MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the IntercontinentalExchange First Quarter 2009 Earnings Call. This is call is being recorded. I would now like to turn the presentation over to your host for today's call, Ms. Kelly Loeffler, Vice President of Investor Relations and Corporate Communications. Please proceed.

Kelly Loeffler, Vice President, Investor Relations and Corporate Communications

For a copy of the company's first quarter earnings release and presentations, please visit the Investor section of our website at www.theice.com. The items will be archived and our call will be available for replay.

Before we begin, you should be aware that our comments this morning may contain certain forward-looking statements that represent our current judgments and are subject to various risks, assumptions and uncertainties as outlined in the company's filings with SEC, including our Form 10-K and Form 10-Q, which we expect to file this week. For a description of the risk that could cause our results to differ materially from those that are described in the forward-looking statements, please refer to these filings.

Actual results may differ materially from those that are expressed or anticipated in any forward-looking statements. We'll also discuss adjusted net income, adjusted earnings per common share, adjusted EBITDA, and adjusted operating expenses. These are non-GAAP financial measures that exclude certain non operating charges that we believe are not reflective of our normal operating performance. Reconciliation of these non-GAAP financial measures to the equivalent GAAP results and explanation of why we deem these non-GAAP measures meaningful appear in our earnings press release.

With us today are Jeff Sprecher, Chairman and CEO; Scott Hill, Chief Financial Officer; and Chuck Vice, President and Chief Operating Officer. At the conclusion of the prepared remarks, we'll take your questions until 9:30 a.m. Eastern time. And I'll now turn the call over to Scott Hill.

Scott A. Hill, Senior Vice President and Chief Financial Officer

Thanks, Kelly. And thanks to everyone for joining us today. We're pleased to report solid first quarter results. Despite the challenging global economy we are focused on investing in our growth initiatives, as well as delivering improved profitability and value for our shareholders. ICE'S record revenues during the quarter reflect the resilience and breadth of our business model.

We continue to believe we have the strongest franchise in the sector, with multiple future exchanges and clearing houses as well as the largest OTC execution and clearing business globally. ICE's markets are diversified across the best performing global future and OTC markets to serve a diverse and growing customer base.

Let's start on Slide Four with a summary of our 1Q performance. During the quarter, we made good progress on our key strategic and operational initiatives. In addition to successfully launching ICE Trust, we achieved record OTC revenues and posted record volume in our Energy Futures business. We also introduced dozens of new OTC energy products and realized solid contributions from some of our emerging futures markets such Russell, Coal, and Emissions.

ICE delivered record consolidated revenues of $232 million, an increase of 12% over last year's first quarter. Consolidated operating income was $114 million and GAAP operating margin was 49%.

As we stated in the earnings release this morning and in our prior guidance, we recorded additional expenses relating to a few unique items totaling $13 million. These items included transactions fees for the acquisition of The Clearing Corporation, ICE Trust start-up costs, real estate lease terminations, and head count reductions. Excluding these charges, our operating margin was 55%. This is a gain of eight points sequentially compared to 47% in 4Q '08. Notably, the operating margin for our non-brokered business was over 65% in Q1, and, as it was it was in the fourth quarter, Creditex was cash accretive.

Our first quarter tax rate was 34%. Adjusted net income on a non-GAAP basis was $80 million resulting in adjusted earnings per share of $1.09. Finally our cash metrics remain solid and we continue to be conservatively levered.

During the first quarter, we successfully established new and expanded credit facilities totaling $775 million, securing our financing needs at attractive rates. Broad confidence in our strategies and our business model allowed us to access financing in the bank market despite the current challenges in that market.

Moving next to Slide Five, I'll discuss the aggregate financial and volumetric results for all of ICE's business segments. In the first quarter, 113 million contracts were traded in our futures and OTC Energy markets. These results, combined with our move to self-clearing for our European futures and OTC energy business, helped drive record revenue in the quarter.

The pie chart in the lower right quadrant shows our product diversification. You can see that our transaction revenue is split about evenly between the futures and OTC segments, and that market data contributed 11% of consolidated revenues in Q1.

Now let's turn to Slide Six, where we detail our revenue and expenses. First quarter transaction revenues increased 15% to $204 million. This includes over $98 million from futures, $67 million from OTC energy, and $38 million from OTC credit. Market data revenues increased 6% to $26 million, as we continued to see healthy demand for our data services.

On the expense side, consolidated operating expenses were $118 million compared to 63 million in 1Q '08. There are three main drivers of the growth in expense: $13 million related to first quarter acquisition and restructuring charges that I mentioned earlier, $31 million of operational expense related to Creditex, and $13 million related to both the amortization of the Russell index license and amortization of Creditex intangibles. As we have with each of our prior acquisitions, we are integrating Creditex and taking the actions needed to deliver previously identified deal synergies.

During the first quarter, as I mentioned, Creditex was cash accretive. T-Zero, our CDS trade processing business, reached breakeven for the first time and was profitable in the month of March. And our brokerage business delivered operating margins that we believe are in line with or better than those of our competitors. We will continue to invest in key growth opportunities while also improving our expense base by delivering on synergies and developing new initiatives to generate efficiencies such as further real estate consolidations and process and infrastructure refinement.

Starting with Slide Seven, you will find detail on our Futures segment. Average daily volume or ADV by ICE Futures Europe reached a record 638,000 contracts, up 4% versus 1Q '08. The rate per contract or RPC for energy futures was $1.57, up from $1.25 in 1Q '08. This increase was due to growth achieved in higher revenue products as well as the inclusion of clearing fees.

Volume growth was driven by Brent crude and gas oil as well as coal and emissions futures. Volume growth combined with RPC expansion enabled revenue to grow 31% this quarter versus the same quarter in 2008. Finally, as reported yesterday, April's numbers demonstrate that activity in our energy futures market remains solid, with ADV in line with the year-ago period. The 3-month average RPC in April was $1.61. I also want to point out that open interest for our energy futures market stands at record levels.

Now let's go to Slide Eight, where you'll see detail on the first quarter performance of our Agriculture and Financial Futures business. ADV was 361,000 contracts per day, which was down 7% year-to-year. While we were up against our toughest quarterly comparison in the first quarter, our results were bolstered by the Russell Index futures. 1Q '09 RPC for agricultural futures increased to $2.34, up from $2.25 in the fourth quarter of 2008, and $2.14 in 1Q '08. RPCs for financial futures were stable for the quarter, averaging $0.78. Yesterday, we reported that April ADV for ICE Futures U.S. was up 42%. The three month average RPC in April was $2.33 for Ag and $0.77 for financial contracts. Our April results and improving volume trends over the last couple of months are encouraging.

Let's turn now to our OTC Energy and Credit Derivatives business on Slide Nine. OTC transaction revenues rose 32% to $105 million in 1Q '09 compared to last year's first quarter. For the first quarter, average daily commissions in our OTC energy market were $1.1 million per day and 96% of our contract volume was cleared. First quarter ADC declined 16% when compared to 1Q '08, which was the strongest quarter on record for our OTC energy business.

The first quarter of '09 was impacted by low and range-bound natural gas prices. Over the past several months, natural gas prices have declined to levels not seen for several years. This, coupled with high storage levels, has reduced the need for hedging by some customers.

However, compared to the fourth quarter of 2008, our OTC energy revenues have rebounded meaningfully, rising 23% sequentially in 1Q '09. While the year-over-year comparisons and market conditions remain challenging, our average daily commissions through the first part of the year have been consistently at or above $1 million per day, including in April.

I want to pause here, and for clarity, remind you that – just as we have historically – we continue to present our average daily commissions on a net revenue basis. This means we subtract all broker rebates from our gross revenue prior to reporting our average daily commissions for the segment.

I also want to note that we are seeing volumes pick up in the new contracts we've launched since the section of ICE Clear Europe last November. As an example, commissions in our OTC oil contacts increased 35% during the quarter, compared to last year's first quarter. In addition to an exceptional quarter in our OTC oil market, our electric power market had record quarterly revenues, and we traded over 1.4 billion megawatt hours of North American power, evidencing our continued leadership in the power market.

Turning now to our credit business, CDS transaction revenues totaled $38 million. This includes $36 million from our Creditex business, which is down roughly 35% versus the comparable period in 2008, but in line with the fourth quarter of 2008.

The credit markets have remained soft in the first part of 2009 as the industry focuses its efforts on standardization and clearing. While the traditional brokerage environment remains particularly difficult, we're very pleased with the accelerated contributions we're realizing from our electronic initiatives. In fact, 47% of our 1Q revenues were derived from our key electronic initiatives, which provide attractive incremental margins. And with the introduction of clearing, we are seeing a good level of interest in the CDS market for new and existing participants.

Finally, on Slide 10, I'll touch on the financial impact of our collective CDS clearing initiatives. We simultaneously signed and closed The Clearing Corp. acquisition just eight weeks ago, and we remain in the early stages of this initiative.

Jeff will discuss our key CDS clearing initiatives in a bit, and I wanted to share some financial details with you. First, as a reminder, we paid $39 million in cash and the former TCC shareholders retained TCC's cash on hand. Also, while ICE owns and controls both TCC and ICE Trust, the transaction included a 50% profit sharing arrangement with the former TCC shareholders related to ICE Trust. This profit sharing arrangement does not fully go into effect until one year after the launch of ICE Trust. During the first full year of operation, ICE will retain approximately 86% of the profits generated by ICE Trust.

Next, we have primarily been back loading U.S. index trades to date and have only recently started to process new trades. Thus, our visibility into future volumes remain limited. However, we wanted to provide some preliminary financial guidance. We anticipate aggregate revenues for TCC and ICE Trust to be in the range of 20 to $30 million for the nine-month period of April through December 2009. And of that, we expect 2Q revenues to be in the 7 to $9 million range. On a per quarter basis, we anticipate incremental expense of 6 to $8 million, which includes 2 to $3 million in additional comp expense, $1 million of additional amortization expense, and 3 to 4 million spread about evenly between professional services and SG&A. Perhaps most importantly, we expect ICE Trust and TCC combined to be GAAP accretive for 2009.

We will provide you with updated guidance as our progress continues and as our visibility improves. We will take the same aggressive approach that has helped us establish a leadership position in this space to accelerate our revenue opportunities and deliver synergies and cost efficiencies in our newly acquired and developed businesses.

So again, we are pleased with the start to 2009, despite the challenging economic and business climate. We grew our revenue and established numerous volume and open interest records. Our operating margin improved materially versus the prior quarter. We continue to have a strong balance sheet and financial flexibility to act opportunistically. In just eight weeks, ICE Trust has already cleared over 250 billion of notional value, and our April metrics show continued momentum. We believe this performance distinguishes our company by every measure.

Before I hand it over to Jeff, I'll remind you to please refer to this morning's earnings release for additional updated guidance. We expect to file our 10-Q this week and I'll be happy to address any questions during the Q&A.

Jeff, over to you.

Jeffrey C. Sprecher, Chief Executive Officer

Thank you, Scott, and good morning, everybody. Since the financial markets are very much impacted by many factors that we can't control, I'd like to focus my remarks on some of the things that we are able to influence – namely, our strategic initiatives.

As always, we're committed to expanding our markets and serving our customers through innovation, particularly with regard to how our customers can better manage their risk. So starting with our Transaction business, Scott did a good job in describing the trends in our core markets, and you can see that we're weathering the storm relatively well.

In recent weeks, we've seen somewhat improved performance in volume in key agricultural markets. These markets were impacted by high margin requirements and the lack of available credit in 2008. Today, we're seeing anecdotal evidence of this improvement. In April, our largest agricultural market, Sugar, showed increases in average daily volume year-over-year.

With respect to the Russell Index futures, these markets performed increasingly well in the first quarter, and into the second quarter on a relative basis. We've seen recent improvements in volumes and in open interest, and we're working on further initiatives this quarter so that we can capitalize on the growth potential of the Russell complex.

Our energy futures markets continue to perform at or near record levels, and year-to-date, our over-the-counter energy commissions are over $1 million a day. This includes commissions of $1 million a day for the month of April. In our energy markets, we continue to see new users logging on to the platform, and demand for market data and clearing services is very strong. Because our markets have not had significant hedge fund participation, we've seen only modest direct impact from their de-leveraging.

Our energy futures complex continues to deliver remarkable results. We had another record quarter, driven by strength in a wide range of products, including Brent Crude oil, Gas Oil, Emissions, Coal, and U.K. Natural Gas. While crude prices have traded in a fairly tight range, the storage issues at Cushing, Oklahoma continue to drag on West Texas intermediate volumes while providing support for our flagship Brent Crude oil contract. We continue to hear from market participants that they are viewing Brent as the better marker for the global price of crude.

We'll have to see if this trend continues when or if the storage issues at Cushing resolve themselves. But our energy futures and over-the-counter markets together with their new clear products gives us a lot to talk about with our customers toward meeting their risk management needs on a global basis.

I'd like to point out that in ICE's over-the-counter energy markets, open interest increased 25% in the first quarter of this year, from 9 million contracts at the end of December to 12 million at the end of March, indicating the continued expansion of our cleared markets. This strength was also evidenced by record quarterly revenues for our markets in electric power and in refined oil products.

ICE operates the largest cleared over-the-counter energy marketplace in terms of both volume and revenue, and our leadership position has been strengthened with the addition of ICE Clear Europe. At the end of this month, we'll have added 100 new over-the-counter cleared energy contracts, with many more to come. Our new products are gaining traction, and we anticipate meaningful contribution from these products as we move into the second and third quarters.

So with that update on our core markets, if you'll turn to Slide 11, I'll discuss our expanding footprint in the credit derivatives. I want to spend a bit more time here given the number of questions that we continue to receive about these markets.

To put our CDS initiatives into perspective, we're approaching the development of this business with the same strategic mindset that we've approached our past initiatives. Whether it was the acquisition of the International Petroleum Exchange, or the New York Board of Trade, the development of OTC Clearing for energy, or the creation of ICE Clear Europe, our strategy has been to identify underserved, lower margin businesses and turn these into drivers of revenue and profitability. We do this by putting into place products and services needed for the market to grow. This approach has resulted in growth for our shareholders and unparalleled service for our customers over the past few years.

So in our CDS business, we've assembled a complete credit derivatives infrastructure in just eight months, amid a time of dramatic change in the markets. We now offer front-to-back office services for the CDS market, including voice brokered and electronic execution, straight-through processing, and central clearing services, just to name a few.

The industry efforts to reform the CDS markets are underway, and they're beginning to bring standardization and transparency. Our own Creditex, T-Zero, and ICE Trust have all played a role in helping to shape these important changes with innovative solutions. As a result of these efforts, and by relying on our experience clearing OTC energy and agricultural products, with trade execution and straight-through processing, we've been able to delivery CDS clearing.

Based on our conversations with dealers and the buy-side, we continue to have strong convictions around the importance of the global credit default swap market. With greater regulatory oversight and structure, it's our view that credit derivatives will offer more security and transparency for those who rely on them. Credit default swaps are a valuable tool that we believe will encourage more lending and the extension of credit through the ability to hedge credit risk.

While the industry's seen dramatic reduction in CDS trade flows, our CDS execution and processing business is already cash accretive. Despite the loss of several dealers over the last year, the impact of deleveraging, and a lack of credit availability for trading, our margins and profitability at Creditex are up. We're particularly proud of this accomplishment given the unprecedented downturn in the financial markets since the time that we were contemplating the Creditex transaction.

On the Processing side, connectivity to T-Zero continues to expand at a healthy clip, with buy-side and sell-side participants now numbering over 380 firms, and this division has now become profitable. As Scott mentioned, we expect our CDS business to be both GAAP and cash accretive this year. And as you can see, our investments in processing and risk management are already paying off, and our synergies are well on track to realization.

So having touched on CDS execution and processing, let me turn to clearing. We established ICE Trust as a clearing house for North American credit default swaps. Our progress and that of the industry has been tremendous. ICE received regulatory approval for ICE Trust just two months ago, and we've already cleared over $250 billion in U.S. CDS indices, resulting in open interest of 30 billion and 2,500 trades. This has required significant domain knowledge and an investment of time and resources, as well as a constant dialogue with regulators and market participants.

At the request of our regulators, we've introduced clearing for only a portion of the large market. For the first month, we were back-loading North American and investment grade and high-yield index contracts, and that work is ongoing today. As of two weeks ago, we began accepting new trades from certain on-the-run CDS indices. As we begin clearing additional indices, introduce clearing for single-name contracts, and bring new participants on the buy-side, we'll start serving a much larger addressable market. We're working directly with the buy-side, and we expect to implement a solution to extend participation in the clearing house very shortly. In the meantime, in its first few weeks of operations, ICE Trust has already provided unprecedented transparency and security to market participants and regulators.

To address the global nature of the credit default swap market, we're also working diligently with European regulators and market participants there to bring a separate but complementary CDS clearing solution to Europe. We'll operate under the jurisdiction of European regulators through our FSA regulated clearing house, ICE Clear Europe. We'll provide you with more information as our clearing plans are rolled out, but we anticipate launching in Europe by the end of this quarter and we're working closely with regulators and participants towards that end.

It's our view that the enhancements such as clearing and contract standardization will fundamentally help the credit default swap market broadly, just as it did in our energy markets earlier in this decade. These structural changes take time to work their way through the market, and it's too early to provide definitive estimates as to when these enhancements will show up in our results.

To conclude, on Slide 12, I'd like to share our outlook on our business. First, ICE has successfully integrated clearing, market data, trade execution, technology and trade processing businesses across both futures and over-the-counter markets. Nearly half our revenues come from our over-the-counter businesses, and over a third of our revenues comes from outside the U.S. The global OTC markets are the largest addressable markets that exist today, and we've demonstrated the ability to work with end-users to facilitate automation, speed, and transparency within domestic and international regulatory frameworks.

We're very well positioned in our futures markets given the relative strength of volume and open interest trends our key segments. Just as we have in the past, we're focused on initiatives for each product category to drive profitable growth. Our team is working hard to serve our customers, who are themselves are trying to navigate economic uncertainty. Market participants continue to seek risk management support, whether it's in the form of clearing, market data, or our new products. We're encouraged that our customers are asking us for more, not for less. And our drive to execute on behalf of these customers remains central to our strategic vision.

So I'd like to personally thank our customers for their business on behalf of the team at ICE, and I'd like to thank all my colleagues for their dedication during these very challenging times.

So thank you for joining us this morning, and with that I'll now turn it back to the operator, who will moderate the question-and-answer session.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Now I'll take our first question from Alex Kramm with Barclays Capital.

<Q – Alex Kramm>: Good morning, everyone.

<A – Jeffrey Sprecher>: Good morning.

<Q – Alex Kramm>: Just wanted to touch on the CDS clearing opportunity here. You obviously gave a lot of detail on the short-term opportunity, but we're obviously a little bit more interested in the mid to long term. From what we understand here is that the dealers are actually subject to a fee cap going forward. So if you think about the volumes and some of the data available on volumes out there, I think if you take the fee cap into consideration, the upside potential's very limited.

So how do you view this market in the mid to longer term? How do get that upside potential? Is it getting new dealers on your platform? Is it really the client side, which I guess there's no fee caps there? Is it Europe? Or is it eventually actually expanding into trading? So if you could differentiate it a little bit between those four, it would be great. Thank you.

<A – Scott Hill>: Hey, Alex. It's Scott. Let me start on this one, and then Jeff can pitch in if he likes, at the end. But first of all, we're not going to comment on the pricing structures that we have in place. And what I'd tell you is we've got a history of working closely with various customers on pricing strategies that we think are appropriate to optimize the overall market. We think we're doing that again in the CDS marketplace.

In longer term, you've got to realize, at this point we're only back-loading and starting to do some new trades around U.S. indexes. As Jeff alluded to, we've got European indexes that we expect to launch this quarter. We're working on a strategy closely with the buy-side, with the dealers, with the regulators to get to an expanded buy-side presence in the clearing house, to launch single-name.

So we think there is significant opportunity beyond what we're clearing today to grow this market, and we think that opportunity is reflected in the investment we've made, both in time and other resources, to get at that opportunity.

<Q – Alex Kramm>: All right. And then -

<A – Jeffrey Sprecher>: Let me just add -

<Q – Alex Kramm>: Oh, I'm sorry.

<A – Jeffrey Sprecher>: – to try to address your initial question, that ICE has been particularly good at working with groups of market participants and consortiums in converting smaller markets to much more broadly traded and distributed markets. And so, unlike when we started the company, and even unlike when we started ICE Clear Europe, as we sit here today, we have a pretty good understanding and view of how our customers trade, and how much they use clearing, and have a strong view about how much business a proprietary desk can really put into the marketplace, given leverage capabilities at the firms and so on and so forth.

So we have a lot of data to work with from other markets that we've been involved in, and we were able to apply a lot of the techniques that we've used in the past to put together a consortium to help us start the CDS business.

So without addressing specifics, I think one takeaway is that we've been pretty successful in this kind of arena before and have a lot of knowledge that, in fact, we didn't have years ago, when we started the company. So that's why we feel pretty confident about how this market is unfolding, how it's developing, and how we organized up the initial consortium.

<Q – Alex Kramm>: All right. And then really related to that, I don't know if you said that we have one follow up, but in terms of declined trade opportunity – and you said that's probably coming soon – you're having talks with the buy-side directly. Can you just talk about how that is going? When you think you'll actually see client trade being processed as well? Because what we're hearing since this whole big bang took place is that clients are very, very confused about this market, and part of the reason why volumes are down as well, because there's so much confusion on the buy-side, and to people that have not been as involved in the transformation in the market as the 9, 10 dealers obviously have.

<A – Jeffrey Sprecher>: Yes. Sure. Well, the first thing – and I'm not sure many people realize this – that when we set up ICE Trust, in the rule set and collateral that – legal collateral that surrounds that initiative, there is a buy-side solution in there. And all of the initial members have agreed to bring the buy-side in to the clearing solution.

We just started by trying to back load existing trade to build open interest in the clearing house, because as you're familiar from looking at futures businesses, it's – the real strength of our businesses is having open interest so that clients continue to come back to do their business. So we started with the main holders of open interest and we started with the historical backlog of the particularly standardized and liquid trades, and we're now moving into on-the-run trading and now more illiquid single names as we roll forward. And then in conjunction with that, we're bringing in the buy-side, which has already been designed.

As part of the formation of the clearing house, we created a buy-side consulting and advisory group, which has now been meeting actively – it's actually I think at this point meeting twice a week – working on the specific details, a lot of which involve technology and modifications of instant type relationships from a legal standpoint, to allow the market to have the buy-side come in, either as members or as nonmembers. And so I think you're going to see that accelerate here pretty quickly, for all the reasons that you just mentioned.

So we feel pretty confident about where we are, very good participation by major holders of buy-side open interest. And as to the big bang, I really think you need to see these contracts start to make their way into the clearing house, as the standardization then will be adopted. What will happen is people will have standardized contracts as open interest in the clearing house, and as they manage their risk in those positions, they'll trade in and out of the standardized contract. And I think that will be the glue that helps to foster more standardization.

<Q – Alex Kramm>: All right. I'll jump back in the queue. Thanks.

<A – Jeffrey Sprecher>: Great. Thanks, Alex.

Operator: We'll take our next question from Rich Repetto with Sandler O'Neill.

<Q – Richard Repetto>: Good morning, Jeff and Scott.

<A – Jeffrey Sprecher>: Good morning.

<A – Scott Hill>: Good morning.

<Q – Richard Repetto>: I guess the question is, again on CDS book, what are some of the assumptions that are in the guidance for the rest of – the remaining three quarters? Because you are seeing a doubling, just week-to-week, of what you're – in the new phase. So it's hard – are you going to assume that you're going to continue to ramp in this new phase? Because the beginning of the downloading is much different than where you were, say, last week. The question is, what are the assumptions that are embedded to get you to these numbers for the remaining '09 on CDS Clear?

<A – Scott Hill>: So, Rich, let me take that. I won't get too specific because, frankly, the more specific I get, the more wrong I'll be in just three months' time, as we get greater visibility. But what we basically looked at is the backloading we've got to date. We've got volume knowledge and insight from last year. We've got volume insight from our Creditex team this year. We have an idea of when we'll launch European indexes – we mentioned in the second quarter – when we'll start to see the buy-side come in, quickly after the European indexes are launched, and when we'll start to launch single name.

So we've looked at what we think those timelines are as they play out in the second quarter and into the third quarter. And then based on historical volumes, we've tried to make some projection of what the volumes will look like. So on a revenue side, again, as I said, we provided a wide range at 20 to $30 million. It's wide because the assumptions in there are very rough and are very early.

But from a cost standpoint, I feel much more comfortable with the estimate, because we have good visibility into what the acquired cost base is at TCC. What I would tell you is that that cost estimate at this point in time really doesn't reflect any view on the synergies that we typically yield in deals. Because, as I mentioned, the deal only closed eight weeks ago. We're just getting to know the team and to see what the technology requirements are, and the process requirements are, to continue to drive all of these CDS clearing initiatives. So I think those estimates are pretty solid, but as we've typically done, we'll work through what synergies we can drive out, and we'll be back with you with more details on the synergies as we have better visibility into the cost base.

<Q – Richard Repetto>: Okay. And I guess not to use the second question – I'm still on CDS, but I guess maybe a longer term picture, Jeff. It sounds like – and I'm assuming that the costs are relatively fixed. I guess that would be one part of it. But I'm just trying to see – you've built things like you say you've said before, not for just this year or next year but for two, three years out. So what are the other opportunities that you see have a potential if you've got a semi-fixed cost clearing platform now for OTC?

<A – Jeffrey Sprecher>: That's a very thoughtful question. Thank you. A couple things. First, just with respect to how CDS will unfold against that fixed cost. When we first announced the acquisition of Creditex, we said we thought the market would become more standardized, more transparent and clear, and more electronic. And, my God, I mean we've only owned Creditex for just a matter of months, and already the industry's agreed on the standardization, agreed on new default procedures for cash settlements, backed us in our clearing initiative, and our electronic business in Creditex has substantially increased.

So when I was telling you that, I didn't really think that it was going to happen really in six months. So this CDS market is morphing on an accelerated pace, given all the stress that exists in the credit market today. And so, in that regard, it's hard to know what that curve looks like if you were to graph it, but certainly the trend is towards where we have placed the company.

Now, we came into this looking at how we did clearing for OTC energy. And when we first started clearing OTC energy – my colleague, Chuck Vice, who's sitting here quietly, and some of my other colleagues – we were able to go into a market that was very small comparatively and we were able to use our futures infrastructure, because a lot of the OTC customers also traded related futures, and the OTC markets at that time were very, very related to what existed in the futures market.

So using the futures infrastructure was how we attacked OTC clearing for energy. What we found in credit is that there wasn't the related future. The infrastructure – the technology infrastructure didn't exist in the futures market. And that's why we've had to acquire a lot of it. And it's frankly I think why we're doing real clearing while some of the other people that are trying to get into this business are struggling relative to us. And so that infrastructure is really being tied into the OTC desks of many of the major dealers and many of the major buy-side. And as these markets become available for clearing, as the market wants to push them into clearing houses, one thing that we will have is connectivity, and obviously a good relationship with a lot of the Wall Street banks that hold a lot of open interest.

And so we'll just have to see how that unfolds. We're being very communicative with the marketplace. We're being very open to ideas and trying to be entrepreneurial around this as our customers are facing more pressures to manage their risk.

<Q – Richard Repetto>: Okay. No mention of any other asset classes of products here then?.

<A – Jeffrey Sprecher>: I don't want to specifically mention anything. But as you're aware, and I'm sure that's why you're asking the question, there's a lot of stress that fell out of the Lehman collapse in bilateral trading. And people are looking at a lot of different asset classes that had bilateral nature to them, and trying to figure out if a central counterparty would have been a better solution during that Lehman event. And so we're actively involved in a lot of conversations, trying to figure out if we can be part of the solution.

<Q – Richard Repetto>: Okay.

Operator: We'll take the next question from Ken Worthington with JPMorgan.

<Q – Kenneth Worthington>: Hi. Good morning. The OTC revenue for just dealing in cleared Energy appears to be holding up very well, particularly in April, especially given that gas markets – the price of gas is low, dollars at risk seem much lower. So the question is, why is this business holding up as well as it is? Is it new customers? Is it new products? I thought your comments made it seem early for the new products to be kicking in, but maybe I'm wrong there. What's allowing that revenue stream to hold up as well as it is?

<A – Scott Hill>: Hey, Ken, it's Scott. Again, let me start, and Jeff can add anything I forget to mention. I think there are really a couple of factors at play. First, we pretty consistently said that our OTC markets are not dominated by any one or two customers, and that we haven't been particularly directly impacted by deleveraging. And I think those statements have been borne out over the last couple of quarters. We look every month at who our top 20 customers are in the OTC business, and I, just this morning, looked back a year ago, at the top 20 then and the top 20 now. And there is a lot of consistency. You think how different the world is today versus what the world was a year ago, and our customer base is still largely the same.

So movement within the top 20, a few in, a few out, but generally speaking, it's been largely consistent. So I think the solid customer base that ICE has built up over time – and the relatively more commercial customer base – again, we've talked about consistently being around 45 to 50% commercial. That's held, and again, I think it's those commercial customers with a need to hedge that are still in the markets hedging.

I think the other thing is, too, people think about our OTC markets sometimes and overstate how much of it is just nat gas. And nat gas has held in pretty well in the fourth quarter into the first quarter. But our OTC oil revenues were up 35% in the first quarter this year versus the first quarter last year. Our power revenues were up 25% in the first quarter this year over the first quarter of last year. And if you look sequentially, fourth quarter to first quarter, oil and North American power were both up significantly.

So I think it's a strong commercial – consistent commercial customer base, coupled with, again, a diversified OTC platform that's not just nat gas, but also power and oil.

<Q>: Great. Jeff, any other comments? Or did Scott do you justice?

<A – Jeffrey Sprecher>: He did the company justice.

<Q – Kenneth Worthington>: [laughter] Okay. Great. Just on taxes, Obama is – appears to be adjusting tax policy for companies with foreign subsidiaries. What kind of impact might that have on your tax rate going forward? Do you guys deduct foreign taxes from your U.S. taxable income?

<A – Scott Hill>: Yes. Ken, there's a lot going on with taxes in the Obama administration. So I'm not going to try and read the tea leaves into where it may be headed. But what was announced yesterday appears largely to be targeted at people who are taking U.S. earnings and putting them outside of the U.S. tax jurisdiction. That's not something we've done or currently do.

We have a global presence. We have a thriving London business where we earn profits outside of the U.S. And when we earn the profits outside the U.S., we pay non-U.S. tax rates. So we're not in a situation where we're taking profits earned in the U.S. and moving them out. We simply pay taxes where we actually earn the profit. So what's been proposed, at least thus far, I wouldn't expect to have a material impact to our tax structure or to our tax rate.

<Q – Kenneth Worthington>: Great. Thank you very much.

Operator: We'll take our next question from Patrick O'Shaughnessy with Raymond James.

<A – Jeffrey Sprecher>: Good morning.

Operator: Caller, your line is open? And we'll take our next question from Niamh Alexander with KBW.

<Q – Niamh Alexander>: Hi. Thanks for taking my questions. If I could go back to the credit derivatives just for a sec, if I could go up to kind of a higher level, looking at the industry, Jeff, can you maybe walk me through the electronic trading opportunity in the U.S.? Because we're kind of in very early stages, maybe, with the blind auctions, but where are you now? Where would you like to be in a year's time? How should we think about Creditex's opportunity there versus its competitors? And maybe how the market structure might look like?

<A – Jeffrey Sprecher>: Sure. Thanks for asking the question. And Niamh, I always have a lot of empathy for you, because I have a last name that most people can't pronounce, and you have a first name that most people can't pronounce, so...

<Q – Niamh Alexander>: [laughter] Thank you.

<A – Jeffrey Sprecher>: First of all, I think you understand and embedded in your question is the fact that, in the United States, currently most of the electronic platforms are not similar to futures, in that there's not a consistent two-way bid offer price throughout the day on a wide range of products. Where electronic trading is being used in the United States, particularly, are for discrete auctions and more organized buys and sells. It's partly due, frankly, to the illiquidity. So what we do is we organize specific times during the day for specific kinds of products that run in limited periods.

Separate from that, then, you're probably aware that when a company actually defaults, the industry turns to us. They use our auction mechanism to actually settle the underlying view of the bonds that have been defaulted on. And so, after those – we get the entire industry engaged, really, electronically, as those periods happen. And then what's going on is that, when we get eyeballs on our screens, there tends to be continuation of trading in other kinds of products, just because everybody has arrived.

So what I think is going to be needed to have sort of continuous two-way bid offers in the form of futures is having clearing, is having standardization, and is having broader distribution of the use of credit default swaps. It's hard to know how that's going to unfold, what the timing is. But certainly the underlying infrastructure for that is quickly being put into place by us.

In Europe, frankly, because the market is very broad and there are desks all over Europe, the European marketplace, frankly, largely as a result of the efforts of Creditex, has gone to a more continuous two-way bid offer market already. So we know that the credit default swap market can support that type of trading. In Europe, it's very much surrounded by voice brokers, so it's a hybrid model. And brokers help drive liquidity to the screen and help manage customer business around that screen. So it's a little further along, but still, it's a hybrid business. And so I would think the U.S. would follow that model here relatively soon.

<Q – Niamh Alexander>: Okay. Thanks for that. And I guess just following up on the credit derivatives. If I could just move back to the clearing for a second, you'd indicated you'd have capabilities for clearing by the end of this quarter, which is consistent with what you'd said previously. But can you help me understand the level of cooperation with the dealers in Europe? Because in the U.S., I guess we've got a few more signals, as it were, with the kind of specific cooperation agreement, the sharing of the economics. Is that something we should assume that's already in place in Europe, or is that something you're working on, and maybe some of your competitors are also trying to work on?

<A – Jeffrey Sprecher>: Sure. Well, when we did our original deal, one of the things that we did is we contemplated, in the original arrangement, the possibility that we may build a second clearing infrastructure in Europe, depending on how regulation unfolded. So our European deal contractually is already in place, and was in place when we launched the U.S. business.

Where we are right now is that, due to the view of regulators, we have decided to create that second clearing infrastructure. Europe is used to seeing and has some precedent for creating essentially a clearing house within a clearing house, which is done, frankly, at the London clearing house, where we're not co-mingling our credit default swaps with our current infrastructure. We're really creating a separate risk pool, separate technology, separate risk committees, separate default procedures, and so on and so forth. Separate rule book. So it will run under the same regulatory umbrella, but it will be really a stand alone clearing function, which we're allowed to do in Europe.

And right now – so we're importing the U.S. technology into Europe. We're hooking it to, frankly, the treasury services and billing services that we use in Europe. And that work is going on right now. And the dealers are testing with us, putting trades through, so that I think in a few weeks here, we'll be able to launch, and it will be seamless for them.

So they're very engaged with us. There certainly is competition both in the U.S. and in Europe for clearing. But the group that we've put together is depending upon us to meet their targets in order to meet the targets that they committed to with regulators.

<Q – Niamh Alexander>: Okay. That's all. Thanks for taking my questions. I'll get back in the queue.

Operator: We'll take our next question from Howard Chen with Credit Suisse.

<Q – Howard Chen>: Good morning, everyone.

<A – Jeffrey Sprecher>: Good morning.

<A – Scott Hill>: Good morning.

<Q – Howard Chen>: Congratulations on the strong quarter. Jeff, you started with the company with your background in the power industry. There appears to be some changes on the deregulation of some of the regional markets. Can you talk about how you've positioned the company for some of those opportunities, which you already have a very meaningful presence in? And maybe discuss some of the competitive landscape compared to some of the prior cycles where this has happened.

<A – Jeffrey Sprecher>: Sure. Power's my strength, and my colleague Chuck Vice – we both came out of the power markets, and which is why I started really as a power company. And as you're alluding to, I was living in California and started the company really to try to be a California power exchange. So my specific domain now was very strong in the western U.S.

When California went through its energy crisis, and the California power exchange – the government regulated power exchange folded – we became really the domain for the trading in the west. And what's now happening is that California and the west has regrouped, restructured, and is adopting the kind of trading model that's used in the eastern United States.

So we saw that coming. We knew it was coming. And one of the things that we've worked very, very diligently on is really moving into the physical power markets. We have very, very – it's not necessarily a big revenue driver, so it's not something that you ask about a lot, as an analyst looking at our numbers. But our screens are very, very pervasively distributed in physical players that are buying and selling short-term power for delivery, really – and they're in the utility business. And by being there and just being part of their work flow, we got ourselves hooked into the West, so that it could basically modify and we could stay connected.

I think it's good news, actually, what's going on there. The big power trading volumes come from the eastern U.S. The market likes that model. So it's not surprising that the west is adopting it. And I would expect that it will help drive continued growth in trading, and given that we're the dominant player in the East Coast, I would expect that we would continue to follow the growth in the West.

<Q – Howard Chen>: Okay. Great. So you wouldn't view any kind of changes on the competitive landscape?

<A – Jeffrey Sprecher>: No. I think it bodes well for us. I mean the West was using ICE indices as the proxy for that market, but really, physical players want to schedule and deliver power. They need a government-type infrastructure that can run transmission lines and provide real time balancing and transparency around that. And that underlying physical market will allow the forward and ultimately, eventually, futures market to grow.

<Q – Howard Chen>: Great. Thanks. And then, Scott, on the numbers, even stripping out some of this quarter's one timers, expenses were a lot better than we thought, and specifically honing in on comp and benefits. Can you talk about some of the moving parts within that line item this quarter, and were you able to perhaps accelerate any of the synergy realization? I'm just trying to get a sense of the stickiness of some of the downward movements in the compensation benefits lines, if revenues stayed – all else being equal. Thanks.

<A – Scott Hill>: Yeah, Howard. I think one of the things hopefully you've seen is we tend to try to act in advance of problems being upon us. And so we saw the markets getting more difficult in the back half of last year, and made the determination then to take some of the actions we've talked to you about – the resource reductions that we've done, the accelerated synergies at our acquired businesses, the fact that we froze salary increases for officers. All of those decisions were made last year. So what you saw in the first quarter were some of the benefits from those decisions exiting last year, providing some benefit into the early part of this year. So, again, I think it's just –

the ICE management team historically has done a good job managing spending in difficult times. And as we saw the challenges grow at the back half of last year, we tightened down on the expense, and I think you saw that in the first quarter.

<Q – Howard Chen>: Thanks so much for taking my question.

<A – Jeffrey Sprecher>: One thing I would point out, Howard, just as follow up, is that we still, though, have decided to invest heavily in a few businesses, despite the economic downturn. We are obviously investing heavily in credit default swap clearing and infrastructure. We're investing heavily in Russell indices, and we've got a pretty interesting technology investment going on that we think will take us to the next level. So we have not backed off on those. We do have variability if we needed to, but our view is that those are long term investments that will pay value, and so we're going ahead with them.

Operator: We'll take our next question from Mark Lane with William Blair & Company.

<Q – Mark Lane>: Hi. Good morning. Just a couple of quick ones. So, Jeff, maybe you said it in a different way, but regarding CDS, are you working on a front-end trading system, where you would get execution fees on the front-end? Is that something that is in the plan for this year, or over any reasonable period of time?

<A – Jeffrey Sprecher>: We have a couple of things that we're doing. One is, in the clearing house alone, we've adopted an open platform policy, so that any platform can ultimately hook to that clearing house. So we would participate in the electronification of the markets through our clearing revenues.

On the second piece, we are really driving a lot of electronic execution at Creditex. The markets are going increasingly electronic. It's a hybrid model where we're using our brokerage team. We've taken down the size of that brokerage team, kept our very high performing brokers, and we've given them screens. And they're helping to drive electronic execution, and that is growth. So we haven't broken it out specifically, but -

<Q – Mark Lane>: But nothing similar to what the CME initially launched, in trying to drive liquidity to an ICE-sponsored electronic platform, something like that?

<A – Jeffrey Sprecher>: Well, one thing that we're not doing, which I think is different than some other people in the market, is we're not trying to make credit default swaps a future contract. In other words, we're using specific technology that's really designed for the way the OTC markets exist today. And that technology is morphing. And I suspect, at some point, we'll become an active, two-way, bid-offer market that looks much more like futures.

But that's not where the market is today, and in fact customers really need a lot of broker intermediation right now, because the spreads have widened, difficult credit environment, and people are trying to basically buy credit protection in the middle of a credit hurricane. And so it's a complicated market that doesn't lend itself, at this moment, to some kind of two-way, future-style bid-offer.

<Q – Mark Lane>: Okay. And then just as a follow-up on the operating margin, so, if you take out – Scott, if you take out the impact of the CDS the next few quarters, the 55% operating margin, ex non-recurring expenses, if revenue is kind of in this range for the next few quarters, I mean is that something that can be improved upon, do you think?

<A – Scott Hill>: I think the 55% – as I mentioned in my prepared remarks, you peel back the 55%, underneath that, our core operating margins for our non-brokered business were 65%. And if you look back historically, the mid 60s, plus or minus a little bit, it's been a pretty good average assumption for us.

So I think the 55% is a good number. I wouldn't predict where margins would go, because that fundamentally is a prediction around where revenues will go. But what I would tell you is, as Jeff alluded to, while we're focused on managing our expenses, we are continuing to invest in growth. And so, to some extent, we use the synergies we drive to invest in our growth initiatives. And so, I think a good assumption would be stable margins as opposed to any significant up or downward movement.

<Q – Mark Lane>: Thank you.

Operator: We'll take our next question from Michael Vinciquerra with BMO Capital Markets.

<Q – Michael Vinciquerra>: Thanks for taking my question. I want to jump over to carbon, if I could. And based on our projections, it looks like from the ECX side of things, you guys might be generating a run rate of maybe $2.5 million a quarter now. In terms of revenue there, I'm assuming that's pretty high margin. Can you just comment on, A, the growth in that market as you've seen it? And, B, what is your relationship with Chicago Climate Exchange in the U.S., should we get a mandatory market here? Is there a way to put in place similar economics, because I think the contract is much different here in the states? Thanks.

<A – Jeffrey Sprecher>: Thanks for the question. We definitely have seen, if you look back over the last four quarters, we have clearly seen an acceleration in the revenues that we're getting from Emissions. Let me just step back and tell you, I'm sure most of you are aware, that for ECX, we provide the trading platform for the Emissions products, and we also provide the clearing. And so we get revenue from each of those, from the execution and from the clearing.

I don't think we break out specifically what the Emissions revenue is, so I'd be reluctant to do that at this point, but what I would tell you is, on a year over year basis, the revenues we saw in the first quarter versus what we saw in the first quarter a year ago are nearly 10 times the level. So, we have definitely experienced growth related to that. And I guess interestingly, what – we have also historically provided the trading platform for CCX in the U.S., and with the acquisition of The Clearing Corporation, we now also provide clearing for CCX.

So we have a very good relationship with the Climate Exchange. We believe there's good opportunity for that business to continue to grow, and we think we're well positioned to participate in that growth.

<Q – Michael Vinciquerra>: That's great. Thank you guys.

Operator: We'll take our next question from Chris Allen with Pali Capital.

<Q – Chris Allen>: Hey, guys. Thanks for taking my question.

<A – Jeffrey Sprecher>: Morning.

<A – Scott Hill>: Morning.

<Q – Chris Allen>: Scott, if you could just provide us an update on what the non-cash comp was this quarter? I'm just trying to reconcile your guidance on that. And also the guidance in terms of the synergies, just given Howard's earlier question – the $5 million decline in the compensation line. If you could just provide us some help on that, that'd be great.

<A – Scott Hill>: Yeah. The non-cash in the quarter was $10 million. If you look back to the fourth quarter, it was $11 million, so it was down a little bit. What we've said in our previous guidance was we'd be in the 42 to $46 million range for the year. We still expect that we'll likely be in that range, and so the implication is, versus 10 in the first quarter, we expect a slight uptick as you get into 2Q, 3Q, and 4Q. And again, our expectation would be we'll be in the 42 to $46 million range for the year.

<Q – Chris Allen>: Okay. And then just – so you are realizing greater than expected synergies from Creditex in other areas – is that a fair assumption, just given the step down in cash comp?

<A – Scott Hill>: Well, I think it's – we said originally 9 to $14 million of synergies from Creditex. That included roughly half of it in expense and half of it in revenues. As we I think updated on the last call, we actually now believe we can generate 8 to $10 million of expense-alone synergies, and we took the action sooner rather than later, to try and accelerate the realization in this year.

In addition to that, a part of the revenue synergies that we had guided to originally were around the T-Zero business that, at the time of acquisition, was losing probably five, $6 million a year. And as I mentioned in my remarks, that business broke even in the first quarter and actually made a little bit of money in March. So I think the synergies for Creditex are well on track, and even more importantly, the electronic initiatives are starting to yield, which provide good incremental margins. And the voice broker team, the management team there has done a tremendous job of getting rid of the lower-performing brokers and really aligning the interests and motivating the higher-performing brokers to continue that business in what's a particularly difficult market right now.

<Q – Chris Allen>: Okay. And just one follow-up. Just on the over-the-counter business, you talked about the revenue growth there. I'm just trying to understand the underlying growth in the business, when you strip out the benefits of clearing, because we saw year-over-year declines on the revenue side in both the first quarter and again in April. So I'm just trying to think about the impact of clearing in that business, and how to think about the organic growth going forward.

<A – Scott Hill>: Yeah. I guess I'd debate the question a little bit in I'm not sure why you would strip out clearing. We spent a long time and investment building a clearing house in Europe, and the clearing revenues are absolutely a part of the OTC energy business that is executed on our exchange. So as I look at it, I look at a business that, although down 16% on a year-to-year basis, is up 23% sequentially. And as I mentioned earlier, had underneath the covers oil up 35% in revenue, Power up 25% in revenues. So I think we feel pretty good about where our OTC Energy business is, particularly in this economic environment.

<Q – Chris Allen>: Thanks a lot, guys.

Operator: Now we'll take our next question from Don Fandetti with Citi.

<Q – Donald Fandetti>: Hi. Good morning. Jeff, it seems like some of the dealers are warming up to moving interest rate swaps to an exchange. It's a view that CME, obviously, given their current business would have an advantage there. Is that business of interest to you, as you look out and leverage your current OTC clearing?

<A – Jeffrey Sprecher>: My colleagues like to laugh at me because every business is of interest to me. They just don't like what it entails under the covers in terms of hard work. But I can't speak to what our competitors are doing. But my conversations with major interest rate traders are interesting. You've obviously seen the business of collateralizing and hedging CDOs, CMOs, CLOs has to have massively fallen off, as that business is going away.

And so the interest rate business itself is changing. It's really going back to hedging of true interest exposure, which is really a bank-type market. And the banks have been working, as you've seen, with trying to expand SwapsClear, which is the interest rate clearing infrastructure inside London clearing house, even going so far as to try to potentially restructure and recapitalize the whole London clearing house ownership and management governance. So that's an ambitious plan that they have, but a very well running infrastructure that did a good job in the Lehman collapse.

So it's against that backdrop that you have to look at what are the opportunities for interest rate clearing and trading. And so we're having obviously a lot of conversations, as are most of the infrastructure providers, and we do have a very good infrastructure for clearing swaps that we acquired through The Clearing Corporation. It's a very unique clearing infrastructure. Does not use stand margining, which is what futures does. It uses bar-type margining. It fits into the work flow of – and the payment cycle flow – of the way the over-the-counter markets work.

So because of that, we obviously have a seat at the table to have those conversations, and we'll see what unfolds from there.

<Q – Donald Fandetti>: Okay. Thank you.

Operator: And at this time I would like to turn it back over to Mr. Sprecher with any additional comments.

Jeffrey C. Sprecher, Chief Executive Officer

Well, thank you all for joining us this morning. I appreciate your interest in the company. Again, I want to thank my colleagues for a lot of hard work in putting all the infrastructure together, and thank our customers for your business during very, very difficult times in terms of managing risk. And we'll look forward to talking to you all next quarter.

Operator: That does conclude today's conference. Thank you for your participation.