the first time, the majority of the assets under management in licensed products associated with our indices are in products other than in our industry leading QQQ ETF.

Technology Solutions which includes Corporate Solutions and Market Technology increased revenues by $58 million or 79% to $131 million, mostly because of the impact of the Thomson Reuters and BWise acquisitions but also due to organic growth at both the legacy Corporate |Solutions business and growth in Market Technology.

Operating profit increased from $6 million to $9 million due to both the full quarter inclusion of Thomson Reuters and higher contribution from existing businesses. Corporate Solutions revenue saw a large step up in scale, more than tripling compared to the prior period due mostly to the impact of a full quarter inclusion of the Thomson Reuters acquisition, and secondarily due to the continued organic growth in our legacy Corporate Solutions products such as Director's Desk where 232 clients were added and Press Release services which saw 25% higher volume.

Market Technology revenues grew 4% and order intake at $119 million and backlog at $579 million both set new highs.Significant new business wins included Borsa Istanbul and Boerse Stuttgart. And we also had a strong quarter in terms of SMARTS surveillance product sales and BWise orders.

A note here on our Technology Solutions operating margins. We saw stable margins versus the last quarter. But I also wanted to expand a bit on some of the positives and negatives that cancelled each other out in terms of the sequential margin story. We did enjoy the benefit of a full quarter's worth of the Thomson Reuters acquisition, which generally enjoys higher margins than our legacy Corporate Solutions business. But the third quarter sees some soft seasonality at both Thomson Reuters and our legacy Corporate Solutions business.

We also have some temporarily elevated costs in the early quarters of the acquisitions stemming from temporary support services, professional services fees, et cetera, that will be receding over the next few quarters. We continue to target 20% plus margins in the Technology Solutions segment within the next few years.

Market Services which includes our derivatives, equities and fixed income trading as well as associated access and broker services saw a $15 million or 8% increase in revenues to $200 million due primarily to the inclusion of transaction and hosting revenues of the acquired eSpeed business, partially offset by a decline in the legacy Market Services revenue, in particular declines in U.S. equities and derivatives more than offset higher European equities and derivatives.

Operating profit increased $5 million or 6% to $85 million and operating margin of 43% was unchanged compared to the prior year period. Net derivatives and fixed income trading revenues rose 24% due to the inclusion of $18 million in net eSpeed transaction revenues. I'd like to note here that the $18 million is net of $1 million in transaction-related costs, and our reporting has classified such transaction-related costs into a contra revenue item, different than how we showed eSpeed's 2012 results when the deal was announced.

With the gross trading revenues reflected in revenues and these variable costs reflected in operating costs. Excluding this change, net fixed income trading revenues were relatively flat from the prior year period as higher industry volumes were offset by lower market share due to share declines that occurred prior to NASDAQ ownership.

In derivatives trading, European revenues rose 4% principally on revenue associated with clearing, but U.S. derivatives saw a decline that more than offset this increase on slightly lower industry volumes and market share compared to the prior year period.

Net equity trading revenues fell 2% as European equity revenue growth of 17%, a product mainly of higher industry volume was more than offset by a 14% decline in U.S. equities on lower industry volumes and market share.

In Access and Brokers Services, revenues fell $1 million or 2% to $65 million due largely to muted demand for ports and collocation, partially offset by the addition of eSpeed hosting revenues and growth in newer products like microwave.

Listing Services which includes U.S. and European listings saw a $2 million or 4% increase in revenues to $57 million, principally on higher European listing fees which reflect higher market capitalization there. In U.S. listing fees, results were flat as higher fee revenue was offset by lower revenues associated with events at the market site facility, which is undergoing a renovation.

Operating profit decreased $1 million or 4% to $22 million and operating margin of 39% was down 3% versus the prior year period. U.S. IPOs priced in the quarter doubled to 64 from 30 in the prior year period, and our IPO win rate increased to 59% from 57% in the prior year period.
In addition to having a productive quarter, in terms of both new issue activity and a very strong win rate, we gained as many switches as we saw depart, at four. Non-GAAP operating expenses increased by $73 million from the prior year with the vast majority the increase from the two acquisitions.

Organic expenses, excluding the acquisitions and assuming constant currency, rose 7% this quarter consisting of a 6% increase in core expenses and 1% due to higher GIFT spending. Net organic increase is higher than normal due largely to timing issues around certain compensation items which affected different quarters in 2013 compared to 2012, and elevated professional service expenses associated in part to managing certain support functions during the early months of the acquisitions. Year-to-date, organic expense growth was 2%, about half of which is the impact of a higher GIFT budget.

Moving on to 2103 expense guidance on slide 20, we are narrowing our guidance range for 2013 now that we are three quarters through the year. And our new guidance is $1.120 billion to $1.135 billion compared to the prior $1.120 billion to $1.160 billion guidance range. We are lowering the new initiative forecast to $45 million as we ended up funding fewer projects than we originally anticipated when we communicated the original $50 million to $60 million range at the beginning of the year. And our core expense forecast is narrowed up to $1.075 billion to $1.090 billion from the previous $1.070 billion to $1.100 billion.

Non-GAAP operating income in the third quarter of 2013 was $202 million, up from $181 million in the prior period. Non-GAAP operating margin came in at 40%, down from 44% in the prior year period, primarily the result of larger contribution from the lower margin Corporate Solutions businesses due to the Thomson Reuters acquisition, plus the increased levels of internal initiative investment and in particular, NLX.

Net interest expense was $30 million in the third quarter of 2013, an increase of $8 million versus the prior year due to increased borrowings associated with our acquisitions. The non-GAAP effective tax rate for the third quarter of 2013 was 34%, at the low end of our 34% to 36% guidance range. Going forward, we continue to expect our tax rate to be in the 34% to 36% range.

Non-GAAP net income was $113 million or $0.66 per diluted share compared to $105 million or $0.62 per diluted share in the third quarter of 2012. The $0.04 increase in our EPS reflects a $0.02 improvement in our core operating profitability, a $0.05 benefit from acquisitions, net of financing costs and $0.01 benefit from foreign exchange, partially offset by $0.03 of increased spending on GIFT initiatives and $0.01 higher due to a fully diluted share count increase.

Moving on to the balance sheet on slide 22, we are showing our debt structure and our debt maturities. Our higher debt and leverage versus the prior year reflects the completion of our acquisitions of Thomson Reuters at the end of May and eSpeed at the end of June, financed largely with debt while both our debt and leverage declined versus the second quarter of 2013, reflecting debt pay down in the quarter since those acquisitions were funded.

In the third quarter, the company paid down $98 million in debt, including retiring the $93 million convertible bonds but changes in FX led to a $31 million increase in the U.S. dollar amount of debt on the balance sheet, netted to a $67 million decline in total debt quarter to quarter. Our gross debt leverage fell to 2.9x from 3x last quarter, consistent with our original expectations, and we continue to expect leverage to return to the mid-2s range within three to four quarters of the closing of the acquisitions, so before the end of the second quarter in 2014.

Please bear in mind, there are some seasonality to our cash flows, and in addition to the fact that third quarter is generally a soft earnings quarter due to lower activity levels, NASDAQ gets especially strong cash flow in the first quarter due to payments of annual listing fees in that period. Once we reach our mid-2s, gross debt-to-EBITDA leverage target, which again we are progressing according to plan on and expect to complete by the end of the second quarter of 2014 will enjoy flexibility to return or deploy capital where it generates the highest returns for our shareholders.

Thanks for your attention. And I will now turn it back over to Ed.

Edward P. Ditmire, Vice President, Investor Relations

Stephanie, can you please queue the Q&A?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Rich Repetto with Sandler O'Neill. Your line is open.

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: Yeah, good morning, Bob. Good morning, Lee, and congrats on the strong quarter.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Thank you, Rich.

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: I guess this quarter is a little bit more difficult because you got the acquisitions coming in, a little bit more moving parts. And just at first, a cleanup on them to try to clarify some things. But on the eSpeed, what was the Market Data? Because we can see the $18 million in the fixed income trading, but was there other contributions to Market Data, I think you referred to in the prepared remarks?

The other question, Lee, is expense – you beat us on expenses materially. And when I take just the 7% increase from last year, 3Q 2012, Lee, coming up with $57 million in expenses from the acquisition, that's down below the run rate of the $65 million that you guided to. I'm just trying to see whether that's to do with GIFT spending or trying to explain the lower expense run rate that you reported in the quarter.**<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>:** All right. So, Rich, I'll take the first question as Lee prepares for the second, more difficult question. So, when you look at the eSpeed numbers, we obviously have, as we do with Basic, all acquisitions made a part of NASDAQ OMX, so the co-location Services revenue and the Market Data revenue is separate from the transaction revenue.

I think to get to the nub of your question, we had $99 million in revenue on a gross basis. I think the quarter was slightly below that pace, if you add back co-lo and Market Data, but that's expected, given it was the third quarter.

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: And Rich, on your question, when you look at it versus the prior quarter, I think probably some of the gap here, looking at third quarter versus the second quarter, acquisitions added about $39 million of additional expenses. We had a benefit of about $6 million lower expenses due to lower GIFT spending from the second quarter, and we had an increase of about $4 million of expenses on the core related to some higher compensation. So I think overall, it was probably lower GIFT spending that accounts for some of the differences here.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: And the general comment I want to make is that we operate under the structure that we look for effectiveness first and efficiency second. So with respect to the acquisitions and in particular Thomson Reuters, we're at the effective level. We're not at the efficient level yet. That was not our goal for this quarter, the last quarter, and possibly this quarter, but we obviously will get there as we go into 2014. So it's exciting as the numbers are strong, but we have a lot of work left to do, and we obviously will get it done as we get into 2014.

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: Okay. And then one sort of follow-up on the strategic side. Bob, BATS and Direct Edge announced the merger, and I was just trying to see how you view that competitor – now a combined competitor. And they've talked about why your Market Data is extremely strong, but do you see that now that they have more material market share, has that been any sort of an issue on Market Data and the proprietary – and the growth you see in proprietary market data?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, we were the innovator in this space with NASDAQ Basic and we have a thousand customers now on a commanding position, and it's our job to continue to work and improve that product. So, we like our positioning. We certainly think that BATS and Direct Edge, NYSE for that reason also will try to compete with us. But it feels good to be the innovator in the space, who has a strong position of incumbency. And we're not going to rest on our laurels.

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: Okay, thanks and congrats again.

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

Operator: Thank you. Ladies and gentlemen, we ask that you please limit yourselves to one question and one follow-up. Our next question comes from Howard Chen with Credit Suisse. Your line is open.

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

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

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

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

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

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: I had two follow-ups on the recent acquisitions, as the early progress looks pretty positive. First, on Corporate Solutions, Bob, you spoke about the cross-selling opportunity on the enhanced product suite. Was just wondering if you had thought about framing that opportunity and discuss sales and distribution you have in place and is that where you wanted to be in order to kind of execute on that opportunity set?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. I would say this, the effort to combine the sales teams has been definitely ahead of pace and you see it's essentially done, and I'm looking at Anna as I'm answering that question. She's shaking her head, yes also, so that's good. And I think we will probably give you more granularity as we advance in time. I would say that Directors Desk is the hot product from the ex-Thomson Reuters people. Automated board books is a hot segment and to be able to lever that additional channel with that proven product, I think, has been successful so far, and I think it will be remarkably successful as we go forward in 2014.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Okay, great. And then shifting over to the business you acquired from eSpeed. You spoke about four new customers on board during the quarter. Could you talk about the nature of these customers, how meaningful you think they can be and just what's the universe of other new customers? Because I think a lot of people out there think that this business was relatively saturated and mature amongst the customer set. Thanks.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: No, I would say and I'm looking at Eric as I say this, but we have I think a material opportunity to expand the customer base. One is that given the relationships that prior eSpeed had there were certain customers who chose not to deal with the platform, and I think we as a new player coming in have the opportunity to change that.

In addition, as we said from the announcement of the deal that as we move the customers into Carteret and make it very easy and facilitate the on boarding of those customer in Carteret who are not customers of the eSpeed platform we'll see some pickup from there.

So, we're excited about that. We're on with the plan.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Just a quick follow-up on that Bob, what was the – can you just remind, what's the limiting factor of why these customers may not have been there with the prior owner?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah, I think you get two things. One, is you had certain relationships that had been I would think handicapped through the years that now we as a new player can address. And two is that the equity world is still the widest world out there. And fixed income in U.S. treasuries is big but it's not as big as the customer set that we have here. So, we take those two drivers, and it presents us with opportunities.

I also want to highlight that we made three fairly substantial changes to the platform since the acquisition. And as I said in the prepared comments, we're looking in the fourth quarter to really get us close to parity with the competitor with respect to raw speed and also the ability to perform under stress.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Great. Thanks for taking my questions.

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

Operator: Our next question comes from Patrick O'Shaughnessy with Raymond James. Your line is open.

<Q – Patrick O'Shaughnessy – Raymond James & Associates, Inc.>: Hey, good morning. So my first question is on the regulatory environment, and I think specifically regulation of off-exchange trading, it does seem like there's more conversation. The SEC is more actively looking into the issue of off-exchange trading. Can you just kind of give an update of where you see things standing right now?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, I would make this general comment, is that I think the Commission is in a better position than it have been in a while to execute on their desires. So I think, under Mary Jo's leadership, you have a Commission that's focused on getting things done.

So I think, in the fullness of time, that will be very helpful and so, while the debate continues to go on with respect to what is the proper structure, at the end of the day, we see that any change in structure will be good for us. We obviously will sweat the details and advocate for what we think is the right solution for the market.

But at the end of the day, the most important thing is that something happens, something changes. And my prediction is with Mary Jo's leadership we'll get there in some reasonable period of time.

<Q – Patrick O'Shaughnessy – Raymond James & Associates, Inc.>: All right, I appreciate that. And my follow-up question.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. I just want to make sure that I'm not speaking for the Commission. This is my personal opinion.

<Q – Patrick O'Shaughnessy – Raymond James & Associates, Inc.>: Noted. Thank you. So my follow-up question is moving back to Thomson Reuters, do you have a data on what the pro forma revenue would look like if you guys would had held that business a year ago. Just kind of curious on what the overall trends have been and the retention of their existing customers.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah, I would say this. I don't have the facts in front of me, Lee. We'll think about it. But I think the business has been operating under a similar path as in the Thompson world. So I don't think that we have materially changed that path for the better or the worse in the period of time that we owned it. Obviously, our job is to make sure we've change it for the better, and we have a lot of good things going on as I referenced with the sales reorganization and the cross-selling of the products. But that has not been a material to the revenue arc. So I think you'd see the same operation of the business as before.

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Yeah. And I would say, Patrick, it's difficult because we have just – we're pulling businesses out of Thompson Reuters. We don't have a good kind of accounting comparison from one entity to the other. I think all we can really rely on are kind of the operational experience that we have with the business right now. So I don't think we can answer that question precisely.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. So the dominant thought I want to leave with this call is these two acquisitions are in fact accreting to our shareholders today. They're being run in much the same way or performing in much the same way they did before we acquired them. But that gives us I think great optimism because we have a whole plethora of plans to improve the operation, to roll out new products, to make some product rationalization decisions which a lot of these decisions have been made more than we made between now and the end of the year, which will have I think a fairly dramatic impact on the performance of the business in 2014.So for us, it's just a wonderful position to be in, to be putting scores up in the board with respect to the acquisition representing I think proper purchase price and obviously beneficial financing. But a lot of what we call the alpha returning yet to come. And we're more excited now about the alpha returns we can deliver from these acquisitions, and we were at the time that the deals were announced.

<Q – Patrick O'Shaughnessy – Raymond James & Associates, Inc.>: All right. I appreciate it.

Operator: Our next question comes from Ken Hill with Barclays. Your line is open.

<Q – Ken Hill – Barclays Capital, Inc.>: Good morning, Bob and Lee. How are you?

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

<Q – Ken Hill – Barclays Capital, Inc.>: I had a quick question. I want to go back to the GIFT spending here, so the lower outlook going forward. I'm just kind of wondering what drove the change there and how you're thinking about some of the revenue outlook for some of those new initiatives particularly like NLX, which has been eating up a little bit of the GIFT spend more recently.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. Well, one is the GIFT analysis is clearly from a bottoms up, the merits of the concepts and the business opportunities have to stand from themselves. And so that's not governing the budget in a given month, quarter or really a year for that perspective. So, we're very happy that we're funding the right opportunities for us at this point in time.

I think the revenue opportunity for NLX is delayed, but still encouraging as for those who watch the market share has seen that there's been some steady incremental progress over the last number of weeks. We do expect further participation between now and the end of the year. And we're watching it very closely. And I'd say over the last three weeks, the progress has been encouraging.

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Yeah. I would just add one element here is that the reduction doesn't reflect a defunding of projects that were approved. So, we aren't cutting back on the projects that we were excited about. We think we have great promise. We do have money that has set aside at the beginning of the year for new projects that will come through the pipeline.

And either there haven't been as many projects or the projects that were presented we decided didn't represent good returns or investments at this stage. I think – I'm sorry. That, Ken, is what is coloring the difference here as we get to the end of the year.

<Q – Ken Hill – Barclays Capital, Inc.>: Okay. Thanks for the color there. Follow-up here is on the options market share. It looks like the overall market remains competitive. You've got a competitor out there being very aggressive through the back part of this year. I was just wondering if you could comment on how you're thinking about market share going forward. Is it somewhat like cash equities where you get to more of a steady state, and you're kind of happy with where it is or is it something we can expect you guys to really ramp up and be more aggressive on towards end of the year here?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, happy would obviously be the wrong word with respect to just having steady market share. The qualifying comment I would make is the dividend trades have declined. Absent any regulation, we've seen some clearing firms step away from that business. So if you will isolate out the dividend trades, I think the market share has been very steady over the past number of months or quarters, and that is obviously in face of renewed competitive threats and pressure.

So yes, the world we live in and we're very comfortable with it, our options team lead by Eric has been incredibly strong and I would say that the plans they have in place gives me great comfort. And we do manage the business for both profit and market share, so we're very happy with the progress, I think, on a combined basis, for both metrics.

<Q – Ken Hill – Barclays Capital, Inc.>: Okay. Thanks very much.

Operator: Our next question comes from Alex Blostein with Goldman Sachs. Your line is open.

<Q – Alex Blostein – Goldman Sachs & Co.>: Great. Thanks. Good morning, guys. So just following up, I guess, on the last question and just focusing on the cash equities piece of the business. It looks like your market share last quarter came down again and then started to recover a little bit in October. So just want to get a sense whether or not you have changed anything on the pricing side that's leading to slightly better market share so far in the fourth quarter.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, I do like our capture rate in the third quarter. I think you'll see a continuation and possibly improvement of that in the fourth quarter. So I think the team is doing the proper job of managing profitability versus share. I think we could get into a quarter or two where you see both of them optimize simultaneously, so we're excited about that. So I think our positioning in cash equities is relatively strong we expect to see improved metrics in the time – in the quarters to come.

<Q – Alex Blostein – Goldman Sachs & Co.>: Got it. And then on the Thomson Reuters business, there's a couple of things in the press recently discussing the subsidies that New York Stock Exchange is providing to their list of clients. Can you give us a sense of what percentage of Thomson Reuters revenue has come from NYSE listed subsidies?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah, it's a small percent. I think it's around $11 million, so in the scheme of the operation, it's not large. We had in our board model, plan for the elimination of that subsidy. I would say that the actual dollars is probably $1 million or so higher than we had in the board model. But I think the good news here is we probably gained multiples of that with respect to customer goodwill, I think our competitor chose to announce the end of the subsidy. Caught in a sudden way was not popularly received by the customer base, and we're able to step in and backstop that in a quick fashion. So in terms of our overall strategy of cross-selling into these accounts, I think we've come out of this situation quite positive and with a higher level of customer acceptance and goodwill. And I think that will serve us very well in the quarters to come.

<Q – Alex Blostein – Goldman Sachs & Co.>: Got you. Thanks.

Operator: Our next question comes from Mike Carrier with Bank of America Merrill Lynch. Your line is open.

<Q – Mike Carrier – Bank of America Merrill Lynch>: Thanks, guys. Just on the organic growth, you guys mentioned this quarter, you had 4% year-over-year, I think, stepping away from the Transaction business and looking at the non-transaction side, given that you have these transactions now incorporated. When we started thinking the next 12 months on that organic growth rate to 4%, is that sustainable? Do you see some areas where you can beat that 4%? I just want to get some sense in terms of when you're budgeting what you think those non-transaction revenues can do in a decent capital markets backdrop.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: I was waiting for the last comment and you put it in there. So, assuming you have a decent environment, I think one from a macro point of view we think that a single-digit number, mid-single digit number is a proper target for us. I prefer to think about it from a bottoms up point of view, from our product point of view, what products can we come to market with and what markets can we go after. And that obviously can yield us to a larger number if we're able to successfully execute on the business.

So, direct answer is I think the mid-single digits is something we think about but we obviously aspire to more than that as we build our execution plans for these businesses.

<Q – Mike Carrier – Bank of America Merrill Lynch>: Okay. That's helpful. And then just on the cash side, so as we get to say second quarter next year and maybe just give an update in terms of when you think about the targets on debt-to-EBITDA whether it's total debt or net debt. I'm just trying to think when you look at priorities in terms of looking at investing in the business going back to picking up the buybacks, just want to rank those priorities once we get to your target debt level.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah, I would think that conversation is something we'll be happy to have when we get there. Obviously, we have a lot of execution to do between here and now. We're pleased with the progress and we're pleased with the debt pay-down we made in this quarter and we'll continue to do that, but a lot of wood to chop between now and then. And when we get there, it'd be the proper time for us to think about it in a fulsome way.

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

Operator: Our next question comes from Jillian Miller with BMO Capital Markets. Your line is open.

<Q – Jillian Miller – BMO Capital Markets (United States)>: Thanks guys. Moving back to eSpeed, I was just wondering when those fixed fee contracts come up for renewal, are you trying to restructure them so that there's more of a variable component just giving your volume outlook for treasuries? Or are you kind of happy with having that fixed component?

And then also – I'm not sure if this is something that you can tell us, but I'd be curious if like all these contracts come up for renewal at the same time, or if they're staggered over the course of the year?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. They're staggered over the course of the year. And fix contracts, obviously there is some good to it and there is some bad to it. I think we prefer to see hybrid left to our own devices. We'd like to see a fixed element with an upside based upon increased volume, so you're – somewhat protect your downside, limit your upside, I think we'd be comfortable with that as the outcome.

<Q – Jillian Miller – BMO Capital Markets (United States)>: Okay. Thanks. And then on NLX, I think, you guys said that you'd be kind of evaluating in the first quarter whether it's something that you want to keep investing in because it is picking up quite a bit of your GIFT budget. But I thought maybe you could run us through some of the decision criteria there, like, what do you need to see to keep the operation open? Is there a volume or open interest threshold? Does that need to be approaching breakeven or a certain number of clients? Or I'm just wondering if there's some kind of trigger there.**<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>:** Well, I think the dominant trigger and there are many but if I'd to highlight one, I would say this, we have an engaged group of partners that came together rallied around the team to launch this effort. These partners have varying levels of ability to deploy in a given timeframe. To the extent that the partners had done what they could do, meaning that they were connected and they were giving us the full they could give us, then that is the time we say okay, let's assess where we're at. So clearly, if we do that and we're at 5% and growing, then we're very happy. If we're at 1% and stable, then we're unhappy.

So we're working hard to make sure each and every one of our partners is doing everything he or she said that they would do and we're making progress. And fourth quarter is a big effort. We obviously want to get a lot of it done going before the system freezes that happen in mid-December. And we're going to gauge as we go along.

One of the obviously interesting things with the GIFT Council is it approves these fundings, but it also has a fundamental mission to be clinical with respect to evaluation of the progress, and it's evaluation of its perspective future. And that's one of the key skill sets that we've developed here at NASDAQ OMX and something we think about on a regular basis.

<Q – Jillian Miller – BMO Capital Markets (United States)>: Okay, thank you.

Operator: Our next question comes from Chris Allen with Evercore. Your line is open.

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

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

<Q – Chris Allen – Evercore Partners (Securities)>: Good. Just want to, I might have missed this before. But just the expense guidance for the full year implies a decent tick up in fourth quarter expenses off of 3Q. Is there any seasonality in there or is there any specific drivers I should think about for the quarter?

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Yeah, Chris, there is. In the third quarter, we do have a lower level of overall expenses due to it's generally a quieter quarter in the business, so we have less associated expenses. So I think the uptick that you see reflects that. It also reflects an expected increase to some extent of some GIFT spending in the fourth quarter. And so, I'd say those are the two primary components that create that situation that you correctly identified with the guidance that we are expecting an increase in expenses in the fourth quarter.

<Q – Chris Allen – Evercore Partners (Securities)>: Got it. And then, not to beat a dead horse, but going back to eSpeed a little bit, ICAP's volumes were up while BrokerTec's volumes in treasuries were up about 34% year-over-year so looks like the most of the market share was lost to them. Is there any specific points that you guys are focus on to reverse the market share deterioration? I know you talked about moving to Carteret, but is there anything else, whether it was pricing or anything else that you think drove the decline in market share over the last year?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. So, let me start with the general comment, what's exciting to us is both eSpeed and the Thomson Reuters acquisitions are providing an attractive return to our investors today, and they helped contribute to this very strong quarter. That being said, we ourselves have not done that much to add to their operational excellence and that will not be the situation as we go forward in time, thereby inferring that the return from the investments while strong today will get even stronger.

With respect to eSpeed, since we've owned the asset, the market share has been essentially stable. It is not a goal that we have to remain stable at the market share. We are basically launching a multi-pronged plan to address that. We've highlighted some of the things we've done already, clearly the move to Carteret will be helpful. Clearly, the ability to get our system on par with the competitive system, which we think we'll do by the end of the quarter will be helpful as we go into 2014. And probably most importantly is the building and strengthening, and rebuilding in certain cases of relationships with our customers and that effort is ongoing and that's all done at the head trader level, it's done at the head of a fixed income division, and probably most importantly it has to be done trader by trader. So we're on with that.

So we haven't seen in the quarter results we have today. We haven't seen any results of that yet. You will in the time to come and just as in these quarterly results, you have not really seen, yet, any of the good work we're doing with respect to Thomson Reuters and you'll see that also. So very strong quarter, excites us that right now, just because we bought the assets at good prices, we had good financing and there's more good stuff to come.

<Q – Chris Allen – Evercore Partners (Securities)>: Great, thanks.

Operator: Our next question comes from Chris Harris with Wells Fargo Securities. Your line is open.

<Q – Chris Harris – Wells Fargo Securities LLC>: Okay, great. Thanks. The first question is a regulatory one. There's been a lot of chatter floating around about whether exchanges should have the ability to self-regulate. And just wondering if you guys could comment in a worst-case scenario, if NASDAQ lost its ability to be an SRO, what exactly would that mean for you guys?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: So one, I would separate out the SRO question from the listings versus the transaction business. So I think if there's going to be any serious discussion, it will be primarily around the transaction business, and I'm not inferring that they will. But in the transaction business, I think it's very important to recognize that we will have a contractual relationship with these customers. And if we're going to be reliant on the contract, we would be in a position to have a contract very similar to any other transaction processing vendor in the world and that contract is not subject to what I would call consequential damages.

So, to the extent that you lose a phone call when you're on the line with Verizon, to the extent that you're trying to do a transaction with the PayPal or anybody and there's an interruption in the service then that's part of the experience of being in the transaction business for better and or worst.

So, in a real sense, the SRO aspect would not have any material change on our transaction business, and I'm obviously saying that as a non-lawyer. But certainly, my firm opinion having been in transaction businesses outside of the regulated world, the standard way that you operate.

So, we have a very firm opinion that the immunities, I think, have value for the exchange function, which is fundamentally different and then the broker dealer function. But in particular reference to the transaction part of the business, it's not a material set of circumstance or fact.

<Q – Chris Harris – Wells Fargo Securities LLC>: Okay. Very helpful, Bob. And my follow-up would be probably another hard question, I guess. But some of the technology glitches that have occurred, certainly not unique to you guys at all. But just wondering what steps maybe NASDAQ can take and then the industry more broadly to limit these kinds of events?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. That's a great question and deserves a long answer. Let me give you the summary version of it. We can always take the detailed question offline, but I would say this. One is in the technology business, you understand there's always going to be latent bugs in the code. It's our job to, basically, isolate and make sure when they happen, they don't have an impact on the world.So, coming out of the 22nd is, obviously, lot of things we have to do with respect to the SIP and how it works in the environment. I think that represents, in certain ways, an opportunity for our Technology business to put forward a study or proposal for the SIP committee to get it up to world standards like we do with our 70 other customers. We intend to pursue that. I think under Mary Jo's leadership, the industry itself is starting to grapple with what we have to do to live in this interconnected world. And the 60-day clock is ticking. I think it comes up the November 12, and we intend to be ahead of the curve in terms of how we respond to that. So, we're excited about that.

Post that initiative, it's our strong feeling the industry has to evolve to some type of centralized testing regime, and we certainly refer to the telecom industry and others where you have the equivalent of an underwriter's laboratory that represents your ability to do non-sequential testing that assures the safety and sanctity of the entire network. So, what we're doing now is good. Then we have to evolve to the next step of it and the industry will do that.

With respect to our own operations, we obviously have looked at coming after the 22nd, where are there dusty systems that are not paid that much attention to that have the ability to have an impact on the marketplace, and we're intensifying our effort to make sure that we can mitigate and insulate wherever possible us from any technology disruptions that can and will happen. And so, that's an effort for us.

People ask me what's the cost of that? And I said the real cost is not so much a direct cost because we clearly when we see things that have to be fixed. The best people to fix them are the people on the systems today, and they generally know exactly what has to be done. So, as you look at our increased focused on this resiliency, I would highlight the fact that the cost is going to be primarily opportunity cost.

So, we will stop doing business things in order to make sure the resiliency in all aspects and all walk of our technology life as its solid and secure. And we're on with that mission today. There could be some minor increase in CapEx but when I look at the problems they're having with the health exchange and they said that there bringing outside people in, then I know that's a longer runway.

Clearly, if you don't have the internal expertise for this system then it's an issue. So what we're looking at can definitely be addressed from our internal resources, but the opportunity cost is also real.

<Q – Chris Harris – Wells Fargo Securities LLC>: Excellent. Thank you.

Operator: Our next question comes from Niamh Alexander with KBW. Your line is open.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: Hi, thanks for taking my questions. If I could go back to the capital and thanks for giving is the kind of explicit data and on the timing. A few quarters away now when you have more flexibility with your cash. So can you remind us what is your interest level in Europe consolidation? There's certainly some compelling arguments to be made from a cost side.

Before, I think you'd kind of made some public comments about being potentially interested in some of the European exchanges if they came on the market. What's your interest level now as you kind of get better visibility on these acquisitions you've already made?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Niamh, I've never heard you be so vague in your life here. What European asset might you be talking about? I don't know. So what I've said publicly before, we would be remiss if the asset were to become available to not take a look at it. And that doesn't say that we'd have a strong interest, a medium interest or low interest, I don't know. I mean the devils are obviously in the details. The reason we have to look at it is we clearly have a European presence today. We have enough processing power in our European data center to handle every European equity trade today without spending a nickel. So you've got that kind of fundamental driver behind it. But these kinds of things are just difficult. We are spending zero time thinking about it right now and to the extent that European regulatory political infrastructure wants to do an IPO, the last thing we're going to do is waste any time fighting that train.

So we're here, we've expressed to the European people that we know what we're doing in Europe. I think, the way we integrated NASDAG OMX is hailed as a proper way to do a cross-border transaction in Europe, and I think the MYSE-Euronext is hailed as the improper way to do it. So we have that kind of fundamental credibility with the European regulatory community. But that being said, we're not spending any time thinking about it. And to the extent they want to do an IPO, we wish them all the well with it.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: Okay, fair enough, thanks Bob. And then if I could just go back to the SIP, you talked about maybe this could just to be an opportunity if the committee decides that they need to substantially upgrade their systems and to be more like the private systems as it were. Is there a potential risk that you lose the entire role there that it kind of get outsourced to somebody else, and there's like a revenue stream should we be thinking about attached to that?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, there's a revenue stream, that's not profit stream. So I wouldn't worry about that too much. I mean, we've operated this SIP kind of by default based upon the vestige of our monopoly positioned Pre-Reg NMS. And when you think about we've operated it for as it turns out infinite risk with zero financial return to it.

So we have to have a proposal for the SIP that makes sense that represents a decent margin for us, not excessive, but more importantly, we have to put forward a proposal where the SIP technology can be brought forward in the 2015 type best-of-breed practices, and it deserves that. At the end of the day, it's not our decision whether that's done. It's the decision of the committee. But clearly, we would not have too much interest in continuing in the current relationship where there's no – the way it's operated, the technology is just fraught with too much peril.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: Is there a chance or a situation where the regulators could – nobody wants to hold at their hand and spend a lot of more money in upgrading it. But is there a chance that you could be kind of forced to upgrade it without necessarily getting compensated for it?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: No. Well first off, we would have to be the committee, right? So we obviously received the publicity, but we're a member of the committee. So will the SEC force the committee to upgrade the SIP and then the SIP has to choose who is the vendor to do that? That's a potential. But I would say this that I think – and I don't want to speak for the SEC or other market participants – but I think the community as a whole recognizes that the SIP is a critical piece of the infrastructure and deserves to have state-of-the-art technology behind it, state-of-the-art support contracts, state-of-the-art service level agreements between the SIP and the vendor meaning us associated with it. So I don't think there's going to be too much commotion associated with this.

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

Operator: Thank you. I will now turn the call back over to management for closing remarks.

Robert Greifeld, Chief Executive Officer

Thank you. Well, certainly it was a very strong quarter. As I said in my prepared comments, we still operate in fundamentally difficult times; political climate doesn't help either. That being said, the strength of the franchise, the diversified franchise continues to reveal itself. The acquisitions helped as I said a number of times that we've just got it started, so they're going to help that much more.

And I think the business plans we have in place, the diversification of our revenue, and most importantly the strength of the employees and the management team here at NASDAQ OMX positioned us properly for the future. We appreciate your support and look forward to talking to you in the days and the quarters to come. So thank you.

Operator: Thank you, ladies and gentlemen. That does conclude today's conference. You may all disconnect and have a wonderful day.