# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 8-K/A
## (AMENDMENT NO. 1)

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d)**
**of the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): January 27, 2006 (December 8, 2005)**

# THE NASDAQ STOCK MARKET, INC.
**(Exact name of registrant as specified in its charter)**

| | | |
|---|---|---|
| **Delaware** | **000-32651** | **52-1165937** |
| **(State or other jurisdiction of incorporation)** | **(Commission File Number)** | **(I.R.S. Employer Identification No.)** |

**One Liberty Plaza, New York, New York 10006**
**(Address of principal executive offices) (Zip code)**

**Registrant's telephone number, including area code: (212) 401-8700**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

This Current Report on Form 8-K/A ("Form 8-K/A") dated January 27, 2006, amends the Current Report on Form 8-K filed by The Nasdaq Stock Market, Inc. ("Nasdaq") on December 14, 2005, which disclosed Nasdaq's acquisition of Instinet Group Incorporated ("Instinet") and the immediate sale of Instinet's Institutional Brokerage division ("Institutional Broker"). As a result of these transactions, Nasdaq owns Instinet Group Incorporated, subsequently renamed Norway Acquisition Corp. ("Norway"). Norway owns 100.0% of INET Holding Company, Inc. ("IHC"), which owns 100.0% of INET ATS, Inc. ("INET"), an electronic communication network ("ECN") and Island Execution Services, LLC. Balances acquired for Island Execution Services, LLC were nominal. The purpose of this Form 8-K/A is to provide financial disclosures required by Item 9.01 (Financial Statements and Exhibits) of Form 8-K with respect to the acquisition of Instinet Group Incorporated and the immediate sale of the Institutional Broker to an affiliate of Silver Lake Partners, II, L.P., ("Silver Lake Partners" or "SLP"), a private equity firm. In addition, the financial statements of Toll Associates LLC ("Toll") as described below are presented. Toll is a holding company that owns a 99.8% interest in Brut LLC ("Brut"), the owner and operator of the Brut ECN. Toll owns a 100.0% interest in Brut Inc. ("Brut Inc."), which owns the remaining 0.2% interest in Brut.

As discussed in Note 1, "Description of Transactions and Basis of Presentation," the unaudited pro forma income statement information is presented as if the acquisition of Instinet and the sale of the Institutional Broker occurred on January 1, 2004.

Nasdaq purchased Toll from SunGard Data Systems Inc. ("SunGard") on September 7, 2004. As such, the financial information for Toll for the period January 1, 2004 through September 6, 2004 (prior to closing of the acquisition) is also included in the unaudited pro forma condensed combined statement of income for the year ended December 31, 2004 in this Form 8-K/A. Since balance sheet data for Toll is included in Nasdaq's historical balance sheet at September 30, 2005, separate pro forma balance sheet data for Toll is not presented.

**Section 9 – Financial Statements and Exhibits**

**Item 9.01 Financial Statements and Exhibits.**

(a) Financial Statements of Businesses Acquired.

Instinet Group Incorporated

Attached as Exhibit 99.1 hereto are the audited consolidated statements of financial condition of Instinet Group Incorporated as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004 and the related notes to consolidated financial statements.

Attached as Exhibit 99.2 hereto are the unaudited consolidated statements of financial condition of Instinet Group Incorporated as of September 30, 2005 and December 31, 2004, and the related unaudited consolidated statements of operations and cash flows for the three and nine months ended September 30, 2005 and 2004 and the related notes to the unaudited consolidated financial statements.

(b) Pro Forma Financial Information.

Attached hereto is the:

- Unaudited pro forma condensed combined balance sheet as of September 30, 2005 and the unaudited pro forma condensed combined statement of income for the nine months ended September 30, 2005.
- Unaudited pro forma condensed combined statement of income for the year ended December 31, 2004.
- Notes to the unaudited pro forma condensed combined financial statements.

(c) Exhibits

Exhibit 23.1 – Consent of PricewaterhouseCoopers LLP

Exhibit 99.1 – Consolidated Financial Statements and Report of Independent Registered Public Accounting Firm - Instinet Group Incorporated:

- Consolidated Statements of Financial Condition as of December 31, 2004 and 2003
- Consolidated Statements of Operations for the years ended December 31, 2004, 2003 and 2002
- Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2004, 2003 and 2002
- Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002
- Notes to Consolidated Financial Statements

Exhibit 99.2 – Unaudited Consolidated Financial Statements - Instinet Group Incorporated:

- Consolidated Statements of Financial Condition as of September 30, 2005 and December 31, 2004
- Consolidated Statements of Operations and Cash Flows for the three and nine months ended September 30, 2005 and 2004
- Notes to Consolidated Financial Statements

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This Form 8-K/A and attachments hereto contain these types of statements. We make these statements directly in this Form 8-K/A. Words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes" and words or terms of similar substance used in connection with any discussion of future operating results or financial performance identify forward-looking statements.

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

- our operating results may be lower than expected;
- our ability to implement our strategic initiatives and any consequences from our pursuit of our corporate strategy;
- competition, economic, political and market conditions and fluctuations, including interest rate risk;
- government and industry regulation; or
- adverse changes may occur in the securities markets generally.

In connection with our acquisition of Instinet, and the immediate sale of the Institutional Broker, factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, but are not limited to, the following: (i) expected cost savings and other synergies from the acquisition cannot be fully realized or realized within the expected time frame; (ii) costs or difficulties related to the integration of the INET ECN and/or the separation and sale of the Institutional Broker are greater than expected; (iii) revenues following the acquisition are lower than expected; and (iv) regulation related to the integration; and (v) general economic conditions are less favorable than expected.

Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the uncertainty and risk resulting from such uncertainty in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements and to carefully review the risk factors and other information detailed in Nasdaq's annual report on Form 10-K and periodic reports filed with the U.S. Securities and Exchange Commission. Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Independent valuation specialists assisted Nasdaq management in determining the fair values of the net assets acquired and the intangible assets in both the Instinet and Toll acquisitions. The work performed by the independent valuation specialists has been considered by management in determining the fair values reflected in these unaudited pro forma condensed combined financial statements. The valuations are based on the actual assets acquired and liabilities assumed at the acquisition dates and management's consideration of the independent valuation specialists' work.

The unaudited pro forma condensed combined financial information is presented for informational purposes only. The pro forma data is not necessarily indicative of what Nasdaq's financial position or results of operations actually would have been had Nasdaq completed the acquisition at the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: January 27, 2006

THE NASDAQ STOCK MARKET, INC.

By /s/ David P. Warren

David P. Warren
Executive Vice President
and Chief Financial Officer

**The Nasdaq Stock Market, Inc.**
**Unaudited Pro Forma Condensed Combined Statement of Income**
**Nine Months Ended September 30, 2005**
**(in thousands, except per share amounts)**

| | Nasdaq | Norway | Pro Forma Adjustments | Note 5 | Pro Forma Combined |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Market Services | $453,390 | $368,336 | $ (43,936) | (a) | $777,790 |
| Issuer Services | 166,748 | — | — | | 166,748 |
| Other | 206 | — | — | | 206 |
| Total revenues | 620,344 | 368,336 | (43,936) | | 944,744 |
| **Cost of revenues** | | | | | |
| Liquidity rebates | 169,373 | 216,305 | — | | 385,678 |
| Brokerage, clearance and exchange fees | 63,588 | 76,752 | (62,569) | (a), (b), (c) | 77,771 |
| Total cost of revenues | 232,961 | 293,057 | (62,569) | | 463,449 |
| **Gross margin** | 387,383 | 75,279 | 18,633 | | 481,295 |
| **Expenses** | | | | | |
| Compensation and benefits | 110,404 | 12,324 | — | | 122,728 |
| Marketing and advertising | 4,842 | 406 | — | | 5,248 |
| Depreciation and amortization | 46,765 | 5,323 | 5,498 | (d), (g-3) | 57,586 |
| Professional and contract services | 21,451 | 1,289 | — | | 22,740 |
| Computer operations and data communications | 47,498 | 3,937 | — | | 51,435 |
| Provision for bad debts | (41) | (395) | — | | (436) |
| Occupancy | 21,337 | 2,003 | — | | 23,340 |
| General and administrative | 23,373 | 7,772 | (7,393) | (e-3) | 23,752 |
| Total direct expenses | 275,629 | 32,659 | (1,895) | | 306,393 |
| Support costs from related parties, net | 31,311 | — | — | | 31,311 |
| Investment income | — | (3,471) | 3,471 | (g-6) | — |
| Total expenses | 306,940 | 29,188 | 1,576 | | 337,704 |
| Operating income | 80,443 | 46,091 | 17,057 | | 143,591 |
| Interest income | 8,549 | 1,872 | — | | 10,421 |
| Interest expense | (12,236) | — | (28,327) | (e-1), (f-3, 4, 5) | (40,563) |
| Minority interest | 44 | — | — | | 44 |
| Pre-tax operating income | 76,800 | 47,963 | (11,270) | | 113,493 |
| Income tax provision | 32,256 | 20,931 | (8,666) | (g-7) | 44,521 |
| **Net income** | $ 44,544 | $ 27,032 | $ (2,604) | | $ 68,972 |
| **Net income applicable to common stockholders:** | | | | | |
| Net income | $ 44,544 | $ 27,032 | $ (2,604) | | $ 68,972 |
| Preferred stock: | | | | | |
| Dividends declared | (2,506) | — | — | | (2,506) |
| Accretion of preferred stock | (3,047) | — | — | | (3,047) |
| Net income applicable to common stockholders | $ 38,991 | $ 27,032 | $ (2,604) | | $ 63,419 |
| **Basic and diluted earnings per share:** | | | | | |
| Basic | $ 0.49 | | | | 0.79 |
| Diluted | $ 0.42 | | | | 0.65 |
| Weighted average common shares used to calculate earnings per share: | | | | | |
| Basic | 79,890 | | | | 79,890 |
| Diluted | 107,442 | | | | 107,442 |

See Notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

**The Nasdaq Stock Market, Inc.**
**Unaudited Pro Forma Condensed Combined Statement of Income**
**Nine Months Ended September 30, 2005**
**Norway**
**(in thousands)**

| | Instinet Reported | Less Institutional Broker | Pro Forma and Other Adjustments | Note 6 | Norway |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Market Services | $771,000 | $ 414,146 | $ 11,482 | (a) | $368,336 |
| Interest income | 22,522 | 20,650 | (1,872) | (c) | — |
| Interest expense | (3,005) | (3,005) | — | | — |
| Other | — | 7,069 | 7,069 | (b) | — |
| Total revenues | 790,517 | 438,860 | 16,679 | | 368,336 |
| **Cost of revenues** | | | | | |
| Soft dollar and commission recapture | 110,129 | 110,129 | — | | — |
| Liquidity rebates | 204,823 | — | 11,482 | (a) | 216,305 |
| Brokerage, clearance and exchange fees | 165,295 | 88,543 | — | | 76,752 |
| Total cost of revenues | 480,247 | 198,672 | 11,482 | | 293,057 |
| **Gross margin** | 310,270 | 240,188 | 5,197 | | 75,279 |
| **Expenses** | | | | | |
| Compensation and benefits | 167,313 | 154,989 | — | | 12,324 |
| Marketing and advertising | 3,781 | 3,375 | — | | 406 |
| Depreciation and amortization | 34,396 | 29,073 | — | | 5,323 |
| Professional and contract services | 29,087 | 27,798 | — | | 1,289 |
| Computer operations and data communications | 41,015 | 37,078 | — | | 3,937 |
| Provision for bad debts | (73) | 322 | — | | (395) |
| Occupancy | 42,728 | 41,719 | 994 | (b) | 2,003 |
| General and administrative | 12,549 | 10,852 | 6,075 | (b) | 7,772 |
| Total direct expenses | 330,796 | 305,206 | 7,069 | | 32,659 |
| Support costs from related parties, net | — | — | — | | — |
| Investment income | (36,373) | (32,902) | — | | (3,471) |
| Total expenses | 294,423 | 272,304 | 7,069 | | 29,188 |
| Operating income (loss) from continuing operations | 15,847 | (32,116) | (1,872) | | 46,091 |
| Interest income | — | — | 1,872 | (c) | 1,872 |
| Pre-tax operating income (loss) from continuing operations | 15,847 | (32,116) | — | | 47,963 |
| Income tax provision (benefit) | 2,521 | (18,410) | — | | 20,931 |
| **Net income (loss) from continuing operations** | $ 13,326 | $ (13,706) | $ — | | $ 27,032 |

See Notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

**The Nasdaq Stock Market, Inc.**
**Unaudited Pro Forma Condensed Combined Balance Sheet**
**As of September 30, 2005**
**(in thousands, except share and par value amounts)**

| | Nasdaq | Norway Adjusted | Pro Forma and Other Adjustments | Note 5 | Pro Forma Combined |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 288,764 | $ 46,717 | $ (269,560) | (f-1, 2, 3) | $ 65,921 |
| Investments: | | | | | |
| Available-for-sale, at fair value | 225,887 | 7,933 | (7,933) | (i-2, 3) | 225,887 |
| Held-to-maturity, at amortized cost | 30,595 | — | (25,000) | (e-2) | 5,595 |
| Receivables, net | 133,276 | 43,617 | (1,576) | (f-1), (g-2) | 175,317 |
| Receivables from related parties | 19 | — | — | | 19 |
| Deferred tax assets | 11,266 | 3,567 | — | | 14,833 |
| Other current assets | 56,430 | 13 | — | | 56,443 |
| Total current assets | 746,237 | 101,847 | (304,069) | | 544,015 |
| Property and equipment: | | | | | |
| Land, buildings and improvements | 60,827 | — | — | | 60,827 |
| Data processing equipment and software | 184,475 | 1,199 | — | | 185,674 |
| Furniture, equipment and leasehold improvements | 119,176 | 87 | — | | 119,263 |
| | 364,478 | 1,286 | — | | 365,764 |
| Less accumulated depreciation and amortization | (238,097) | (91) | — | | (238,188) |
| Total property and equipment, net | 126,381 | 1,195 | — | | 127,576 |
| Non-current deferred tax assets | 57,155 | 419 | 74,690 | (h-1) | 132,264 |
| Goodwill | 143,810 | 799,107 | — | | 942,917 |
| Intangible assets, net | 37,996 | 172,870 | — | | 210,866 |
| Other assets | 1,659 | 26 | 15,031 | (f-3) | 16,716 |
| Total assets | $1,113,238 | $1,075,464 | $ (214,348) | | $1,974,354 |
| **Liabilities** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued expenses | $ 56,186 | $ 27,457 | $ (6,115) | (g-2) | $ 77,528 |
| Accrued personnel costs | 37,584 | 6,102 | — | | 43,686 |
| Deferred revenue | 84,622 | — | — | | 84,622 |
| Other accrued liabilities | 49,252 | 8,582 | — | | 57,834 |
| Current portion of senior term notes | — | — | 7,500 | (f-1) | 7,500 |
| Payables to related parties | 20,531 | — | — | | 20,531 |
| Total current liabilities | 248,175 | 42,141 | 1,385 | | 291,701 |
| Senior notes | 25,000 | — | (25,000) | (e-2) | — |
| Senior term notes | — | — | 742,500 | (f-1) | 742,500 |
| Convertible notes | 442,333 | — | — | | 442,333 |
| Accrued pension costs | 25,015 | — | — | | 25,015 |
| Non-current deferred tax liabilities | 28,329 | 67,808 | — | | 96,137 |
| Non-current deferred revenue | 94,289 | — | — | | 94,289 |
| Other liabilities | 33,524 | 215 | 40,000 | (h-1) | 73,739 |
| Total liabilities | 896,665 | 110,164 | 758,885 | | 1,765,714 |
| **Minority interest** | 1,156 | — | — | | 1,156 |
| **Mezzanine equity** | | | | | |
| Warrants underlying common stock, 4,962,500 warrants outstanding | 10,226 | — | (10,226) | (i-4) | — |
| **Stockholders' equity** | | | | | |
| Common stock, $0.01 par value, 300,000,000 shares authorized, shares issued: 130,684,483; shares outstanding: 81,890,531(81,714,281 pro forma shares outstanding) | 1,307 | — | — | | 1,307 |
| Preferred stock, 30,000,000 shares authorized, Series C Cumulative Preferred Stock: 953,470 shares issued and outstanding; Series B Preferred Stock: 1 share issued and outstanding | 94,687 | — | — | | 94,687 |
| Additional paid-in capital | 363,480 | 965,300 | (966,336) | (i-3, j) | 362,444 |
| Common stock in treasury, at cost: 48,793,952 shares (48,970,202 pro forma shares) | (625,021) | — | (6,897) | (i-2) | (631,918) |
| Warrants underlying common stock, 4,962,500 warrants outstanding | | | 10,226 | (i-4) | 10,226 |
| Accumulated other comprehensive loss | (815) | — | — | | (815) |
| Deferred stock compensation | (2,752) | — | — | | (2,752) |
| Common stock issuable | 4,613 | — | — | | 4,613 |
| Retained earnings | 369,692 | — | — | | 369,692 |

| | | | | |
|---|---|---|---|---|
| Total stockholders' equity | 205,191 | 965,300 | (963,007) | 207,484 |
| Total liabilities, minority interest, mezzanine and stockholders' equity | $1,113,238 | $1,075,464 | $(214,348) | $1,974,354 |

See Notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

**The Nasdaq Stock Market, Inc.**
**Unaudited Pro Forma Condensed Combined Balance Sheet**
**As of September 30, 2005**
**Norway Adjusted**
**(in thousands)**

| | IHC | Pro Forma and Other Adjustments | Cash Purchased | Norway Adjustments | Note 5 | Norway Adjusted |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 120,923 | $ (105,006) | $ 30,800 | $ — | (f-1) | $ 46,717 |
| Investments | 4,468 | 3,465 | — | — | (g-1) | 7,933 |
| Receivables, net | 60,377 | (17,060) | — | 300 | (f-1), (g-1) | 43,617 |
| Deferred tax assets | 2,087 | 1,480 | — | — | (g-1), (h-2) | 3,567 |
| Other current assets | — | 13 | — | — | (g-1) | 13 |
| Total current assets | 187,855 | (117,108) | 30,800 | 300 | | 101,847 |
| Property and equipment: | | | | | | |
| Data processing equipment and software | — | 1,199 | — | — | (g-1) | 1,199 |
| Furniture, equipment and leasehold improvements | — | 87 | — | — | (g-1) | 87 |
| | — | 1,286 | — | — | | 1,286 |
| Less accumulated depreciation and amortization | .— | (91) | — | — | (g-1) | (91) |
| Total property and equipment, net | — | 1,195 | — | — | | 1,195 |
| Non-current deferred tax assets | — | 419 | — | — | (g-1), (h-2) | 419 |
| Goodwill | — | 796,045 | — | 3,062 | (f-1,2), (g-1, 4) | 799,107 |
| Intangible assets, net | 22,178 | 150,692 | — | — | (g-1, 5) | 172,870 |
| Other assets | 102 | (76) | — | — | (g-1) | 26 |
| Total assets | $ 210,135 | $ 831,167 | $ 30,800 | $ 3,362 | | $1,075,464 |
| **Liabilities** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and accrued expenses | $ 33,274 | $ (5,817) | $ — | $ — | (g-1) | $ 27,457 |
| Accrued personnel costs | 4,145 | 1,957 | — | — | (g-1) | 6,102 |
| Other accrued liabilities | 29,437 | (23,917) | — | 3,062 | (g-1) | 8,582 |
| Total current liabilities | 66,856 | (27,777) | — | 3,062 | | 42,141 |
| Non-current deferred tax liabilities | — | 67,808 | — | — | (g-1), (h-2) | 67,808 |
| Other liabilities | — | 215 | — | — | (g-1) | 215 |
| Total liabilities | 66,856 | 40,246 | — | 3,062 | | 110,164 |
| **Stockholders' equity** | | | | | | |
| Common stock | 1 | (1) | — | — | (i-1) | — |
| Additional paid-in capital | 519,848 | 445,152 | — | 300 | (g-1), (i-1) | 965,300 |
| Retained deficit | (376,570) | 376,570 | — | — | (i-1) | — |
| Total stockholders' equity | 143,279 | 821,721 | — | 300 | | 965,300 |
| Total liabilities and stockholders' equity | $ 210,135 | $ 861,967 | $ — | $ 3,362 | | $1,075,464 |

See Notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

**The Nasdaq Stock Market, Inc.**
**Unaudited Pro Forma Condensed Combined Balance Sheet**
**As of September 30, 2005**
**IHC**
**(in thousands)**

| | Instinet Reported | Less Institutional Broker | Pro Forma and Other Adjustments | Note 6 | IHC |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 949,717 | $ 828,794 | $ — | | $ 120,923 |
| Securities owned, at market value | 23,437 | 23,437 | — | | — |
| Securities borrowed | 205,889 | 205,889 | — | | — |
| Investments | 35,595 | 31,127 | — | | 4,468 |
| Receivables, net | 331,542 | 271,165 | — | | 60,377 |
| Receivables from related parties | — | 1,155 | 1,155 | (d) | — |
| Deferred tax assets | 76,604 | 76,604 | 2,087 | (e) | 2,087 |
| Total current assets | 1,622,784 | 1,438,171 | 3,242 | | 187,855 |
| Fixed assets and leasehold improvements, net | 70,108 | 70,108 | — | | — |
| Goodwill | 38,971 | 38,971 | — | | — |
| Intangible assets, net | 22,178 | — | — | | 22,178 |
| Other assets | 86,817 | 86,715 | — | | 102 |
| Total assets | $1,840,858 | $1,633,965 | $ 3,242 | | $ 210,135 |
| **Liabilities** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued expenses | $ 472,898 | $ 440,779 | $ 1,155 | (d) | $ 33,274 |
| Accrued personnel costs | 4,145 | — | — | | 4,145 |
| Taxes payable | 96,823 | 76,641 | (20,182) | (e) | — |
| Deferred tax liabilities | — | (7,168) | (7,168) | (e) | — |
| Other accrued liabilities | 187,005 | 187,005 | 29,437 | (e) | 29,437 |
| Total liabilities | 760,871 | 697,257 | 3,242 | | 66,856 |
| **Stockholders' equity** | | | | | |
| Common stock | 3,406 | 3,405 | — | | 1 |
| Additional paid-in capital | 1,627,843 | 1,107,994 | — | | 519,848 |
| Accumulated other comprehensive income | 38,364 | 38,364 | — | | — |
| Deferred stock compensation | 26,699 | 26,699 | — | | — |
| Unearned compensation | (11,012) | (11,012) | — | | — |
| Retained deficit | (605,313) | (228,743) | — | | (376,570) |
| Total stockholders' equity | 1,079,987 | 936,708 | — | | 143,279 |
| Total liabilities and stockholders' equity | $1,840,858 | $1,633,965 | $ 3,242 | | $ 210,135 |

See Notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

**The Nasdaq Stock Market, Inc.**
**Unaudited Pro Forma Condensed Combined Statement of Income**
**Year Ended December 31, 2004**
**(in thousands, except per share amount)**

| | Nasdaq Adjusted | Norway | Pro Forma Adjustments | Note 5 | Pro Forma Combined |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Market Services | $459,310 | $472,825 | $ (41,358) | (k) | $ 890,777 |
| Issuer Services | 205,821 | — | — | | 205,821 |
| Other | 103 | — | — | | 103 |
| Total revenues | 665,234 | 472,825 | (41,358) | | 1,096,701 |
| **Cost of revenues** | | | | | |
| Liquidity rebates | 106,965 | 275,291 | — | | 382,256 |
| Brokerage, clearance and exchange fees | 59,746 | 83,588 | (53,217) | (k), (l), (m) | 90,117 |
| Total cost of revenues | 166,711 | 358,879 | (53,217) | | 472,373 |
| **Gross margin** | 498,523 | 113,946 | 11,859 | | 624,328 |
| **Expenses** | | | | | |
| Compensation and benefits | 154,235 | 16,613 | — | | 170,848 |
| Marketing and advertising | 12,830 | 2,733 | — | | 15,563 |
| Depreciation and amortization | 80,877 | 7,101 | 7,695 | (n), (q-1) | 95,673 |
| Professional and contract services | 23,947 | 2,223 | — | | 26,170 |
| Computer operations and data communications | 99,087 | 8,362 | — | | 107,449 |
| Provision for bad debts | 1,188 | (2,953) | — | | (1,765) |
| Occupancy | 29,047 | 2,612 | — | | 31,659 |
| General and administrative | 41,892 | 23,083 | 7,393 | (p-1) | 72,368 |
| Total direct expenses | 443,103 | 59,774 | 15,088 | | 517,965 |
| Support costs from related parties, net | 46,191 | — | — | | 46,191 |
| Total expenses | 489,294 | 59,774 | 15,088 | | 564,156 |
| Operating income | 9,229 | 54,172 | (3,229) | | 60,172 |
| Interest income | 5,943 | 1,606 | — | | 7,549 |
| Interest expense | (12,773) | (34) | (29,023) | (o), (p-2, 3, 4) | (41,830) |
| Pre-tax operating income from continuing operations | 2,399 | 55,744 | (32,252) | | 25,891 |
| Income tax provision | 689 | 24,994 | (13,063) | (q-2) | 12,620 |
| **Net income from continuing operations** | $ 1,710 | $ 30,750 | $ (19,189) | | $ 13,271 |
| **Net (loss) income applicable to common stockholders:** | | | | | |
| Net income | $ 1,710 | $ 30,750 | $ (19,189) | | $ 13,271 |
| Preferred stock: | | | | | |
| Loss on exchange of securities | (3,908) | — | — | | (3,908) |
| Dividends declared | (8,354) | — | — | | (8,354) |
| Accretion of preferred stock | (926) | — | — | | (926) |
| Net (loss) income applicable to common stockholders | $ (11,478) | $ 30,750 | $ (19,189) | | $ 83 |
| Basic and diluted earnings per share | | | | | $ 0.00 |
| Weighted average shares used to calculate earnings per share: | | | | | |
| Basic and diluted | | | | | 78,607 |

See Notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

**The Nasdaq Stock Market, Inc.**
**Unaudited Pro Forma Condensed Combined Statement of Income**
**Year Ended December 31, 2004**
**Nasdaq Adjusted**
**(in thousands)**

| | Nasdaq Reported | Toll | Pro Forma Adjustments | Note 7 | Nasdaq Adjusted |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Market Services | $334,517 | $129,494 | $ (4,701) | (a), (b) | $459,310 |
| Issuer Services | 205,821 | — | — | | 205,821 |
| Other | 103 | — | — | | 103 |
| Total revenues | 540,441 | 129,494 | $ (4,701) | | 665,234 |
| **Cost of revenues** | | | | | |
| Liquidity rebates | 38,114 | 68,851 | — | | 106,965 |
| Brokerage, clearance and exchange fees | 17,731 | 48,713 | (6,698) | (a), (c) | 59,746 |
| Total cost of revenues | 55,845 | 117,564 | (6,698) | | 166,711 |
| **Gross margin** | 484,596 | 11,930 | 1,997 | | 498,523 |
| **Expenses** | | | | | |
| Compensation and benefits | 148,155 | 6,080 | — | | 154,235 |
| Marketing and advertising | 12,790 | 40 | — | | 12,830 |
| Depreciation and amortization | 76,336 | 2,222 | 2,319 | (d), (e) | 80,877 |
| Professional and contract services | 23,709 | 238 | — | | 23,947 |
| Computer operations and data communications | 98,903 | 184 | — | | 99,087 |
| Provision for bad debts | 1,074 | 114 | — | | 1,188 |
| Occupancy | 28,730 | 317 | — | | 29,047 |
| General and administrative | 41,128 | 764 | — | | 41,892 |
| Total direct expenses | 430,825 | 9,959 | 2,319 | | 443,103 |
| Support costs from related parties, net | 45,588 | 603 | — | | 46,191 |
| Total expenses | 476,413 | 10,562 | 2,319 | | 489,294 |
| Operating income | 8,183 | 1,368 | (322) | | 9,229 |
| Interest income | 5,854 | 89 | — | | 5,943 |
| Interest expense | (11,484) | (1,289) | — | | (12,773) |
| Pre-tax operating income from continuing operations | 2,553 | 168 | (322) | | 2,399 |
| Income tax provision | 749 | 68 | (128) | (e) | 689 |
| **Net income from continuing operations** | $ 1,804 | $ 100 | $ (194) | | $ 1,710 |
| **Net income applicable to common stockholders:** | | | | | |
| Net income | $ 1,804 | $ 100 | $ (194) | | $ 1,710 |
| Preferred stock: | | | | | |
| Loss on exchange of securities | (3,908) | — | — | | (3,908) |
| Dividends declared | (8,354) | — | — | | (8,354) |
| Accretion of preferred stock | (926) | — | — | | (926) |
| Net (loss) income applicable to common stockholders | $ (11,384) | $ 100 | $ (194) | | $ (11,478) |

See Notes to the Unaudited Pro Forma Condensed Combined Financial Statements

**The Nasdaq Stock Market, Inc.**
**Unaudited Pro Forma Condensed Combined Statement of Income**
**Year Ended December 31, 2004**
**Norway**
**(in thousands)**

| | Instinet Reported | Less Institutional Broker | Pro Forma and Other Adjustments | Note 6 | Norway |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Market Services | $1,096,381 | $ 641,303 | $ 17,747 | (f) | $472,825 |
| Interest income | 18,151 | 16,545 | (1,606) | (h) | — |
| Interest expense | (3,514) | (3,480) | 34 | (h) | — |
| Other | — | 22,533 | 22,533 | (g) | — |
| Total revenues | 1,111,018 | 676,901 | 38,708 | | 472,825 |
| **Cost of revenues** | | | | | |
| Soft dollar and commission recapture | 168,693 | 168,693 | — | | — |
| Liquidity rebates | 257,544 | — | 17,747 | (f) | 275,291 |
| Brokerage, clearance and exchange fees | 207,038 | 123,450 | — | | 83,588 |
| Total cost of revenues | 633,275 | 292,143 | 17,747 | | 358,879 |
| **Gross margin** | 477,743 | 384,758 | 20,961 | | 113,946 |
| **Expenses** | | | | | |
| Compensation and benefits | 209,876 | 193,263 | — | | 16,613 |
| Marketing and advertising | 12,752 | 10,019 | — | | 2,733 |
| Depreciation and amortization | 58,293 | 51,192 | — | | 7,101 |
| Professional and contract services | 29,319 | 27,096 | — | | 2,223 |
| Computer operations and data communications | 72,187 | 63,825 | — | | 8,362 |
| Provision for bad debts | (1,516) | 1,437 | — | | (2,953) |
| Occupancy | 37,069 | 35,514 | 1,057 | (g) | 2,612 |
| General and administrative | 36,881 | 35,274 | 21,476 | (g) | 23,083 |
| Total direct expenses | 454,861 | 417,620 | 22,533 | | 59,774 |
| Contractual settlement | (7,250) | (7,250) | — | | — |
| Investment income | (19,712) | (19,712) | — | | — |
| Insurance recovery | (5,116) | (5,116) | — | | — |
| Total expenses | 422,783 | 385,542 | 22,533 | | 59,774 |
| Operating income (loss) from continuing operations | 54,960 | (784) | (1,572) | | 54,172 |
| Interest income | — | — | 1,606 | (h) | 1,606 |
| Interest expense | — | — | (34) | (h) | (34) |
| Pre-tax operating income (loss) from continuing operations | 54,960 | (784) | — | | 55,744 |
| Income tax provision (benefit) | 14,540 | (10,454) | — | | 24,994 |
| **Net income from continuing operations** | $ 40,420 | $ 9,670 | $ — | | $ 30,750 |

See Notes to the Unaudited Pro Forma Condensed Combined Financial Statements

**Note 1. Description of Transactions and Basis of Presentation**

*Acquisition of Instinet Group Incorporated*

On December 8, 2005, Nasdaq completed the acquisition of Instinet and the immediate sale of Instinet's Institutional Brokerage division to an affiliate of SLP. As a result of these transactions Nasdaq owns Norway. Norway owns 100.0% of IHC, which owns 100.0% of the INET ECN. The aggregate purchase price for all outstanding shares of Instinet was approximately $1.878 billion in cash. Nasdaq paid total cash consideration of approximately $934.5 million, which is subject to certain post-closing adjustments, and Silver Lake Partners paid approximately $207.5 million of the purchase price pursuant to the sale of the Institutional Brokerage division. The balance of the $1.878 billion reflects, in part, Instinet's available cash and, in part, a cash dividend of approximately $109.0 million, which Instinet previously paid to its stockholders from the net after-tax proceeds of the sale of Instinet's Lynch, Jones & Ryan, Inc. brokerage subsidiary ("LJR").

*Acquisition of Toll Associated LLC*

On September 7, 2004, Nasdaq completed its acquisition of Toll, owner and operator of the Brut ECN, from SunGard. As a result, the financial information for Toll for the period January 1, 2004 through September 6, 2004 is also included in the unaudited pro forma condensed combined statement of income for the year ended December 31, 2004 in this Form 8-K/A. Since balance sheet data for Toll is included in Nasdaq's historical balance sheet at September 30, 2005, separate pro forma balance sheet data for Toll is not presented.

The unaudited pro forma condensed combined financial statements are presented to illustrate the effects of both acquisitions on the historical financial position and operating results of Nasdaq, Norway and Toll. The unaudited pro forma condensed combined statements of income combine the historical consolidated statements of income of Nasdaq, Norway and Toll, giving effect to the acquisitions as if they had occurred on January 1, 2004. The unaudited pro forma condensed combined balance sheet combines the historical consolidated balances sheets of Nasdaq and Norway, giving effect to the acquisition as if it had occurred on September 30, 2005. Since balance sheet data for Toll is included in Nasdaq's historical balance sheet at September 30, 2005, separate pro forma balance sheet data for Toll is not presented.

Nasdaq prepared the unaudited pro forma condensed combined financial information using the purchase method of accounting with Nasdaq treated as the acquirer. Accordingly, Nasdaq's cost to acquire Norway of $968.9 million ($934.5 million cash paid plus $34.4 million of direct acquisition costs), which is subject to certain post-closing adjustments, has been allocated to the assets acquired and liabilities assumed of $64.7 million (net assets) and the remainder of $904.2 million was recorded as goodwill of $799.1 million, intangible assets of $172.9 million and a non-current deferred tax liability of $67.8 million related to the intangible assets. Independent valuation specialists assisted Nasdaq management in the acquisition in determining the fair values of the net assets acquired and the intangible assets. The work performed by the independent valuation specialists has been considered by management in determining the fair values reflected in these unaudited pro forma condensed combined financial statements. The valuations are based on the actual assets acquired and liabilities assumed at the acquisition date and management's consideration of the independent specialists' valuation work.

The unaudited pro forma condensed combined financial information is presented for informational purposes only. The pro forma data is not necessarily indicative of what Nasdaq's consolidated financial position or results of operations actually would have been had Nasdaq completed the acquisitions at the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future consolidated financial position or operating results of the combined companies.

**Note 2. Reclassifications**

Certain reclassifications have been made to the Norway and Toll historical balances in the unaudited pro forma condensed combined statements of income and balance sheets in order to conform to the Nasdaq presentation.

**Note 3. Purchase Price**

Nasdaq purchased Norway for a total consideration of $934.5 million in cash, subject to post-closing adjustments. In addition, Nasdaq incurred direct costs of approximately $34.4 million associated with the acquisition of Norway.

For the purpose of this pro forma analysis, the above estimated purchase price has been preliminarily allocated based on an estimate of the fair value of assets acquired and liabilities assumed. The final valuation of net assets will be completed as soon as possible but no later than one year from the acquisition date. To the extent that Nasdaq's estimates need to be adjusted, Nasdaq will do so.

| **Estimated Purchase Price** | **(in millions)** |
|---|---|
| Net assets acquired: | |
| Cash | $ 15.9 |
| Available-for-sale investments, at fair value | 7.9 |
| Accounts receivable, net | 43.6 |
| Deferred tax assets | 3.5 |
| Property and equipment, net | 1.2 |
| Non-current deferred tax assets | 75.0 |
| Accounts payable and accrued expenses | (27.5) |
| Accrued personnel costs | (6.1) |
| Other accrued liabilities | (8.6) |
| Other liabilities | (40.2) |
| Total net assets | 64.7 |
| Goodwill | 799.1 |
| Identifiable intangible assets [(1)] | 172.9 |
| Non-current deferred tax liability | (67.8) |
| Estimated purchase price | $ 968.9 |

[(1)] Adjustment to record identifiable intangible assets at fair value.

The following table presents details of the identifiable intangible assets acquired:

| | **Amount** | **Estimated Average Useful Life** |
|---|---|---|
| | **(in millions)** | **(in years)** |
| Identifiable intangible assets | | |
| Customer relationships | $ 163.1 | 13.0 |
| Technology | 9.4 | 5.0 |
| Trade Name | 0.4 | 1.0 |
| Total | $ 172.9 | |

**Note 4. Integration Plan**

Nasdaq expects that in the period beginning twelve months following consummation of the Norway acquisition, this acquisition will be accretive to stockholders, primarily as a result of technology cost savings and other synergies as follows:

- The cost to operate the combined platform will be less than operating the existing Nasdaq and Brut ECN platforms. Also, by migrating to a single platform, Nasdaq will achieve cost savings in clearing and settlement expenses as more trades will be executed on the Nasdaq Market Center versus routed through Nasdaq's broker-dealer, Brut.
- Nasdaq will also achieve cost savings on certain occupancy and compensation and benefit costs due to the relocation of Norway employees to Nasdaq facilities, headcount reductions and consolidation of facilities, including data centers.
- Nasdaq will gain additional market data revenues by migrating INET trade reporting activity from The National Stock Exchange ("NSX") to Nasdaq. Nasdaq will also no longer pay NSX membership fees.

**Note 5. Pro Forma Adjustments**

**As of and for the Nine Months Ended September 30, 2005**

Adjustments included in the columns under the heading "Pro Forma Adjustments," "Pro Forma and Other Adjustments," "Cash Purchased" and "Norway Adjustments" on the unaudited pro forma condensed combined statements of income and unaudited pro forma condensed combined balance sheets relate to the following:

(a) To eliminate transactions between Nasdaq and Norway, which upon completion of the acquisition would be considered intercompany transactions.

| Increase/(decrease) | (in millions) |
|---|---|
| Nasdaq Market Services revenues | $ (43.9) |
| Cost of revenues | (49.6) |

The entries include:

- the elimination of Nasdaq's revenues of $24.7 million from INET for accessing liquidity on the Nasdaq Market Center;
- the elimination of Brut's revenues of $8.8 million from INET for accessing liquidity on the Brut ECN;
- the elimination of INET's revenues of $15.1 million from Brut for accessing liquidity on the INET ECN;
- the elimination of Nasdaq's revenues of $0.3 million from INET for trade reporting to the Nasdaq Market Center;
- the elimination of Nasdaq's revenues of $0.7 million from INET for the use of Nasdaq's systems to access the Nasdaq Market Center;
- the elimination of Nasdaq's, Brut's and INET's cost of revenues for the above intercompany transactions of $49.6 million as Nasdaq, Brut and INET no longer charge each company for accessing liquidity and Nasdaq will no longer charge INET for accessing the Nasdaq Market Center and trade reporting;
- the decrease of Norway's revenues of $1.6 million as INET will share all of its liquidity rebates from Nasdaq with other market participants to conform to Nasdaq's rebate program; and
- the decrease in UTP Plan revenue sharing of $7.3 million (net difference of UTP Plan revenue sharing and revenue NSX shared with INET). Assumes INET reported trades to the Nasdaq Market Center for the nine months ended September 30, 2005 rather than reporting to NSX.

(b) To recognize a decrease in cost of revenues of $11.0 million relating to the utilization by INET of the existing Nasdaq clearing contract or attributes. Pursuant to an amended clearing agreement entered into in conjunction with closing the Norway acquisition, INET will continue clearing trades with an SLP affiliate, Instinet Clearing Services, Inc. (“ICS”) for six months following the closing.

(c) To recognize a decrease in cost of revenues of $2.0 million relating to INET’s membership fees paid to NSX. INET will no longer be required to pay these fees as it will no longer be a member of NSX six months following the closing of the Norway acquisition.

(d) To eliminate amortization expense of $5.3 million related to the historical intangible assets recorded by Norway.

(e) To eliminate debt and related expenses, which were restructured or redeemed to finance the Norway acquisition. These entries include:

- (1) the elimination of interest expense of $3.0 million related to Nasdaq’s original $240.0 million subordinated convertible subordinated notes, which were restructured in order to finance the Norway acquisition and interest expense of $1.4 million related to Nasdaq’s $25.0 million senior notes, which were redeemed prior to the closing of the Norway acquisition;
- (2) the elimination of Nasdaq’s senior notes ($25.0 million), which were repaid from the redemption of held-to-maturity investments prior to the closing of the Norway acquisition; and
- (3) the elimination of the pre-tax charge recorded in general and administrative expense of $7.4 million related to the restructuring of the $240.0 million subordinated convertible notes. This charge would have been recorded at the date of the Norway acquisition, which for purposes of the pro forma financial information is January 1, 2004.

(f) To record transactions related to the financing of the Norway acquisition. These entries include:

- (1) the purchase of Norway. Nasdaq funded the Norway acquisition from the issuance of the $750.0 million senior term debt ($7.5 million due within one year), proceeds from the issuance of the $205.0 million convertible notes ($211.6 million including interest earned at the date of the Norway acquisition which was held in cash and cash equivalents at Nasdaq) and $47.5 million from available cash on hand at Nasdaq. Nasdaq purchased Norway for $934.5 million and also paid for $30.8 million of cash held by INET. In addition to the above purchases, Nasdaq reimbursed an affiliate of SLP for a $31.6 million tax receivable for Instinet’s sale of LJR. Nasdaq subsequently received $31.3 million of the $31.6 million tax receivable and included this receipt in cash and cash equivalents at Nasdaq. In addition, Nasdaq paid for transaction liabilities of $7.7 million (capitalized as additional goodwill), a preliminary working capital adjustment of $4.5 million and the tax receivable from the funds noted above;
- (2) $26.7 million of direct acquisition costs incurred by Nasdaq prior to the Norway acquisition which were funded from cash and cash equivalents of Nasdaq. These costs (primarily investment banking and legal fees) are capitalized as additional goodwill on Norway’s Adjusted Unaudited Pro Forma Condensed Consolidated Balance Sheet. See also Note 3, “Purchase Price,” to the unaudited pro forma condensed combined financial statements;
- (3) payment of $15.0 million of debt issuance costs (recorded as other assets) which were funded from cash and cash equivalents of Nasdaq associated with the issuance of the $750.0 million senior term debt, the $205.0 million and $240.0 million convertible notes and related amortization expense of $1.8 million, the debt issuance costs are being amortized over the terms of the debt;
- (4) interest expense of $25.7 million related to the $750.0 million senior term debt at a rate of libor plus 1.50%; and
- (5) additional interest expense from January 1, 2005 through April 21, 2005 of $5.2 million related to the $205.0 million and $240.0 million convertible notes which carry a coupon of 3.75%. The actual interest expense from April 22, 2005 through September 30, 2005 is included in Nasdaq’s reported amounts.

(g) To record:

- (1) the allocation of the estimated purchase price to reflect the net assets acquired. See also Note 3, "Purchase Price," to the unaudited pro forma condensed combined financial statements;
- (2) the elimination of intercompany receivables and payables between Nasdaq and Norway of $6.1 million;
- (3) amortization expense of $10.8 million related to the estimated fair value of identifiable intangible assets, which are being amortized over their estimated average useful lives;
- (4) goodwill of $799.1 million;
- (5) identifiable intangible assets of $172.9 million;
- (6) the decrease of investment income of $3.5 million relates to Norway's ownership of Nasdaq's common stock, as Nasdaq recorded these shares to common stock in treasury on the date of acquisition; and
- (7) income tax benefit of $8.7 million based on the condensed combined statement of income pro forma adjustments noted above for Norway to record a 39.225% statutory tax rate.

(h) To account for deferred tax assets and liabilities for the following:

- (1) to record a non-current deferred tax asset of $74.7 million on the sale of the Institutional Broker. Nasdaq and SLP have an agreement to share the deferred tax benefit on the sale of the Institutional Broker. Of the $74.7 million recorded, Nasdaq has agreed to pay SLP $40.0 million over time as the deferred tax asset is recognized and has recorded this in other liabilities; and
- (2) to reflect the difference between the book basis and the tax basis of current deferred tax assets of $1.5 million, non-current deferred tax assets of $0.4 million and non-current deferred tax liabilities of $67.8 million relating to the intangible assets acquired in the Norway acquisition.

(i) To adjust stockholders' equity for the following:

- (1) to record historical Norway common stock and retained earnings balances to additional paid-in capital of $376.6 million;
- (2) to record the retirement of Norway's investment of $6.9 million in Nasdaq's common stock to common stock in treasury. Prior to the Norway acquisition Norway owned 176,250 shares of Nasdaq common stock;
- (3) to account for Norway's ownership of warrants of $1.0 million to purchase Nasdaq common stock from NASD. The warrants were recorded at fair market at the time of acquisition; and
- (4) to classify the $10.2 million warrants issued by Nasdaq to purchase Nasdaq common stock as stockholders' equity. Prior to the acquisition, Nasdaq classified these warrants as mezzanine equity as they were rescindable if the acquisition was not completed.

(j) To record the elimination of Nasdaq's investment in Norway of $965.4 million, which includes the following:

- the purchase of Norway for $934.5 million;
- the purchase of $30.8 million of cash held by INET;
- the purchase of a $31.6 million tax receivable for Instinet's sale of LJR, of which Nasdaq subsequently received $31.3 million;
- transaction liabilities paid to Instinet of $7.7 million, which are additional direct acquisition costs;
- direct acquisition costs of $26.7 million incurred by Nasdaq prior to the Norway acquisition; and
- a reduction of $34.6 million for Nasdaq's share of the non-current deferred tax asset related to the sale of the Institutional Broker. Nasdaq recorded a $74.7 million non-current deferred tax asset on the sale of the Institutional Broker, of which Nasdaq has agreed to pay SLP $40.0 million over time as the deferred tax asset is recognized.

**For the Year Ended December 31, 2004**

Adjustments included in the column under the heading “Pro Forma Adjustments” relate to the following:

(k) To eliminate transactions between Nasdaq (including Brut) and Norway, which upon completion of the Norway acquisition would be considered intercompany transactions.

| Increase/(decrease) | (in millions) |
|---|---|
| Nasdaq Market Services revenues | $ (41.3) |
| Cost of revenues | (44.8) |

The entries include:

- the elimination of Nasdaq’s revenues of $24.2 million from INET for accessing liquidity on the Nasdaq Market Center;
- the elimination of Brut’s revenues of $9.3 million from INET for accessing liquidity on the Brut ECN;
- the elimination of INET’s revenues of $9.4 million from Brut for accessing liquidity on the INET ECN;
- the elimination of Nasdaq’s revenues of $0.5 million from INET for trade reporting to the Nasdaq Market Center;
- the elimination of Nasdaq’s revenues of $1.4 million from INET for the use of Nasdaq’s systems to access the Nasdaq Market Center;
- the elimination of Nasdaq’s, Brut’s and INET’s cost of revenues for the above intercompany transactions of $44.8 million as Nasdaq, Brut and INET no longer charge each company for accessing liquidity and Nasdaq will no longer charge INET for accessing the Nasdaq Market Center and trade reporting;
- the decrease of Norway’s revenues of $0.6 as INET will share all of its liquidity rebates from Nasdaq with other market participants to conform to Nasdaq’s program; and
- the decrease in UTP Plan revenue sharing of $4.1 million (net difference of UTP Plan revenue sharing offset by revenue NSX shared with INET and an assumed quote update fee paid to the NSX). Assumes INET reported trades to the Nasdaq Market Center beginning one month following the closing of the Norway acquisition rather than reporting to NSX and also assumes Nasdaq paid the quote update fee to NSX for six months following the closing.

(l) To recognize a decrease in cost of revenues of $6.9 million relating to the utilization by INET of the existing Nasdaq clearing contract or attributes. Pursuant to an amended clearing agreement entered into in conjunction with closing the Norway acquisition, INET will continue clearing trades with an SLP affiliate, ICS, for six months following the closing.

(m) To recognize a decrease in cost of revenues of $1.5 million relating to INET’s membership fees paid to NSX. After the first six months from the date of the acquisition, INET will no longer be required to pay these fees as it will no longer be a member of NSX.

(n) To eliminate amortization expense of $7.1 million related to the historical intangible assets recorded by Norway.

(o) To eliminate interest expense of $9.6 million related to Nasdaq’s original convertible subordinated notes, which were restructured in order to finance the acquisition and interest expense of $ 1.9 million related to Nasdaq’s $25.0 million senior notes, which were redeemed prior to the closing of the acquisition.

(p) To record transactions related to the financing of the Norway acquisition. These entries include:

- (1) a pre-tax charge recorded in general and administrative expense of $7.4 million related to the restructuring of the $240.0 million convertible subordinated notes. This charge would have been recorded at the date of the acquisition, which for purposes of the pro forma financial information is January 1, 2004;
- (2) interest expense of $21.4 million related to the $750.0 million senior term debt at a rate of libor plus 1.50%;
- (3) interest expense of $16.7 million related to the $205.0 million and $240.0 million convertible notes, which carry a coupon of 3.75%; and
- (4) amortization of debt issuance costs of $2.4 million related to the issuance of the $205.0 million and $240.0 million convertible notes, the debt issuance costs are being amortized over the terms of the debt .

(q) To record:

- (1) amortization expense of $14.8 million related to the estimated fair value of identifiable intangible assets, which are being amortized over their estimate average useful lives; and
- (2) income tax benefit of $13.1 million based on the condensed combined statement of income pro forma adjustments noted above for Norway to record a 39.225% statutory tax rate.

**Note 6. Pro Forma Adjustments**

At the date of acquisition, Nasdaq only recorded Balance Sheet activity for Norway as Norway did not have any historical Income Statement activity.

**As of and for the Nine Months Ended September 30, 2005**

Adjustments included in the columns under the heading “Pro Forma and Other Adjustments” on the unaudited pro forma condensed combined statement of income and unaudited pro forma condensed combined balance sheet relate to the following:

(a) To record the gross up of revenues and cost of revenues of $11.5 million for the liquidity that the Institutional Broker removed from INET and for the liquidity that the Institutional Broker provided to INET. These amounts were eliminated on the “Instinet Reported” column of Norway’s Unaudited Pro Forma Condensed Combined Statement of Income, but for the purpose of these pro forma financial statements are considered third party transactions and therefore grossed up.

(b) To allocate fees paid to the Institutional Broker of $7.1 million to occupancy expense of $1.0 million and general and administrative expense of $6.1 million.

(c) To reclassify interest income of $1.9 million from Norway’s revenues to conform to Nasdaq’s presentation of interest income.

(d) To record accounts payable of $1.2 million due from Norway to the Institutional Broker which upon consummation of the sale of the Institutional Broker would be considered third party transactions.

(e) To reclassify a deferred tax asset of $2.1 million which was reported net of deferred tax liabilities in Instinet’s Form 10-Q for the quarterly period ended September 30, 2005 to conform to Nasdaq’s presentation of deferred tax assets and liabilities and to reclassify $7.1 million from deferred tax liability and $20.2 million from taxes payable to other accrued liabilities to conform to Nasdaq’s presentation of other accrued liabilities.

**For the Year Ended December 31, 2004**

(f) To record the gross up of revenues and cost of revenues of $17.7 million for the liquidity that the Institutional Broker removed from INET and for the liquidity that the Institutional Broker provided to INET. These amounts were eliminated on the "Instinet Reported" column of Norway's Unaudited Pro Forma Condensed Combined Statement of Income, but for the purpose of these pro forma financial statements are considered third party transactions and therefore grossed up.

(g) To allocate fees paid to affiliates of $22.5 million to occupancy expense of $1.0 million and general and administrative expenses of $21.5 million.

(h) To reclassify interest income of $1.6 million and interest expense of $34 thousand from total revenues to conform to Nasdaq's presentation of interest income and interest expense.

**Note 7. Pro Forma Adjustments**

**For the Year Ended December 31, 2004**

Adjustments included in the column under the heading "Pro Forma Adjustments" on the Nasdaq Adjusted unaudited pro forma condensed combined statement of income relate to the following:

(a) To eliminate transactions between Nasdaq and Toll, which upon consummation of the Toll acquisition would be considered intercompany transactions.

| Increase/(decrease) | (in millions) |
|---|---|
| Nasdaq Market Services revenues | $ (2.5) |
| Cost of revenues | (5.4) |

The entries include:

- the elimination of Nasdaq's revenues of $4.6 million from Brut for accessing liquidity on the Nasdaq Market Center;
- the elimination of Nasdaq's revenues of $0.8 million from Brut for the use of Nasdaq's systems to access the Nasdaq Market Center;
- the elimination of Brut's cost of revenues for the above intercompany transactions of $5.4 million as Nasdaq no longer charges Brut for accessing liquidity and accessing the Nasdaq Market Center; and
- the decrease in UTP Plan revenue sharing of $2.9 million (net difference of UTP Plan revenue sharing and revenue the Boston Stock Exchange shared with Brut). Assumes Brut reported trades to the Nasdaq Market Center for year ended December 31, 2004 rather than reporting to the Boston Stock Exchange. Brut began reporting trades to the Nasdaq Market Center on September 1, 2004.

(b) To eliminate Nasdaq Market Center order delivery revenues of $2.2 million as Nasdaq no longer charges market participants for delivery of orders to Brut.

(c) To recognize decrease in cost of revenues ($1.3 million) relating to the renegotiation of a clearing contract with a SunGard affiliate.

(d) To eliminate amortization expense of $0.9 million related to the historical intangible assets recorded by Toll.

(e) To record:

- amortization expense of $3.2 million related to the estimated fair value of identifiable intangible assets, which are being amortized over their estimate average useful life of 10 years; and
- income tax benefit of $0.1 million based on the condensed combined statement of income pro forma adjustments noted above utilizing a 39.225% statutory tax rate.

**Exhibit 23.1**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 File Nos. 333-70992, 333-72852, 333-76064, 333-106945, and 333-110602 of The Nasdaq Stock Market, Inc., of our report dated March 10, 2005, except with respect to our opinion on the consolidated financial statements insofar as it relates to Notes 3 (a) and 20 (a), as to which the date is January 6, 2006, relating to the consolidated financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting of Instinet Group Incorporated, which appears in the Current Report on Form 8-K/A of The Nasdaq Stock Market, Inc. dated January 27, 2006.

/s/ PricewaterhouseCoopers LLP

New York, New York
January 27, 2006

**INSTINET GROUP INCORPORATED**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of
Instinet Group Incorporated:

We have completed an integrated audit of Instinet Group Incorporated's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Instinet Group Incorporated and its subsidiaries at December 31, 2004 and December 31, 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 8 to the consolidated financial statements, on January 1, 2002 the Company adopted the provisions of Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets."

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting (not appearing herein) appearing under Item 8 of Instinet Group Incorporated's Annual Report on Form 10-K for the year ended December 31, 2004, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

On March 31, 2005, the Company acquired Bridge Trading Company ("Bridge") in a transaction accounted for as a reorganization of entities under common control. The consolidated financial statements referred to above have been retrospectively adjusted to include Bridge as if the transaction had been consummated as of January 1, 2002. The controls of Bridge were not a part of the Company's internal control over financial reporting as of December 31, 2004. Accordingly, the controls of Bridge were not included in either management's assessment of internal control over financial reporting or our audit of the Company's internal control over financial reporting. Bridge is a wholly-owned subsidiary whose total assets and total revenues represent 5.6% and 8.6%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2004.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 10, 2005, except with respect to our opinion on the
consolidated financial statements insofar as it relates to
Notes 3(a) and 20(a), as to which the date is January 6, 2006

**Instinet Group Incorporated**
**Consolidated Statements of Operations**
(In thousands, except per share amounts)

| | Year ended December 31, | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| **Revenue** | | | |
| Transaction fees | $1,096,381 | $ 1,077,231 | $ 1,073,852 |
| Interest income | 18,151 | 24,039 | 39,799 |
| Interest expense | (3,514) | (7,716) | (19,806) |
| Interest income, net | 14,637 | 16,323 | 19,993 |
| **Total revenue, net** | 1,111,018 | 1,093,554 | 1,093,845 |
| **Cost of Revenue** | | | |
| Soft dollar | 168,693 | 171,679 | 194,998 |
| Broker - dealer rebates | 257,544 | 217,109 | 124,399 |
| Brokerage, clearing and exchange fees | 207,038 | 191,997 | 163,659 |
| **Total cost of revenue** | 633,275 | 580,785 | 483,056 |
| **Gross margin** | 477,743 | 512,769 | 610,789 |
| **Direct Expenses** | | | |
| Compensation and benefits | 209,876 | 218,507 | 278,453 |
| Communications and equipment | 72,187 | 109,039 | 127,851 |
| Depreciation and amortization | 58,293 | 90,229 | 79,994 |
| Occupancy | 37,069 | 55,230 | 55,929 |
| Professional fees | 29,319 | 27,680 | 24,011 |
| Marketing and business development | 12,752 | 14,829 | 16,025 |
| Other | 10,582 | 17,499 | 38,833 |
| **Total direct expenses** | 430,078 | 533,013 | 621,096 |
| Restructuring | — | 59,497 | 120,800 |
| Goodwill and intangible asset impairment | 24,783 | 21,539 | 509,454 |
| Contractual settlement | (7,250) | — | — |
| Investments | (19,712) | 9,080 | 59,019 |
| Insurance recovery | (5,116) | (10,481) | — |
| **Total expenses** | 1,056,058 | 1,193,433 | 1,793,425 |
| Income (loss) from continuing operations before income taxes, discontinued operations and cumulative effect of change in accounting principle | 54,960 | (99,879) | (699,580) |
| Income tax provision (benefit) | 14,540 | (26,351) | (30,421) |
| Income (loss) from continuing operations before discontinued operations and cumulative effect of change in accounting principle | 40,420 | (73,528) | (669,159) |
| Income (loss) from discontinued operations, net of tax | 12,787 | 13,273 | (36,397) |
| Income (loss) from continuing operations before cumulative effect of change in accounting principle | 53,207 | (60,255) | (705,556) |
| Cumulative effect of change in accounting principle, net of tax | — | — | 18,642 |
| **Net income (loss)** | $ 53,207 | ($ 60,255) | ($ 724,198) |
| **EARNINGS (LOSS) PER SHARE—BASIC AND DILUTED** | | | |
| Income (loss) from continuing operations—net of tax | $ 0.12 | ($ 0.22) | ($ 2.43) |
| Discontinued operations—net of tax | 0.04 | 0.04 | (0.13) |
| Income (loss) from continuing operations before cumulative effect of change in accounting principle | 0.16 | (0.18) | (2.56) |
| Cumulative effect of change in accounting principle, net of tax | — | — | 0.07 |
| **Net income (loss) per share** | $ 0.16 | ($ 0.18) | ($ 2.63) |
| Weighted average shares outstanding—basic | 336,562 | 334,611 | 275,294 |
| Weighted average shares outstanding—diluted | 339,019 | 334,611 | 275,294 |

The accompanying notes are an integral part of these consolidated financial statements.

**Instinet Group Incorporated**
**Consolidated Statements of Financial Condition**
(In thousands, except per share amounts)

| | December 31, | |
|---|---|---|
| | 2004 | 2003 |
| **ASSETS** | | |
| Cash and cash equivalents | $ 904,984 | $ 502,408 |
| Cash and securities segregated under federal regulations | — | 177,395 |
| Securities owned, at market value | 36,157 | 261,552 |
| Securities borrowed | 190,325 | 314,443 |
| Receivable from broker-dealers | 167,216 | 161,517 |
| Receivable from customers | 31,643 | 107,221 |
| Commissions and other receivables, net | 88,140 | 116,660 |
| Investments | 33,337 | 29,499 |
| Fixed asset and leasehold improvements, net | 79,784 | 118,929 |
| Deferred tax asset, net | 72,401 | 62,174 |
| Goodwill | 8,436 | 35,139 |
| Other intangible assets, net | 68,394 | 87,384 |
| Other assets | 105,728 | 119,395 |
| Assets of discontinued operations | 68,870 | 76,659 |
| Total assets | $1,855,415 | $2,170,375 |
| **LIABILITIES & STOCKHOLDERS' EQUITY** | | |
| LIABILITIES | | |
| Short-term borrowings | $ 5,283 | $ 21,372 |
| Securities loaned | 133,189 | 220,465 |
| Payable to broker-dealers | 173,627 | 141,821 |
| Payable to customers | 45,151 | 306,763 |
| Taxes payable | 85,797 | 64,005 |
| Accounts payable, accrued expenses and other liabilities | 233,028 | 311,028 |
| Liabilities of discontinued operations | 40,498 | 45,881 |
| Total liabilities | 716,573 | 1,111,335 |
| Commitments and contingencies (Note 14) | | |
| STOCKHOLDERS EQUITY | | |
| Common stock, $ 0.01 par value (950,000 shares authorized, 338,180 and 334,784 issued as of December 31, 2004 and 2003, respectively, and 338,180 and 334,743 outstanding as of December 31, 2004 and 2003, respectively) | 3,381 | 3,347 |
| Additional paid-in capital | 1,736,150 | 1,727,577 |
| Accumulated deficit | (659,596) | (712,803) |
| Treasury stock, at cost (41 shares as of December 31, 2003) | — | (78) |
| Accumulated other comprehensive income | 55,471 | 41,339 |
| Restricted stock units | 13,389 | — |
| Unearned compensation | (9,953) | (342) |
| Total stockholders' equity | 1,138,842 | 1,059,040 |
| Total liabilities and stockholders' equity | $1,855,415 | $2,170,375 |

The accompanying notes are an integral part of these consolidated financial statements.

**Instinet Group Incorporated**
**Consolidated Statements of Changes in Shareholder's Equity**
(In thousands, except per share amounts)

| | Year ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| **Common stock, par value $0.01 per share** | | | |
| Balance, beginning of year | $ 3,347 | $ 3,346 | $ 2,520 |
| Issued | 34 | 1 | 826 |
| Balance, end of year | 3,381 | 3,347 | 3,346 |
| **Additional paid-in capital** | | | |
| Balance, beginning of year | 1,727,577 | 1,727,219 | 1,465,208 |
| Issuance of common stock for acquisition | — | — | 495,878 |
| Conversion and grant of stock options | — | — | 21,603 |
| Stock options exercised | 6,998 | 240 | 1,372 |
| Tax benefit of options exercised | 1,575 | 118 | 69 |
| Stock options forfeited | — | — | (5,616) |
| Income tax effect of final adjustment to transaction among stockholders | — | — | (2,556) |
| Dividends paid | — | — | (248,739) |
| Balance, end of year | 1,736,150 | 1,727,577 | 1,727,219 |
| **Retained earnings (accumulated deficit)** | | | |
| Balance, beginning of year | (712,803) | (652,548) | 71,650 |
| Net income (loss) | 53,207 | (60,255) | (724,198) |
| Balance, end of year | (659,596) | (712,803) | (652,548) |
| **Treasury stock** | | | |
| Balance, beginning of year | (78) | (1,270) | — |
| Purchase | — | (75) | (1,532) |
| Reissued | 78 | 1,267 | 262 |
| Balance, end of year | — | (78) | (1,270) |
| **Accumulated other comprehensive income (loss)** | | | |
| Balance, beginning of year | 41,339 | 23,235 | (726) |
| Currency translation adjustment | 14,132 | 18,104 | 23,961 |
| Balance, end of year | 55,471 | 41,339 | 23,235 |
| **Restricted stock** | | | |
| Balance, beginning of year | — | — | — |
| Issued | 13,389 | — | — |
| Balance, end of year | 13,389 | — | — |
| **Unearned compensation** | | | |
| Balance, beginning of year | (342) | (1,744) | (9,915) |
| Conversion and grant of stock options | — | — | (1,462) |
| Stock options forfeited | — | — | 5,616 |
| Restricted stock granted | (13,389) | — | — |
| Amortization of stock based plans | 3,778 | 1,402 | 4,017 |
| Balance, end of year | (9,953) | (342) | (1,744) |
| **Total stockholders' equity** | $1,138,842 | $1,059,040 | $1,098,238 |

The accompanying notes are an integral part of these consolidated financial statements.

**Instinet Group Incorporated**
**Consolidated Statements of Cash Flows**
(In thousands, except per share amounts)

| | Year ended December 31, 2004 | 2003 | 2002 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income/(loss) | $ 53,207 | $ (60,255) | $(724,198) |
| (Income)/loss from discontinued operations, net of tax | (12,787) | (13,273) | 36,397 |
| Cumulative effect of change in accounting principle, net of tax | — | — | 18,642 |
| Net income from continuing operations | 40,420 | (73,528) | (669,159) |
| Adjustments to reconcile net income from continuing operations to cash used in operating activities from continuing operations: | | | |
| Unrealized (loss) gain on investments | (11,514) | 7,777 | 54,063 |
| Insurance recoveries | — | (10,481) | — |
| Intangible asset and goodwill impairment write-down | 24,783 | 21,668 | 528,521 |
| Cumulative effect of change in accounting principle, net of tax | — | — | (18,642) |
| Depreciation and amortization | 63,520 | 98,659 | 101,862 |
| Deferred tax assets, net | (9,014) | (21,126) | (25,119) |
| Stock based compensation | 5,431 | 2,594 | 4,086 |
| Changes in operating assets and liabilities: | — | — | — |
| Cash and securities segregated under federal regulation | 177,395 | 74,380 | 58,917 |
| Securities borrowed, net of securities loaned | 36,842 | 61,246 | 43,698 |
| Net receivable/payable from/to broker-dealers | 26,107 | 25,353 | 8,132 |
| Net receivable/payable from/to customers | (186,034) | (22,349) | (99,211) |
| Receivables and other assets | 46,940 | (60,563) | 84,481 |
| Payables and other liabilities | (56,919) | 18,632 | (77,506) |
| Cash provided by operating activities - discontinued operations | 4,860 | 15,846 | (23,124) |
| Net cash provided by (used in) operating activities | 162,817 | 138,108 | (29,001) |
| **Cash flows from investing activities** | | | |
| Securities sold and matured, net of securities purchased | 225,395 | 75,489 | (114,666) |
| Proceeds from insurance recovery | — | 10,481 | — |
| Purchase of fixed assets and leasehold improvements | (5,387) | (15,041) | (44,084) |
| Sale (purchase) of investments | 7,676 | 4,561 | (4,000) |
| Acquisitions of businesses, net of assets acquired and liabilities assumed | — | 316 | 25,952 |
| Cash provided by investing activities - discontinued operations | 7,000 | 5,500 | 8,000 |
| Net cash provided by (used in) investing activities | 234,684 | 81,306 | (128,798) |
| **Cash flows from financing activities** | | | |
| Short-term borrowings, net | (16,089) | (5,907) | (42,020) |
| Dividends paid to parent | — | — | (248,739) |
| Issuance of common stock | 7,032 | 359 | 1,387 |
| Purchase of treasury stock | — | (75) | (1,532) |
| Net cash used in financing activities | (9,057) | (5,623) | (290,904) |
| Effect of exchange rate differences | 14,132 | 18,104 | 23,961 |
| Increase (decrease) in cash and cash equivalents | 402,576 | 231,895 | (424,742) |
| Cash and cash equivalents, beginning of period | 502,408 | 270,513 | 695,255 |
| Cash and cash equivalents, end of period | $ 904,984 | $ 502,408 | $ 270,513 |
| **Supplemental disclosures of cash flow information:** | | | |
| Cash paid for interest | 3,090 | 9,312 | 12,715 |
| Cash paid (refunded) for taxes | 6,145 | (50,370) | 19,055 |
| **Non-cash activities:** | | | |
| Value of common stock issued for business combinations | | | 512,967 |

The accompanying notes are an integral part of these consolidated financial statements.

**Note 1. Organization and Description of Business**

Instinet Group Incorporated (the "Company" or "Instinet Group") is a Delaware holding company which, through its operating subsidiaries, provides agency and other brokerage services to broker-dealers, institutional customers, hedge funds and professional traders. The Company is approximately 62% owned by a subsidiary of Reuters Group PLC ("Reuters" or "Parent").

In the first quarter of 2004, we completed a business restructuring plan to establish two distinct business lines:

- Instinet, the Institutional Broker, which services our non-broker-dealer institutional customers
- INET (formerly known as The Island ECN, Inc.), our alternative trading system and ECN that combines the U.S broker-dealer order flow of the Instinet ECN and The Island ECN and services our U.S. broker-dealer customers.

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

***Basis of Presentation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant transactions and balances between and among the Company and its subsidiaries have been eliminated in consolidation.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

***Concentrations of Credit, Market and Other Risks***

The Company is exposed to substantial credit risk from both parties to a securities transaction during the period between the transaction date and the settlement date. This period is generally three business days in the U.S. equities markets and can be as much as 30 days in some international markets. In addition, the Company may have credit exposure that extends beyond the settlement date in the case of a party that does not settle in a timely manner by failing either to make payment or to deliver securities. We hold the securities that are the subject of the transaction as collateral for our customer receivables. Adverse movements in the prices of these securities can increase our credit risk. The majority of the Company's transactions and, consequently, the concentration of its credit exposure are with broker-dealers and other financial institutions, primarily located in the United States and the United Kingdom. The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit limits and enforcing credit standards based upon a review of the counterparties' financial condition and credit ratings. The Company monitors trading activity and collateral levels on a daily basis for compliance with regulatory and internal guidelines and obtains additional collateral, if appropriate. For the years ended December 31, 2004, 2003 and 2002, losses from transactions in which a party refused or was unable to settle were immaterial.

The Company uses securities borrowed and loaned transactions to facilitate the settlement process to meet its customers' needs. Under these transactions, the Company either receives or provides collateral, generally cash or securities. In the event the counterparty is unable to meet its contractual obligations to return the pledged collateral, the Company may be exposed to the market risk of acquiring the collateral at prevailing market prices.

The Company is subject to operational, technological and settlement risks. These include the risk of potential financial loss attributable to operational factors such as untimely or inaccurate trade execution, clearance or settlement or the inability to process large volumes or transactions. The Company is also subject to risk of loss attributable to technological limitations or computer failures that may constrain the Company's ability to gather, process and communicate information efficiently, securely and without interruption.

***Transaction Fees***

Transaction fees and related expenses arising from securities brokerage transactions are recorded on a trade date basis.

(In thousands, except per share amounts)

***Property and Equipment***

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is computed primarily using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Leasehold improvements | life of lease |
| Furniture and office equipment | 3-10 years |
| Capitalized software costs | 3 years |
| Computer equipment | 3-5 years |

***Accounting for Goodwill and Other Intangible Assets***

Statement of Financial Accounting Standard (SFAS) No. 142 *Goodwill and Other Intangible Assets* requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques and that management perform a detailed review of the carrying value of the Company's tangible and intangible assets. In this process, management is required to make estimates and assumptions in order to determine the fair value of the Company's assets and liabilities and projected future earnings using various valuation techniques. Management uses its best judgment and information available to it at the time to perform this review, as well as the services of an expert valuation specialist when required. Because management's assumptions and estimates are used in the valuation, actual results may differ.

In 2004, the Company's impairment testing indicated impairment in the value of goodwill recorded as a result of the acquisition of Bridge Trading Company (Bridge). In accordance with SFAS No. 142, based on the results of management's analysis, the Company determined that goodwill had been impaired and as a result, the Company recorded a pre-tax charge of $24.8 million. In 2003, the Company's annual impairment testing indicated impairment in the value of technology assets capitalized at the time of the Island acquisition. Based on the results of management's analysis, the Company determined that intangible assets had been impaired and as a result, the Company recorded a pre-tax charge of $21.7 million. In 2002, based on the results of management's assessment and a valuation analysis prepared by an independent specialist, the Company determined that the all goodwill not related to the Bridge transaction had been completely impaired and as a result, the Company recorded a pre-tax goodwill impairment charge of $509.5 million, the remaining carrying value of the goodwill.

***Acquisitions***

With the exception of Bridge, all business acquisitions have been accounted for under the purchase method and, accordingly, the excess of the purchase price over the fair value of the net assets acquired has been recorded as goodwill on the Consolidated Statements of Financial Condition. The carrying value of goodwill is reviewed on a periodic basis for impairment based upon estimated fair value of the Company's reporting units. The Company estimates fair value by using a discounted cash flow model or by using the services of an external valuation specialist. Should the review indicate that goodwill is impaired, the Company's carrying value of goodwill would be reduced by the estimated shortfall of the discounted cash flows.

As disclosed in Note 3, the Company acquired Bridge from Reuters on March 31, 2005. The acquisition of Bridge was not treated as a business combination since Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* specifically excludes transfers of net assets or exchanges of shares between entities under common control. As such, in accordance with SFAS No. 141, the transferred assets and liabilities of Bridge have been recognized at historical cost, and the character of the transaction is reported as a change in reporting entity similar to a pooling-of-interests.

***Software Costs***

Costs for internal use software, whether developed or obtained, are assessed to determine whether they should be capitalized or expensed in accordance with American Institute of Certified Public Accountants' Statement SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Capitalized software costs, which are reflected as fixed assets on the Consolidated Statements of Financial Condition, were $4,642 as of December 31, 2003. Amortization expense was $3,455 and $3,373 for the years ended December 31, 2003 and 2002, respectively. The Company wrote off substantially all of its capitalized software costs during the year ended December 31, 2004 (see Note 7).

(In thousands, except per share amounts)

***Income Taxes***

The Company files a consolidated income tax return in the U.S. and combined U.S. state and local income tax returns, where applicable. The Company records deferred tax assets and liabilities for the difference between the tax basis of assets and liabilities and the amounts recorded for financial reporting purposes, using current tax rates. Deferred tax expenses and benefits are recognized in the Consolidated Statements of Operations for changes in deferred tax assets and liabilities.

***Earnings (Loss) Per Share***

Basic earnings (loss) per share (EPS) is calculated by dividing net earnings by the weighted average number of common shares outstanding. Common shares outstanding include common stock for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of the common stock deliverable pursuant to stock options and to restricted stock for which future service is required as a condition to the delivery of the underlying common stock. The dilutive effect is included in the calculation of weighted average shares for the year ended that the Company has net income. Accordingly, in years that reflect a net loss the diluted EPS computation does not include the anti-dilutive effect of these options.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Numerator for basic and diluted EPS earnings available to common shareholders | $ 53,207 | $ (60,255) | $(724,198) |
| Denominator for basic EPS — weighted average number of common shares | 336,562 | 334,611 | 275,294 |
| Stock options | 2,457 | — | — |
| Denominator for diluted EPS — weighted average number of common shares and dilutive potential common shares | 339,019 | 334,611 | 275,294 |
| Basic EPS | $ 0.16 | $ (0.18) | $ (2.63) |
| Diluted EPS | 0.16 | (0.18) | (2.63) |

For the years ended December 31, 2003 and 2002, EPS computations do not include the anti-dilutive effect of stock options of 1,355 and 593 shares.

***Soft Dollar and Commission Recapture***

Soft dollar and commission recapture expenses primarily relate to the purchase of third party research products for customers as well as payments made as part of the Company’s commission recapture services. The Company reports its transaction fee revenue from these businesses separately from its soft dollar and commission recapture expenses.

***Broker-Dealer Rebates***

Broker-dealer rebates expense consists of execution fees paid to subscriber customers that initiate a buy or sell limit order transaction. The customers are paid on a per share basis on orders that have been matched. Rebates are recorded on a trade date basis.

***Investments***

Investments with no ready market are stated at estimated fair value as determined in good faith by management. Generally, management will initially value investments at cost and require that changes in value be established by meaningful third-party transactions or a significant impairment in the financial condition or operating performance of the issuer, unless meaningful developments occur that otherwise warrant a change in the valuation of an investment. Factors considered in valuing individual investments include, without limitation, available market prices, type of security, purchase price, purchases of the same or similar securities by other investors, marketability, restrictions on disposition, current financial position, operating results and other pertinent information.

Management uses its best judgment in estimating the fair value of these investments. There are inherent limitations in any estimation technique. The fair value estimates presented herein are not necessarily indicative of an amount that the Company could realize in a current transaction. Because of the inherent uncertainty of valuation, these estimated fair values do not necessarily represent amounts that might be ultimately realized, since such amounts depend on future circumstances and the differences could be material.

(In thousands, except per share amounts)

Realized and unrealized gains and losses from investments are included in investments on the Consolidated Statements of Operations.

***Stock-Based Compensation***

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004) (SFAS 123R), *Share-Based Payment*, that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and generally would require that such transactions be accounted for using a fair-value-based method. The Company is currently evaluating SFAS No. 123R to determine which fair-value-based model and transitional provision it will follow upon adoption. The options for transition methods as prescribed in SFAS No. 123R include either the modified prospective or the modified retrospective methods. The modified prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock as the requisite service is rendered beginning with the first quarter of adoption, while the modified retrospective method would record compensation expense for stock options and restricted stock beginning with the first period restated. Under the modified retrospective method, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. SFAS No. 123R will be effective for the Company beginning in its third quarter of 2005. Although the Company will continue to evaluate the application of SFAS No. 123R, adoption is expected to have a material impact on its results of operations.

The Company currently measures compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by APB Opinion No. 25. The Company applies the disclosure provisions of SFAS No. 123, *Accounting for Stock-based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-based Compensation – Transition and Disclosure,* as if the fair-value-based method had been applied in measuring compensation expense. Under APB Opinion No. 25, when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

As required under SFAS No. 123, the pro forma effects of stock-based compensation on net income (loss) and earnings per common share for employee stock options granted and employee stock purchase plan share purchases have been estimated at the date of grant and beginning of the period, respectively, using a Black-Scholes option pricing model. For purposes of pro forma disclosures, the estimated fair value of the options and shares is amortized to pro forma net income (loss) over the options' vesting period and the shares' plan period.

The Company's pro forma information for the years ended December 31, 2004, 2003 and 2002 is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Net income (loss), as reported | $ 53,207 | $ (60,255) | $(724,198) |
| Add: Stock based employee compensation expense included in net income (loss), net of related tax benefit | 2,417 | 1,660 | 2,723 |
| Deduct: Stock based employee compensation expense determined under fair value based methods for all awards, net of related tax benefit | (17,032) | (26,759) | (36,361) |
| Pro forma net income (loss) | $ 38,592 | $ (85,354) | $(757,836) |
| Weighted average shares outstanding — basic | 336,562 | 334,611 | 275,294 |
| Weighted average shares outstanding — diluted | 339,019 | 334,611 | 275,294 |
| Earnings (loss) per share, as reported — basic & diluted | $ 0.16 | $ (0.18) | $ (2.63) |
| Pro forma net income (loss) per share — basic & diluted | $ 0.11 | $ (0.26) | $ (2.75) |

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

***Securities Borrowed and Loaned***

Securities borrowed and loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed require the Company to deposit cash with the lender. For securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the market value of the securities loaned. The Company monitors the market value of the securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary.

***Receivable From and Payable to Broker-Dealers***

Receivable from broker-dealers is primarily comprised of fails to deliver with broker-dealers. Fails to deliver arise when the Company does not deliver securities on settlement date. The Company records the selling price as a receivable due from the purchasing broker-dealer. The receivable is collected upon delivery of the securities. Payable to broker-dealers is primarily comprised of fails to receive. Fails to receive arise when the Company does not receive securities on settlement date. The Company records the amount of the purchase price as a payable due to the selling broker-dealer. The liability is paid upon receipt of the securities.

***Receivable From and Payable to Customers***

Receivable from customers is primarily comprised of institutional debit balances and payable to customers primarily represents free credit balances in customer accounts.

***Commissions and Other Receivables, Net***

Commissions and other receivables are reported net of an allowance for doubtful accounts of $18,846 and $21,952 as of December 31, 2004 and December 31, 2003, respectively. The allowance for doubtful accounts is based on our assessment of the collectibility of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, age of the accounts receivable balances and current economic conditions that may affect a customer’s ability to pay.

As of December 31, 2004 and 2003, included in commissions and other receivables is $15,348 and $23,566, respectively, from Archipelago Holdings, LLC, and REDIBook ECN, LLC of which $9,208 is in arbitration. The Company has commenced arbitration proceedings before the NASD and has established a reserve against the disputed amount based upon a review of the facts and circumstances surrounding the dispute.

***Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase***

Transactions involving purchases of securities under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are recorded at their contracted resale amounts plus accrued interest. It is the Company’s policy to take possession of securities with a market value in excess of the principal amount loaned plus the accrued interest thereon, in order to collateralize reverse repurchase agreements. Similarly, the Company is required to provide securities to counterparties in order to collateralize repurchase agreements. The Company’s agreements with counterparties generally contain contractual provisions allowing for additional collateral to be obtained, or excess collateral returned, when necessary. It is the Company’s policy to value collateral daily and to obtain additional collateral, or to retrieve excess collateral from counterparties, when deemed appropriate.

***Foreign Currency Translation***

Assets and liabilities of subsidiaries whose functional currency is not the U.S. dollar are translated based on the end of period exchange rates from local currency to U.S. dollars. Results of operations are translated at the average exchange rates in effect during the period. The resulting gains or losses are reported as comprehensive income (loss) on the Consolidated Statements of Financial Condition.

***Derivatives***

The Company may enter into forward foreign currency contracts to facilitate customers' settling transactions in various currencies, primarily the U.S. dollar, British pound or euro. These forward foreign currency contracts are entered into with third parties and with terms generally identical to the Company's customers' transactions, thereby mitigating exposure to currency risk. Forward foreign currency contracts generally do not extend beyond 14 days and realized and unrealized gains and losses resulting from these transactions are recognized in the Consolidated Statements of Operations in the period they are incurred. These activities have not resulted in a material impact to the Company's operations to date.

***Treasury Stock***

The Company's purchases of shares of its own common stock are recorded as treasury stock under the cost method and are shown as a reduction to stockholders' equity on the Consolidated Statements of Financial Condition.

***Restructuring***

The Company has accounted for its cost reduction initiatives and resulting restructuring charges in accordance with EITF 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*, SFAS No. 112, *Employer's Accounting for Post Employment Benefits* and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 146, which the Company adopted on January 1, 2003, eliminates the future use of EITF 94-3 for restructuring initiatives. The adoption of SFAS No. 146 has not had a material effect on the Company's financial condition, results of operations or cash flows.

***Restatements and Reclassifications***

During the fourth quarter of 2004, the Company began classifying transaction related regulatory fees as an expense in brokerage, clearing and exchange fees. These fees had previously been recorded as a reduction of transaction fees and shown on a net basis. For the years ended December 31, 2004, 2003 and 2002, these regulatory fees totaled $53,059, $61,259 and $26,707, respectively, and have been reclassified in the Company's consolidated financial statements.

All historical information has been restated to include Bridge Trading Company (Bridge) (see Note 3) as if Bridge had been a wholly-owned subsidiary of the Company since it was acquired by Reuters in September 2001. Bridge is included in the results of the Instinet business segment.

The Company's consolidated financial statements have been restated to present Lynch, Jones & Ryan, Inc. ("LJR") as a discontinued operation (see note 20).

Certain other reclassifications of prior year amounts have been made for consistent presentation with the current year.

**Note 3. Acquisitions**

**a) Bridge**

On March 31, 2005, the Company acquired Bridge, an agency execution broker, from Reuters for 3,752 shares of the Company's common stock, valued at approximately $21,500. The Company's financial statements and the accompanying notes reflect the results of operations as if Bridge had been a wholly-owned subsidiary of the Company since it was acquired by Reuters in September 2001. This acquisition was accounted for as a transfer of entities under common control.

(In thousands, except per share amounts)

A summary of the results of operations and stockholders' equity of the previously separate companies for the period before the combination was consummated that are included in the current combined net income and stockholders' equity is as follows:

| | Instinet Group Year ended December 31, | | | Bridge Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Total Revenue, net | $1,186,754 | $1,156,401 | $1,125,180 | $95,110 | $106,930 | $138,967 |
| Net Income (Loss) | $ 53,652 | $ (73,808) | $ (735,230) | $ (445) | $ (13,553) | $ (11,032) |

**b) Harborview**

On January 7, 2003, pursuant to an existing option purchase agreement, the Company purchased Harborview, LLC (Harborview), a NYSE floor brokerage firm, for $594.

**c) Island**

On September 20, 2002, the Company acquired 100% of the outstanding common stock of Island Holding Company, Inc., the parent company of The Island ECN, Inc. (collectively, "Island"). Island's results of operations, since that date, have been included in the Company's consolidated financial statements. The aggregate purchase price was $555,349, consisting of $492,826 representing approximately 80,659 shares of the Company's common stock, $20,141 representing additional common shares for the conversion of options, warrants and stock appreciation rights, deferred tax liability of $32,560 relating to intangible assets and $9,822 representing direct costs of the acquisition. The value of the common shares issued was determined based on the average closing market price of the Company's common shares over the 2-day period before and after June 10, 2002, the date the terms of the acquisition were agreed to and announced.

In connection with the acquisition of Island, the Company paid a $1.00 per common share cash dividend to its stockholders of record as of September 19, 2002, which represented a distribution of $248,739, of which $206,900 was distributed to the Company's Parent. The Company paid this dividend on October 3, 2002.

The following unaudited supplemental pro forma information has been prepared to give effect to the acquisition of Island as of the beginning of the year in which the acquisition occurred. Pro forma consolidated results for the Company's acquisition of Harborview would not have been materially different from the reported amounts.

| | Year Ended December 31, 2002 |
|---|---|
| Pro forma revenue | $ 1,153,839 |
| Pro forma loss | (719,230) |

**Note 4. Cost Reductions and Special Charges**

The Company has initiated several cost reduction programs, which have resulted in restructuring charges.

In March 2002, the Company announced that it would reduce its annualized fixed operating costs in order to offset the impact of reduced revenues due to its price reductions to U.S. broker-dealer customers. This restructuring included reducing staff levels and related occupancy costs, improving system and network efficiencies and restructuring non-core businesses. During the year ended December 31, 2002, the Company incurred a charge of $58,395. This restructuring was substantially completed in the three months ended March 31, 2004.

In December 2002, the Company announced that it had commenced a cost-reduction plan to reduce operating costs in order to achieve cost synergies in connection with its acquisition of Island. This restructuring included reducing staff levels and related occupancy costs. During the year ended December 31, 2002, the Company incurred a charge of $62,405. As of December 31, 2004, the Company carried a liability of $13,015 associated with this restructuring on its Consolidated Statements of Financial Condition, which is reflected as follows:

| | December 31, 2003 | Payments | December 31, 2004 |
|---|---|---|---|
| Workforce reductions | $ 1,008 | $ (272) | $ 736 |
| Office closures/consolidations | 19,481 | (7,202) | 12,279 |
| **Total** | $ 20,489 | $ (7,474) | $ 13,015 |

(In thousands, except per share amounts)

The Company expects to pay approximately $2,000 to $4,000 of the total remaining liability by December 31, 2005.

In December 2003, the Company announced a cost restructuring plan and recorded a charge of $59,497 related to the reduction of workforce by approximately 185 employees and the consolidation of the Company's office space. This cost-reduction is primarily due to the strategic decisions related to the separation of Instinet and INET, formerly the Island ECN, Inc., and the Company's ongoing efforts to streamline its operations. As of December 31, 2004, the Company carried a liability of $14,591 associated with this restructuring on its Consolidated Statements of Financial Condition, which is reflected as follows:

| | December 31, 2003 | Payments | December 31, 2004 |
|---|---|---|---|
| Workforce reductions | $ 7,378 | $ (5,971) | $ 1,407 |
| Office closures/consolidations | 41,024 | (27,840) | 13,184 |
| **Total** | $ 48,402 | $ (33,811) | $ 14,591 |

The Company expects to pay approximately $2,000 to $4,000 of the total remaining liability by December 31, 2005.

**Note 5. Securities Owned, at Market Value**

Securities owned are recorded on a trade date basis and are carried at their market value with unrealized gains and losses reported in investments on the Consolidated Statements of Operations. Securities owned, with the exception of shares in stock exchanges, have maturities of less than 3 years and consist of the following:

| | December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Municipal bonds | $10,941 | $150,866 |
| Foreign sovereign obligations | 25,216 | 50,018 |
| Corporate bonds | — | 28,228 |
| Shares of stock exchanges | — | 32,440 |
| Total | $36,157 | $261,552 |

**Note 6. Investments**

The Company makes strategic alliances with and long-term investments in other companies. The changes in the carrying values at the end of each period result from additional investments, sales and unrealized and realized gains and losses, as well as fluctuations in exchange rates for investments made in non-U.S. dollars. The Company's Consolidated Statements of Financial Condition include the following investments:

- Archipelago Holdings, LLC (Archipelago) — In 1999, the Company made an investment of $24,844 in Archipelago and in March 2002, Archipelago merged with REDIBook ECN, LLC. In August 2004, Archipelago completed its initial public offering and the Company's shares in Archipelago were converted to shares in Archipelago Holdings, Inc. In that offering, the Company sold 617 shares for net proceeds of $7,676 and recorded a loss on the sale of approximately $440. As of December 31, 2004, the Company owned 1,137 shares of Archipelago Holdings, Inc., representing a 2.4% interest, which is carried at market value. The Company recorded a gain of $11,954 during the year ended December 31, 2004 based on the publicly quoted price of Archipelago Holdings, Inc. as of December 31, 2004.

(In thousands, except per share amounts)

- The NASDAQ Stock Market, Inc. (NASDAQ) — In 2000, the Company made an investment of $15,475 in NASDAQ, and acquired additional investments totaling $2,817 with the acquisitions of ProTrader Securities LP and Island. As of December 31, 2004, the Company's investment in NASDAQ represented a 1.7% interest.
- Starmine Corporation (Starmine) — In February 2002, the Company made an investment of $2,000 in Starmine. Starmine provides independent ratings of Wall Street equity analysts. As of December 31, 2004, the Company's investment represented an 11.5% interest in Starmine.

The carrying value of the Company's investments consists of the following:

| | December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Archipelago Holdings, Inc. | $23,838 | $20,000 |
| The NASDAQ Stock Market, Inc | 7,499 | 7,499 |
| Starmine Corporation | 2,000 | 2,000 |
| Total | $33,337 | $29,499 |

**Note 7. Fixed Assets and Leasehold Improvements, Net**

Fixed assets and leasehold improvements, net consist of the following:

| | December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Leasehold improvements | $ 116,500 | $ 150,042 |
| Office equipment | 56,711 | 119,196 |
| Computer equipment | 91,066 | 173,197 |
| Software costs | 2,532 | 26,996 |
| | 266,809 | 469,431 |
| Accumulated depreciation | (187,025) | (350,502) |
| Total | $ 79,784 | $ 118,929 |

The Company wrote-off net book value of $8,413 and $8,430 of fixed assets during the years ended December 31, 2004 and 2003, respectively.

**Note 8. Intangible Assets, Net**

***Intangible Assets***

Information regarding the Company's identifiable intangible assets is as follows:

| | | December 31, 2004 | | | December 31, 2003 | | |
|---|---|---|---|---|---|---|---|
| | Estimated Life (Years) | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| Technology | 7.0 | $102,916 | $ (46,294) | $56,622 | $102,916 | $ (32,260) | $70,656 |
| Customer relationships | 4.3 | 24,778 | (13,006) | 11,772 | 24,778 | (8,050) | 16,728 |
| **Total** | | $127,694 | $ (59,300) | $68,394 | $127,694 | $ (40,310) | $87,384 |

Intangible assets arose in connection with the Company's acquisitions of ProTrader in October 2001, Island in September 2002, and Bridge in March 2005 (see Note 3). The intangible assets are amortized on a straight-line basis over their respective estimated useful lives.

(In thousands, except per share amounts)

During the fourth quarter of 2003, the Company wrote off a net book value of $21,668 for the impairment of intangible assets. The write off consisted of $20,148 in technology and $1,520 in trade name assets. The impairment charge was based on the application of annual impairment tests prescribed by current accounting standards.

Amortization expense was $18,990, $25,900 and $16,088 for the years ended December 31, 2004, 2003 and 2002, respectively. Estimated amortization expense for each of the next 5 years is as follows:

| | |
|---|---|
| Year ending December 31, 2005 | $18,990 |
| Year ending December 31, 2006 | $18,525 |
| Year ending December 31, 2007 | $16,359 |
| Year ending December 31, 2008 | $11,524 |
| Year ending December 31, 2009 | $ 2,996 |

***Goodwill***

In connection with the acquisition of Bridge (see Note 3), goodwill previously held at Reuters was transferred to the Company. During the fourth quarter of 2004, impairment tests showed the book value of Bridge exceeded its fair market value. In accordance with SFAS No. 142 *Goodwill and Other Intangible Assets*, the Company determined a portion of the goodwill had been permanently impaired and, as a result, recorded a pre-tax goodwill impairment loss of $24,783.

During the third quarter of 2002, annual impairment tests showed the Company's book value exceeded its fair market value. In accordance with SFAS No. 142 *Goodwill and Other Intangible Assets*, based on the results of a valuation analysis prepared by an independent specialist, the Company determined that existing goodwill (not including Bridge) had been completely impaired and as a result recorded a pre-tax goodwill impairment loss of $509,454, the remaining carrying value of our non-Bridge goodwill.

The following table sets forth the changes in the carrying amount of goodwill:

| | December 31, | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| Balance, beginning of period | 35,139 | 37,059 | 141,529 |
| Goodwill acquired during the period | — | — | 425,971 |
| Amortization | (1,920) | (1,920) | (1,920) |
| Goodwill impairment | (24,783) | — | (528,521) |
| Balance, end of period | 8,436 | 35,139 | 37,059 |

During the first quarter of 2002, the Company identified indicators of possible impairment of its recorded goodwill related to its ProTrader and Montag Pöpper & Partner GmbH (Montag) acquisitions. For ProTrader, such indicators were an overall decrease in customer transaction volumes, which primarily led to operating losses. As a result, the Company closed several trading offices and restructured its operations. Based on the results of a discounted cash flow analysis, the Company calculated a level of goodwill impairment of $15,750, which was represented by the shortfall of the discounted cash flows versus the carrying amount of goodwill.

In May 2002, the Company closed its fixed income trading platform. Due to a global economic slowdown and the uneven pace of acceptance of electronic fixed income trading platforms, the business had been unable to reach a critical mass. Therefore, the Company's goodwill related to its acquisition of Montag, a fixed income broker-dealer, was impaired and the Company recorded an impairment loss of $3,296, the remaining carrying value of its goodwill.

The Company recorded goodwill impairment, net of taxes, of $18,642 or $0.07 a share, for the year ended December 31, 2002 as a change in accounting principle.

Statement of Financial Accounting Standard (SFAS) No. 109, *Accounting for Income Taxes*, requires the excess of tax-deductible goodwill over the reported amount of goodwill be applied to reduce to zero the goodwill related to an acquisition.

(In thousands, except per share amounts)

**Note 9. Short-Term Borrowings**

Short-term borrowings represent amounts borrowed on uncommitted bank lines of credit, which provide for borrowings for operational and general corporate purposes which generally bear interest rates that approximate the Federal Funds rate in the U.S. and euro or pound sterling LIBOR rates in Europe. The following is a summary of short-term borrowing information:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Average amount outstanding during each period: | | | |
| U.S. dollar denominated | $ 239 | $ 1,065 | $ 2,259 |
| Non-U.S. dollar denominated | 3,340 | 9,615 | 37,700 |
| Total | $ 3,579 | $ 10,680 | $ 39,959 |
| Maximum amount outstanding during each period: | | | |
| U.S. dollar denominated | $56,000 | $ 47,512 | $ 40,002 |
| Non-U.S. dollar denominated | 12,298 | 55,297 | 134,362 |
| Total | $68,298 | $102,809 | $174,364 |

Weighted average interest rates for U.S. dollar and non-U.S. dollar denominated obligations are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| U.S. Dollar Denominated: | | | |
| Weighted average interest rate during each period | 2.27% | 2.03% | 2.66% |
| Weighted average interest rate at each period end | 2.27% | 2.03% | 2.50% |
| Non-U.S. Dollar Denominated: | | | |
| Weighted average interest rate during each period | 1.04% | 2.93% | 3.64% |
| Weighted average interest rate at each period end | 0.97% | 3.42% | 4.29% |

**Note 10. Accounts Payable, Accrued Expenses and Other Liabilities**

Accounts payable, accrued expenses and other liabilities consist of the following:

| | December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Accounts payable and accrued expenses | $141,386 | $185,080 |
| Accrued restructuring | 28,312 | 73,342 |
| Accrued compensation | 62,827 | 46,624 |
| Payable to Reuters | 503 | 5,982 |
| Total | $233,028 | $311,028 |

**Note 11. Comprehensive Income (Loss)**

Comprehensive income (loss) includes net income (loss) and changes in stockholders' equity except those resulting from investments by, or distributions to stockholders. Comprehensive income (loss) is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Net income (loss) | $53,207 | $(60,255) | $(724,198) |
| Changes in other comprehensive income (loss) Foreign currency translation adjustment | 14,132 | 18,104 | 23,961 |
| Total comprehensive income (loss), net of tax | $67,339 | $(42,151) | $(700,237) |

(In thousands, except per share amounts)

**Note 12. Employee Benefit Plans**

***Employee Benefits Plan***

Employees of the Company are eligible to participate in the Instinet Group 401(k) plan (Instinet Group Plan), which was formed on January 1, 2003. Since 2003, the Company has matched a discretionary amount of employees, pre-tax contributions up to federal limits. To be eligible for a matching contribution, employees need to have been an active employee on December 31 with at least three months of service.

Effective January 1, 2003 the Company terminated its participation in the Reuters 401(k) plan replacing it with the Instinet Group Plan. Under the Reuters 401(k) plan the Company matched a specified percentage of eligible employee's salaries. Also during 2003, the Company terminated the Island 401(k) plan and transferred the Island employees to the Instinet Group Plan.

Outside the U.S. the Company participates in various Reuters pension plans. The majority of non-U.S. employees who joined the Company prior to April 1999 were eligible to participate in Reuters Pension Fund and most new employees were eligible to participate in the Reuters Retirement Plan. These plans allow for contributions up to limits imposed by local taxing authorities. Funding is provided by voluntary contributions from members of the plans and contributions from the Company.

The Company and Reuters also provide certain employees of the Company with post retirement benefits such as healthcare and life insurance. Eligible employees are those who retire from the Company at normal retirement age. In 2004, the Company modified its post retirement benefits and a majority of accrued costs related to the post retirement plans will be reversed over the next 4 years in accordance with U.S. generally accepted accounting principles. In 2002, Reuters modified its post retirement benefits and a majority of accrued costs related to the post retirement plans will be reversed over the next 17 years in accordance with U.S. generally accepted accounting principles.

Certain employees of the Company also participated in a long-term performance-based incentive compensation plan (Long Term Plan). Under the Long Term Plan, a portion of the operating earnings of the Company exceeding certain predetermined targets aggregated over a four-year period were distributed to participants. The Company terminated this Long Term Plan at the end of 2002.

The Company's expenses related to the employee benefit plans referred to above are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Pension plans | 3,052 | 3,272 | 9,517 |
| Post retirement benefits | — | — | 733 |
| Long term plan | — | — | 47 |

***Restricted Stock Units***

In 2002, the Company granted Restricted Stock Units (RSU) to certain members of senior management in lieu of cash for a portion of each member's calendar year 2001 bonus. The Company also granted RSU to the newly appointed Chief Executive Officer for a portion of the executive's 2002 bonus. In 2003, the Company granted RSU to a board member as director fees. The RSU are convertible into an equal number of shares of the Company's common stock and generally vest either 1 or 2 years from the date of grant. As of December 31, 2003, the Company had 41 RSU and are classified as Treasury Stock on the Consolidated Statements of Financial Condition.

During the year ended December 31, 2004, the Company issued 2,300 RSUs to employees under a performance share plan, the Instinet 2004 Performance Share Plan. All of the RSUs require future service and is based on certain performance criteria of the Company as a condition to the delivery of the underlying shares of common stock. These RSUs cliff vest over a 3 year period ending December 31, 2006 and the Company recorded an expense of $3,399 for the year ended December 31, 2004 related to these RSUs. As of December 31, 2004, 2,220 RSUs remain outstanding and are classified as Unearned Compensation and Restricted Stock Units on the Consolidated Statements of Financial Condition.

(In thousands, except per share amounts)

### *Stock Options*

### Instinet Plan

Substantially all employees and certain directors of the Company and certain employees of Radianz who were previously employees of the Company (see Note 17) participate in the Company's stock option plan (Instinet Option Plan), which was adopted in February 2000. Under the Instinet Option Plan, options on the Company's common shares are issued for terms of 7 years and generally vest over 4 years. Primarily all options granted in 2002 were 100% vested after 1 year. In 2003 and 2004, primarily all options granted vested 50% after 1 year and on a pro rata basis over the next 36 months. The options are exercisable at the estimated fair market value of the shares on the date the options were issued. The terms for options granted to employees and non-employees are the same. The Company has authorized the issuance of a maximum of 44,118 options under the Instinet Option Plan. Options expire on dates ranging from March 2003 to December 2011.

Under the terms of the merger agreement with Island (see Note 3), the Company converted and issued 2,942 options to holders of Island options as substitutions for Island options outstanding at September 20, 2002. These converted options are subject to the provisions of the Island Stock Option plan, which vest over 3 or 4 years, have terms of 5 to 10 years and carry exercise prices ranging from $0.91 to $9.23. As of December 31, 2004 and 2003, there were 416 and 953 Island options outstanding.

In October 2002, the Company approved an adjustment to the exercise prices of all outstanding options issued prior to September 19, 2002 to adjust for the dividend to the Company's stockholders, in accordance with FIN 44, *Accounting for Certain Transactions involving Stock Compensation an Interpretation of APB No. 25*. The exercise prices of these options were decreased by $0.98 per option. The $0.98 adjustment reflects the change in the price of Company's common stock between the close of business on Friday, September 20, 2002, the last date on which the common stock price included the dividend, and the open of business on Monday, September 23, 2002, the first date on which the common stock began trading without the right to the dividend.

The activity related to the Instinet Option Plan is as follows:

| | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) |
|---|---|---|---|
| Outstanding, December 31, 2001 | 21,104 | 16.03 | 6.1 |
| Granted | 11,585 | 5.07 | |
| Forfeited | (7,260) | 13.88 | |
| Exercised | (1,523) | 0.91 | |
| Outstanding, December 31, 2002 | 23,906 | 11.48 | 5.6 |
| Granted | 10,409 | 3.26 | |
| Forfeited | (6,171) | 12.01 | |
| Exercised | (112) | 2.15 | |
| Outstanding, December 31, 2003 | 28,032 | 8.34 | 5.3 |
| Granted | 5,542 | 6.08 | |
| Forfeited | (5,830) | 10.60 | |
| Exercised | (1,887) | 3.76 | |
| Outstanding, December 31, 2004 | 25,857 | 7.55 | 4.6 |
| Exercisable, December 31, 2002 | 8,304 | 15.40 | |
| Exercisable, December 31, 2003 | 12,512 | 10.18 | |
| Exercisable, December 31, 2004 | 15,993 | 8.84 | |

(In thousands, except per share amounts)

The options outstanding as of December 31, 2004 are as follows:

| Exercise Price | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) |
|---|---|---|---|
| $ 0.91 - $ 1.22 | 88 | 1.11 | 6.3 |
| $ 1.23 - $ 3.48 | 8,819 | 3.27 | 5.1 |
| $ 3.49 - $ 6.53 | 9,677 | 6.02 | 5.2 |
| $ 6.54 - $ 9.97 | 446 | 8.72 | 6.0 |
| $ 9.98 - $14.80 | 4,113 | 13.59 | 2.7 |
| $14.81 - $18.70 | 2,714 | 17.80 | 3.0 |
| Outstanding, December 31, 2004 | 25,857 | 7.55 | 4.6 |

The weighted average fair value of options granted during the year ended December 31, 2004, 2003 and 2002 was $3.44, $2.66 and $4.42 per option, respectively. The fair value of each option is estimated, as of its respective grant date, using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Risk-free interest rate | 3.66% | 3.75% | 4.38% |
| Expected volatility | 50.70% | 56.11% | 87.39% |
| Dividend yield | 0% | 0% | 0% |
| Expected life | 7 years | 7 years | 7 years |

**Reuters Plans**

Certain members of the Company participate in the following Reuters stock option plans (collectively, the “Reuters Plans”).

Save As You Earn Plan (“SAYE Plan”) — Reuters introduced a new SAYE Plan each year beginning in 1996 to 2001. SAYE Plan options were issued for terms of 3 or 5 year period and were exercisable at the market price of Reuters ADS or ordinary shares on the date of grant. The Company contributed 20% of the exchange price of the option to U.S.-based employees when exercised. For non-U.S.-based employees, options were issued with an exercise price 20% less than the market price of the ordinary shares on the date of grant. Accordingly, the Company recorded as deferred compensation the intrinsic value of the stock options awarded which is recognized over the vesting period.

Reuters ADS option activity under the SAYE Plan is as follows:

| | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) |
|---|---|---|---|
| Outstanding, December 31, 2001 | 20 | 70.48 | 1.7 |
| Forfeited | (16) | 63.76 | |
| Outstanding, December 31, 2002 | 4 | 82.06 | 1.8 |
| Forfeited | (4) | 82.06 | |
| Outstanding, December 31, 2003 | — | — | — |

(In thousands, except per share amounts)

Reuters ordinary shares options activity under SAYE Plan is as follows:

| | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) |
|---|---|---|---|
| Outstanding, December 31, 2001 | 247 | 13.95 | 1.3 |
| Forfeited | (120) | 15.01 | |
| Outstanding, December 31, 2002 | 127 | 12.94 | 0.7 |
| Forfeited | (112) | 12.79 | |
| Outstanding, December 31, 2003 | 15 | 14.10 | 0.4 |
| Forfeited | (11) | 12.63 | |
| Outstanding, December 31, 2004 | 4 | 17.66 | 0.3 |

Plan 2000 — Reuters introduced the Plan 2000 option plan in 1998, under which employees may be entitled to a single option award to acquire 2000 shares of Reuters ordinary shares. Options are issued for terms of 4 years, vest after a 3-year period and are exercisable at the market price of the ordinary share on the date of grant.

Reuters ordinary shares options activity under Plan 2000 is as follows:

| | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) |
|---|---|---|---|
| Outstanding, December 31, 2001 | 1,692 | 10.71 | 3.9 |
| Forfeited | (1,136) | 10.91 | |
| Exercised | (8) | 9.79 | |
| Outstanding, December 31, 2002 | 548 | 10.32 | 2.9 |
| Forfeited | (14) | 12.48 | |
| Outstanding, December 31, 2003 | 534 | 10.27 | 1.9 |
| Forfeited | (18) | 10.83 | |
| Outstanding, December 31, 2004 | 516 | 10.25 | 0.8 |

There were no exercisable options in the Reuters Plans as of December 31, 2004, 2003 and 2002.

**Note 13. Income Taxes**

The provision (benefit) for income taxes consists of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Current: | | | |
| Federal | $ 928 | $(12,986) | $(28,513) |
| State | 7,916 | 4,074 | 5,694 |
| Foreign | 12,646 | 1,122 | 5,292 |
| Total current | 21,490 | (7,790) | (17,527) |
| Deferred: | | | |
| Federal | 2,342 | (13,497) | (12,936) |
| State | 2,187 | (4,537) | (984) |
| State operating loss carryforward | — | (685) | (11,982) |
| Foreign | (11,479) | 158 | 1,583 |
| Total deferred | (6,950) | (18,561) | (24,319) |
| Total provision (benefit) for income taxes | $ 14,540 | $(26,351) | $(41,846) |

(In thousands, except per share amounts)

The temporary differences, which have created deferred tax assets and liabilities, are as follows:

| | December 31, 2004 | December 31, 2003 |
|---|---|---|
| Deferred tax assets: | | |
| Depreciation and amortization | $ 39,486 | $ 8,601 |
| Net operating losses | 38,931 | 42,395 |
| Accruals and allowances | 43,042 | 57,737 |
| Goodwill | 8,307 | 11,549 |
| Unrealized losses on securities owned | 18,006 | 23,338 |
| Total deferred tax assets | 147,772 | 143,620 |
| Deferred tax liabilities: | | |
| Unrealized gains on securities owned | — | (11,061) |
| Total deferred tax liabilities | — | (11,061) |
| Valuation allowance | (75,371) | (70,385) |
| Deferred tax asset, net | $ 72,401 | $ 62,174 |

Management believes that it is more likely than not that the Company's tax assets, net of the valuation allowance, will be realized. The valuation allowance relates to operating losses in certain non-U.S. subsidiaries, certain state operating losses in the U.S., unrealized losses on securities owned, and accruals and allowances in certain non-U.S. subsidiaries that may not be realized in the future.

The following is a reconciliation of the provision for income taxes and the amount computed by applying the U.S. Federal statutory rate to income (loss) before income taxes.

| | Year Ended December 31, 2004 | 2003 | 2002 |
|---|---|---|---|
| U.S. federal income tax rate | 35.0% | 35.0% | 35.0% |
| State and local income tax, net of federal income tax benefit | 16.6 | 2.5 | 1.8 |
| Foreign income taxes | (13.3) | (5.3) | (2.6) |
| Permanent differences | (4.5) | 1.4 | (24.0) |
| Valuation allowance | (9.3) | (5.3) | (4.6) |
| Miscellaneous | 2.0 | (1.9) | (0.0) |
| Total | 26.5% | 26.4% | 5.6% |

## Note 14. Commitments and Contingencies

***Litigation***

In February, 2005, the Company and Nextrade entered into a settlement agreement which resolved the claims in the lawsuit, and which provided for mutual releases and dismissal of the lawsuit with prejudice, the latter subject to the Court's approval.

From time to time, the Company is involved in various legal and regulatory proceedings arising in the ordinary course of business. The Company is also subject to periodic regulatory audits, inspections and investigations. While any litigation contains an element of uncertainty, management believes, after consultation with counsel, that the outcomes of such proceedings or claims are unlikely to have a material adverse effect on the Company.

(In thousands, except per share amounts)

***Leases***

The Company has contractual obligations to make future payments primarily for operating leases for office space with Reuters and third parties. Certain leases contain renewal options and escalation clauses. Our aggregate minimum lease commitments after 5 years primarily relate to the Company's office space leases in New York City and Jersey City, New Jersey, expiring on various dates through 2021. As of December 31, 2004, future minimum rental commitments under non-cancelable operating leases (net of non-cancelable sublease proceeds) for future periods are as follows:

| | Gross Rental Commitments | Sublease Income | Net Rental Commitments |
|---|---|---|---|
| Year ending December 31, 2005 | $ 41,997 | $ 14,006 | $ 27,991 |
| Year ending December 31, 2006 | 37,782 | 12,736 | 25,046 |
| Year ending December 31, 2007 | 34,949 | 13,149 | 21,800 |
| Year ending December 31, 2008 | 33,829 | 13,287 | 20,542 |
| Year ending December 31, 2009 | 33,414 | 13,877 | 19,537 |
| Thereafter | 237,224 | 135,761 | 101,463 |
| Total | $ 419,195 | $202,816 | $ 216,379 |

Rental expense amounted to $17,088, $26,369 and $27,190 for the years ended December 31, 2004, 2003 and 2002, respectively.

***Other***

The Company has letter of credit agreements and guarantees totaling $263,737 and $250,104 as of December 31, 2004 and 2003, respectively, issued by commercial banking institutions on the Company's behalf to various non-U.S. securities clearing and regulatory agencies, as well as other corporate services and obligations. The Company pays an annual fee up to one percent of the value of the agreement.

As of December 31, 2004 and 2003, the Company had access to $200,000 of uncommitted credit lines from commercial banking institutions to meet the funding needs of our U.S. operations. These credit lines were collateralized by a combination of customer securities and our marketable securities. As of December 31, 2004 and 2003, there were no borrowings outstanding under these credit lines. The Company paid no annual fees to maintain these facilities. In addition, as of December 31, 2004 and 2003, the Company had access to $100,328 and $95,600, respectively, of uncommitted credit lines from commercial banking institutions to meet the funding needs of the Company's European and Asian subsidiaries.

FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others*, requires the disclosure of representations and warranties which we enter into which may provide general indemnifications to others. In the normal course of business, the Company may enter into other legal contracts that contain a variety of representations and warranties that provide general indemnification to the contract counterparty. The Company's maximum exposure under these arrangements is unknown, as this would involve potential futures claims against the Company that have not yet occurred. However, based on the Company's experience, the Company does not expect these indemnifications will have a material adverse effect on our statements of operations, financial condition and cash flows.

**Note 15. Collateral Arrangements**

As of December 31, 2004 and December 31, 2003, the fair value of collateral held by the Company that could be sold or repledged totaled $170,973 and $283,532, respectively. Such collateral is generally obtained under resale and securities borrowing agreements. Of this collateral, $166,318 and $275,828 had been sold or repledged as of December 31, 2004 and December 31, 2003, respectively, generally to cover short sales or effect deliveries of securities.

**Note 16. Net Capital Requirements**

The Company's broker-dealer subsidiaries are subject to the SEC Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934 administered by the SEC, the New York Stock Exchange and the National Association of Securities Dealers, which requires the maintenance of minimum net capital. Except for Bridge, the Company's broker-dealer subsidiaries have elected to use the alternative method, which requires that they maintain minimum net capital equal to:

- $250 for general broker-dealers
- $1,000 for market makers
- the greater of $1,500 or 2% of aggregate debit items arising from customer transactions for clearing firms

The net capital requirement for Bridge is the greater of 6 2/3% of aggregate indebtedness or $250 ($1,000 minimum in 2003).

(In thousands, except per share amounts)

The table below summarizes the minimum capital requirements for the Company's U.S. broker-dealer subsidiaries.

| | December 31, 2004 | | | December 31, 2003 | | |
|---|---|---|---|---|---|---|
| | Net Capital | Net Capital Requirement | Excess Net Capital | Net Capital | Net Capital Requirement | Excess Net Capital |
| **Total** | $75,413 | $ 4,797 | $ 70,616 | $282,121 | $ 8,872 | $ 273,249 |

The Company's international broker-dealer subsidiaries are subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of December 31, 2004 and 2003, these subsidiaries had met their local capital adequacy requirements.

**Note 17. Related Party Transactions**

The Company transacts business and has extensive relationships with Reuters and its related parties. Due to these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties. All receivables and payables with affiliates and the Parent are generally settled on a quarterly basis. Descriptions of these transactions and relationships are set forth below:

In 2001, the Company leased office space for its corporate headquarters in New York City from 3 Times Square Associates, LLC, a joint venture between Reuters and an independent third party. The lease expires in 2021 with the Company having a one-time right to cancel in 2011.

In June 2000, the Company sold at book value all of its equipment related to its telecommunications network and transferred certain employees to Radianz, a joint venture between Reuters and Equant Finance B.V. (Equant), which was created to provide Internet protocol networks to the financial services industry. Equant is a provider of voice, data and Internet services. Since June 2000, Radianz has provided services related to the Company's core communications network that prior to the sale would have been provided by the Company. The Company, by the nature of a master agreement between Reuters and Radianz, is subject to fee arrangements negotiated by Reuters.

The Company received Reuters' data consisting of news and information which is used by the Company as well as distributed to its customers.

Reuters provided certain operational and administrative support and other general corporate services to the Company.

Effective September 2001, the Company sold at book value its Research and Analytical Product (R&A) to Reuters in order to allow Instinet R&A users to leverage Reuters investment in Bridge Trading by allowing them to participate in a much broader service, while still benefiting from the information currently available through R&A. Under the agreement, the Company sold to Reuters all the assets, rights, claims, contracts, licenses, trade secrets and confidential and proprietary business information, and substantially all of the R&A employees used by the Company in the R&A product platform. In turn, Reuters agreed to assume certain liabilities and obligations of the R&A business. The net book value of the assets sold, which consisted of computer hardware, machinery and equipment, was $7,868. The Company entered into a mutual services agreement with Reuters under which the Company continued to assist Reuters in supporting the R&A business for up to 18 months. In addition, the Company and Reuters agreed to allow customers of the Company who had been using the R&A product to continue to receive service and support from Reuters.

(In thousands, except per share amounts)

The Company's expenses related to the transactions referred to above are as follows:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Office space | $17,891 | $ 16,998 | $ 14,941 |
| Reuters' news and information data | 51,098 | 62,034 | 69,945 |
| Radianz | 8,342 | 25,477 | 30,042 |
| General corporate services | 1,458 | 8,086 | 28,864 |
| Research and Analytical | — | 2,145 | 5,582 |
| | $78,789 | $114,740 | $149,374 |

**Note 18. Segment Information**

In reporting to management and upon completion of our business restructuring during the three months ended March 31, 2004, the Company's operating results were categorized into two business segments, Instinet and INET. Eliminations represent intercompany revenue and expenses. Prior year information has been restated to reflect our reportable segments as follows:

***Segment Operating Results***

| | Year Ended December 31, 2004 | | | |
|---|---|---|---|---|
| | Instinet | INET | Eliminations & Corporate | Total |
| Transaction fees | $ 661,686 | $455,068 | $ (20,373) | $1,096,381 |
| Interest income, net | 12,689 | 1,572 | 376 | 14,637 |
| Total revenue, net | 674,375 | 456,640 | (19,997) | 1,111,018 |
| Total expenses | 685,487 | 422,645 | (52,074) | 1,056,058 |
| Pre-tax earnings | $ (11,112) | $ 33,995 | $ 32,077 | $ 54,960 |
| Year-end total assets | $1,053,729 | $142,295 | $ 659,391 | $1,855,415 |

| | Year Ended December 31, 2003 | | | |
|---|---|---|---|---|
| | Instinet | INET | Eliminations & Corporate | Total |
| Transaction fees | $ 681,925 | $411,289 | $ (15,983) | $1,077,231 |
| Interest income, net | 15,459 | 864 | — | 16,323 |
| Total revenue, net | 697,384 | 412,153 | (15,983) | 1,093,554 |
| Total expenses | 731,398 | 398,098 | 63,937 | 1,193,433 |
| Pre-tax earnings | $ (34,014) | $ 14,055 | $ (79,920) | $ (99,879) |
| Year-end total assets | $1,745,708 | $169,976 | $ 254,691 | $2,170,375 |

(In thousands, except per share amounts)

| | Year Ended December 31, 2002 | | | |
|---|---|---|---|---|
| | Instinet | INET | Eliminations & Corporate | Total |
| Transaction fees | $ 789,654 | $305,551 | $ (21,353) | $1,073,852 |
| Interest income, net | 19,471 | 522 | — | 19,993 |
| Total revenue, net | 809,125 | 306,073 | (21,353) | 1,093,845 |
| Total expenses | 802,321 | 280,557 | 710,547 | 1,793,425 |
| Pre-tax earnings | $ 6,804 | $ 25,516 | $ (731,900) | $ (699,580) |
| Year-end total assets | $2,199,733 | $ 97,154 | $ 82,732 | $2,379,619 |

***Geographical Information***

The accompanying table summarizes select data about the Company's domestic and international operations. Because of the highly integrated nature of the financial markets in which the Company competes and the integration of the Company's worldwide business activities, the Company believes that results by geographic region are not necessarily meaningful in understanding its business.

| | Year Ended December 31, 2004 | | |
|---|---|---|---|
| | Domestic | International | Total |
| Total revenue, net | $ 937,736 | $ 173,282 | $1,111,018 |
| Pre-tax earnings (loss) | $ 71,742 | $ (16,782) | $ 54,960 |
| Year-end total assets | $1,376,245 | $ 479,170 | $1,855,415 |

| | Year Ended December 31, 2003 | | |
|---|---|---|---|
| | Domestic | International | Total |
| Total revenue, net | $ 934,451 | $ 159,103 | $1,093,554 |
| Pre-tax earnings (loss) | $ (69,315) | $ (30,564) | $ (99,879) |
| Year-end total assets | $1,764,933 | $ 405,442 | $2,170,375 |

| | Year Ended December 31, 2002 | | |
|---|---|---|---|
| | Domestic | International | Total |
| Total revenue, net | $ 914,746 | $ 179,099 | $1,093,845 |
| Pre-tax earnings (loss) | $ (684,787) | $ (14,793) | $ (699,580) |
| Year-end total assets | $2,002,142 | $ 377,477 | $2,379,619 |

**Note 19. Contractual Settlement**

During the year ended December 31, 2004, the Company received $7,250 associated with the mutual release of Instinet Group, Zone Trading Partners and affiliated parties of execution obligations.

(In thousands, except per share amounts)

**Note 20. Discontinued Operations**

**a) LJR**

On July 1, 2005, the Company sold LJR to The Bank of New York for $174 million in cash. The revenue and results of operations of the discontinued operation are summarized as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Revenue | 170,846 | 169,778 | 170,302 |
| Pre-tax income from discontinued operation | 22,413 | 23,286 | (23,771) |
| Income tax expense | 9,626 | 10,013 | (10,120) |
| Income from discontinued operations, net of tax | 12,787 | 13,273 | (13,651) |

The Consolidated Statements of Financial Condition include assets of discontinued operations and liabilities of discontinued operations. The net balance of these items represents the adjusted book value of the discontinued operations in accordance with the sale of LJR. The major asset and liability classes included within these categories are as follows:

| | Year Ended December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Cash and cash equivalents | $ 19,553 | $ 24,080 |
| Cash and securities segregated under federal regulations | 23,050 | 22,919 |
| Receivable from broker-dealers | 5,386 | 3,706 |
| Commissions and other receivable, net | 6,115 | 9,454 |
| Fixed assets and leasehold improvements, net | 162 | 193 |
| Deferred tax asset, net | 14,445 | 16,125 |
| Other assets | 159 | 182 |
| Assets of discontinued operations | 68,870 | 76,659 |
| Accounts payable, accrued expenses and other liabilities | 40,498 | 45,881 |
| Liabilities of discontinued operations | 40,498 | 45,881 |

**b) Fixed Income Trading Platform**

On May 3, 2002, the Company closed its fixed income trading platform. The Company began developing its fixed income business in 1998 and started trading in the spring of 2000. Against the background of a global economic slowdown and the uneven pace of acceptance of electronic fixed income trading platforms, the business had been unable to reach a critical mass. As a result of the closure, the Company incurred the following charges:

| | Year Ended December 31, 2002 |
|---|---|
| Loss from discontinued operations: | |
| Loss from operation of fixed income business | $ (33,768) |
| Income tax benefit | 11,022 |
| Net loss from discontinued operations | $ (22,746) |
| Loss per share — basic and diluted | |
| Loss from operation of fixed income business | $ (0.12) |
| Income tax benefit | 0.04 |
| Net loss from discontinued operations | $ (0.08) |

The Company recorded a restructuring charge of $22,514 related to the closure of its fixed income platform for the year ended December 31, 2002 and completed paying this liability in 2004.

**Note 21. Fair Value of Financial Instruments**

SFAS No. 107, *Disclosure about Fair Value of Financial Instruments*, requires the disclosure of the fair value of financial instruments, including assets and liabilities recognized on the Consolidated Statements of Financial Condition. Management estimates that the aggregate fair value of all financial instruments recognized on the Consolidated Statements of Financial Condition approximates their carrying value. As such, financial instruments have been adjusted to reflect their estimated fair value or are short term in nature and bear interest at current market rates.

**Note 22. Subsequent Events (Unaudited)**

On April 22, 2005, the Company announced that it entered into a definitive agreement pursuant to which The NASDAQ Stock Market, Inc. (“NASDAQ”) will acquire all outstanding shares of the Company for an aggregate purchase price of approximately $1,769,000 in cash, or $5.10 per share on a fully diluted basis. On November 16, 2005, the Department of Justice closed its investigation under the Hart-Scott Rodino Antitrust Improvements Act of the pending acquisition of Instinet Group by NASDAQ, in effect approving the acquisition of Instinet Group by NASDAQ. The transaction was completed on December 8, 2005 at a price of $5.09 per share on a fully diluted basis. INET has been combined with NASDAQ’s current operations while Instinet, The Institutional Broker, along with certain Instinet Group corporate liabilities, has been acquired from NASDAQ by a group led by Silver Lake Partners and Instinet senior management.

The Company completed the acquisition of Bridge Trading on March 31, 2005 for 3,752 shares in Company stock.

The Company completed the sale of LJR on July 1, 2005 to the Bank of New York for $174,000 in cash.

On July 12, 2005, Instinet Group’s Board of Directors approved the payment of a special cash dividend of $0.32 per common share to Instinet Group stockholders, based upon the net after-tax proceeds of the sale of LJR. The record date for the dividend was July 29, 2005 and the payment was made on August 15, 2005. Instinet Group common stock traded ex-dividend for two days prior to the record date, starting on July 27, 2005.

In April and May 2005, four purported class action lawsuits were filed in the Court of Chancery in the State of Delaware against Instinet Group, each of our directors and Reuters alleging, among other things, that defendants breached their fiduciary duties as to our public stockholders in connection with the proposed merger by approving the transaction at an allegedly unfair and inadequate price. On June 22, 2005, plaintiffs filed a consolidated amended complaint consolidating three of the lawsuits while voluntarily dismissing the fourth lawsuit. The amended complaint seeks, among other things, class action status, an injunction against consummation of the transaction, invalidation of certain provisions of the Merger Agreement, damages in an unspecified amount, rescission in the event the transaction is consummated and attorney’s fees.

On September 9, 2005, the parties entered into a proposed settlement of the action pursuant to a Stipulation and Agreement of Compromise, Settlement and Release. Pursuant to the proposed settlement: (i) Instinet revised the definitive proxy statement to include certain disclosures that have been agreed upon and reviewed by plaintiffs; (ii) Nasdaq and Instinet agreed to reduce by 15%, from $66,500 to $56,525, the break-up fee that Instinet would pay to Nasdaq under certain conditions pursuant to Section 8.6(a) of the merger agreement; and (iii) Nasdaq agreed to waive, with respect to members of the purported plaintiff class only, the provisions of the merger agreement pursuant to which the aggregate merger consideration was to have been reduced by up to $2,500 based on the total amount of certain of our transaction liabilities, the net effect of which is an increase of approximately $0.007 per share (or approximately $1,000 in the aggregate) in the merger consideration that will be received by Instinet stockholders other than the defendants.

(In thousands, except per share amounts)

On September 16, 2005, Instinet mailed a notice of settlement to its stockholders. On October 25, 2005, the Delaware Court of Chancery certified the class of Instinet Group shareholders and approved the proposed settlement as fair and reasonable. Separately, on November 30, 2005, the Court awarded plaintiffs' counsel $450 for attorneys' fees and reimbursement of expenses. The settlement is still subject to the entry of a final and non-appealable judgment dismissing the consolidated action with prejudice and the delivery of appropriate releases.

**Note 23. Quarterly Results (Unaudited)**

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec 31, 2004 | Sep 30, 2004 | Jun 30, 2004 | Mar 31, 2004 | Dec 31, 2003 | Sep 30, 2003 | Jun 30, 2003 | Mar 31, 2003 |
| **Revenue** | | | | | | | | |
| Transaction fees | $267,993 | $245,696 | $273,759 | $308,933 | $279,196 | $268,912 | $278,120 | $251,003 |
| Interest income | 5,228 | 4,061 | 4,363 | 4,499 | 5,986 | 4,939 | 6,711 | 6,403 |
| Interest expense | (948) | (744) | (773) | (1,049) | (2,271) | (1,227) | (2,101) | (2,117) |
| Interest income, net | 4,280 | 3,317 | 3,590 | 3,450 | 3,715 | 3,712 | 4,610 | 4,286 |
| **Total revenue, net** | 272,273 | 249,013 | 277,349 | 312,383 | 282,911 | 272,624 | 282,730 | 255,289 |
| **Cost of Revenue** | | | | | | | | |
| Soft dollar | 40,029 | 36,943 | 43,936 | 47,785 | 45,581 | 43,544 | 41,329 | 41,225 |
| Broker-dealer rebates | 67,150 | 59,859 | 62,388 | 68,147 | 54,507 | 53,552 | 58,630 | 50,420 |
| Brokerage, clearing and exchange fees | 47,744 | 47,078 | 51,807 | 60,409 | 54,057 | 51,469 | 46,690 | 39,781 |
| **Total cost of revenue** | 154,923 | 143,880 | 158,131 | 176,341 | 154,145 | 148,565 | 146,649 | 131,426 |
| **Gross margin** | 117,350 | 105,133 | 119,218 | 136,042 | 128,766 | 124,059 | 136,081 | 123,863 |
| **Direct Expenses** | | | | | | | | |
| Compensation and benefits | 56,556 | 43,467 | 53,454 | 56,399 | 47,603 | 48,775 | 59,456 | 62,673 |
| Communications and equipment | 14,624 | 18,775 | 16,988 | 21,800 | 21,014 | 25,152 | 31,899 | 30,974 |
| Depreciation and amortization | 13,154 | 13,363 | 16,301 | 15,475 | 18,921 | 22,837 | 23,968 | 24,503 |
| Occupancy | 8,872 | 9,351 | 9,449 | 9,397 | 12,418 | 12,773 | 13,385 | 16,654 |
| Professional fees | 8,751 | 7,410 | 8,161 | 4,997 | 8,513 | 5,709 | 7,225 | 6,233 |
| Marketing and business development | 2,097 | 2,725 | 4,845 | 3,085 | 6,780 | 2,766 | 3,045 | 2,238 |
| Other | 588 | 4,802 | 2,542 | 2,650 | 1,972 | 4,220 | 5,959 | 5,348 |
| **Total direct expenses** | 104,642 | 99,893 | 111,740 | 113,803 | 117,221 | 122,232 | 144,937 | 148,623 |
| Restructuring | — | — | — | — | 59,497 | — | — | — |
| Goodwill and intangible asset impairment | 24,783 | — | — | — | 21,668 | — | — | (129) |
| Contractual settlement | — | — | (7,250) | — | — | — | — | — |
| Investments | (11,007) | (4,007) | (21) | (4,677) | (10,254) | 646 | (2,887) | 21,575 |
| Insurance recovery | — | — | — | (5,116) | (2,492) | (2,989) | — | (5,000) |
| **Total expenses** | 273,341 | 239,766 | 262,600 | 280,351 | 339,785 | 268,454 | 288,699 | 296,495 |
| Income (loss) from continuing operations before income taxes, discontinued operations and cumulative effect of change in accounting principle | (1,068) | 9,247 | 14,749 | 32,032 | (56,874) | 4,170 | (5,969) | (41,206) |
| Income tax provision (benefit) | (6,402) | 1,412 | 5,655 | 13,875 | (17,904) | (76) | (677) | (7,694) |
| Income (loss) from continuing operations before discontinued operations and cumulative effect of change in accounting principle | 5,334 | 7,835 | 9,094 | 18,157 | (38,970) | 4,246 | (5,292) | (33,512) |
| Income (loss) from discontinued operations, net of tax | 3,342 | 2,781 | 3,016 | 3,648 | 3,104 | 3,508 | 3,515 | 3,146 |
| **Net Income** | 8,676 | 10,616 | 12,110 | 21,805 | (35,866) | 7,754 | (1,777) | (30,366) |
| **EARNINGS (LOSS) PER SHARE—BASIC** | | | | | | | | |
| Income (loss) from continuing operations—net of tax | 0.02 | 0.02 | 0.03 | 0.05 | (0.12) | 0.01 | (0.02) | (0.10) |
| Discontinued operations—net of tax | 0.01 | 0.01 | 0.01 | 0.02 | 0.01 | 0.01 | 0.01 | 0.01 |
| **Net income (loss) per share** | 0.03 | 0.03 | 0.04 | 0.07 | (0.11) | 0.02 | (0.01) | (0.09) |
| **EARNINGS (LOSS) PER SHARE—DILUTED** | | | | | | | | |
| Income (loss) from continuing operations—net of tax | 0.02 | 0.02 | 0.03 | 0.05 | (0.12) | 0.01 | (0.02) | (0.10) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Discontinued operations—net of tax | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| **Net income (loss) per share** | 0.03 | 0.03 | 0.04 | 0.06 | (0.11) | 0.02 | (0.01) | (0.09) |

**NOTE:** During the fourth quarter of 2004, the Company changed the classification of certain transaction-related regulatory fee expenses from offsetting transaction fees to being recorded as an expense within brokerage, clearing and exchange fees. This change has been reflected in all periods shown in the table.

## Part I. FINANCIAL INFORMATION

### Item 1. Financial Statements

**Instinet Group Incorporated**
**Consolidated Statements of Operations**
(In thousands, except per share amounts)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| **Revenue** | | | | |
| Transaction fees | $246,449 | $245,696 | $771,000 | $828,385 |
| Interest income | 9,414 | 4,061 | 22,522 | 12,923 |
| Interest expense | (1,449) | (743) | (3,005) | (2,565) |
| Interest income, net | 7,965 | 3,318 | 19,517 | 10,358 |
| **Total revenues, net** | 254,414 | 249,014 | 790,517 | 838,743 |
| **Cost of Revenues** | | | | |
| Soft dollar | 33,416 | 36,943 | 110,129 | 128,664 |
| Broker-dealer rebates | 63,811 | 59,859 | 204,823 | 190,394 |
| Brokerage, clearing and exchange fees | 56,467 | 47,078 | 165,295 | 159,294 |
| Total cost of revenues | 153,694 | 143,880 | 480,247 | 478,352 |
| Gross margin | 100,720 | 105,134 | 310,270 | 360,391 |
| **Direct Expenses** | | | | |
| Compensation and benefits | 57,390 | 43,467 | 167,313 | 153,320 |
| Communications and equipment | 13,655 | 18,775 | 41,015 | 57,564 |
| Depreciation and amortization | 13,886 | 13,363 | 34,396 | 45,139 |
| Occupancy | 22,804 | 9,351 | 42,728 | 28,197 |
| Professional fees | 11,160 | 7,410 | 29,087 | 20,568 |
| Marketing and business development | 1,111 | 2,725 | 3,781 | 10,655 |
| Other | 4,110 | 4,802 | 12,476 | 9,993 |
| Total direct expenses | 124,116 | 99,893 | 330,796 | 325,436 |
| Contractual settlement | — | — | — | (7,250) |
| Investments | (8,768) | (4,031) | (36,373) | (8,705) |
| Insurance recovery | — | — | — | (5,116) |
| **Total expenses** | 269,042 | 239,742 | 774,670 | 782,717 |
| Income (loss) from continuing operations before income taxes | (14,628) | 9,272 | 15,847 | 56,026 |
| Income tax expense (benefit) | (9,779) | 1,440 | 2,521 | 20,961 |
| Net income (loss) from continuing operations | (4,849) | 7,832 | 13,326 | 35,065 |
| Discontinued operations, net of tax | 89,591 | 2,784 | 93,702 | 9,465 |
| **Net income** | $ 84,742 | $ 10,616 | $107,028 | $ 44,530 |
| **EARNINGS PER SHARE** | | | | |
| **Basic** | | | | |
| Income from continuing operations | $ (0.01) | $ 0.02 | $ 0.04 | $ 0.10 |
| Discontinued operations, net of tax | 0.26 | 0.01 | 0.28 | 0.03 |
| **Net income** | $ 0.25 | $ 0.03 | $ 0.32 | $ 0.13 |
| **Diluted** | | | | |
| Income from continuing operations | $ (0.01) | $ 0.02 | $ 0.04 | $ 0.10 |
| Discontinued operations, net of tax | 0.26 | 0.01 | 0.27 | 0.03 |
| **Net income** | $ 0.25 | $ 0.03 | $ 0.31 | $ 0.13 |
| Weighted average shares outstanding — basic | 340,474 | 337,327 | 339,513 | 336,127 |
| Weighted average shares outstanding — diluted | 341,876 | 339,226 | 341,044 | 338,111 |

The accompanying notes are an integral part of these consolidated financial statements.

**Instinet Group Incorporated**
**Consolidated Statements of Financial Condition**
(In thousands, except per share amounts)
(Unaudited)

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 946,317 | $ 904,984 |
| Cash and securities segregated under federal regulations | 3,400 | — |
| Securities owned, at market value | 23,437 | 36,157 |
| Securities borrowed | 205,889 | 190,325 |
| Receivable from broker-dealers | 209,398 | 167,216 |
| Receivable from customers | 28,561 | 31,720 |
| Commissions and other receivable, net | 93,583 | 88,139 |
| Investments | 35,595 | 33,337 |
| Fixed assets and leasehold improvements, net | 70,108 | 79,784 |
| Deferred tax asset, net | 76,604 | 72,401 |
| Intangible assets and goodwill, net | 61,149 | 76,831 |
| Other assets | 86,817 | 55,413 |
| Assets of discontinued operations | — | 68,870 |
| Total assets | $ 1,840,858 | $1,805,177 |
| **LIABILITIES & STOCKHOLDERS' EQUITY** | | |
| LIABILITIES | | |
| Short-term borrowings | $ 32,296 | $ 5,283 |
| Securities loaned | 154,709 | 133,189 |
| Payable to broker-dealers | 191,544 | 173,627 |
| Payable to customers | 31,837 | 45,151 |
| Taxes payable | 96,823 | 85,797 |
| Accounts payable, accrued expenses and other liabilities | 253,662 | 182,790 |
| Liabilities of discontinued operations | — | 40,498 |
| Total liabilities | 760,871 | 666,335 |
| Commitments and contingencies (Note 12) | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock, $0.01 par value (950,000 shares authorized, 340,617 issued and outstanding as of September 30, 2005 and 338,180 issued and outstanding as of December 31, 2004) | 3,406 | 3,381 |
| Additional paid-in capital | 1,627,843 | 1,736,150 |
| Accumulated deficit | (605,313) | (659,596) |
| Accumulated other comprehensive income | 38,364 | 55,471 |
| Restricted stock units | 26,699 | 13,389 |
| Unearned compensation | (11,012) | (9,953) |
| Total stockholders' equity | 1,079,987 | 1,138,842 |
| Total liabilities and stockholders' equity | $ 1,840,858 | $1,805,177 |

The accompanying notes are an integral part of these consolidated financial statements.

**Instinet Group Incorporated**
**Consolidated Statement of Cash Flows**
(In thousands)
(Unaudited)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2005 | 2004 |
| **Cash flows from operating activities** | | |
| Net income | $ 107,028 | $ 44,530 |
| Income from discontinued operations, net of tax | (93,702) | (9,465) |
| Net income from continuing operations | 13,326 | 35,065 |
| Adjustments to reconcile net income from continuing operations to cash used in operating activities from continuing operations: | | |
| Unrealized gain on investments | (37,046) | (4,273) |
| Depreciation and amortization | 34,396 | 46,596 |
| Deferred tax assets, net | (2,763) | 8,734 |
| Stock based compensation | 12,251 | 3,916 |
| Tax benefit of options exercised | 1,193 | 1,392 |
| Changes in operating assets and liabilities: | | |
| Cash and securities segregated under federal regulation | (3,400) | 168,679 |
| Securities borrowed, net of securities loaned | 5,956 | 106,138 |
| Net receivable/payable from/to broker-dealers | (24,265) | (59,548) |
| Net receivable/payable from/to customers | (10,232) | (183,023) |
| Receivables and other assets | (36,771) | 35,504 |
| Payables and other liabilities | (25,607) | (108,893) |
| Cash provided by operating activities — discontinued operations | 7,875 | 13,602 |
| Net cash (used in)/provided by operating activities | (65,087) | 63,889 |
| **Cash flows from investing activities** | | |
| Securities sold and matured, net of securities purchased | 12,720 | 127,847 |
| Purchase of fixed assets and leasehold improvements | (10,478) | (5,179) |
| Sale of investments | 34,788 | 7,676 |
| Net proceeds from sale of discontinued operations | 173,589 | — |
| Cash used in investing activities — discontinued operations | (2,435) | — |
| Net cash provided by investing activities | 208,184 | 130,344 |
| **Cash flows from financing activities** | | |
| Short-term borrowings, net | 27,013 | (14,425) |
| Dividends paid | (117,068) | — |
| Issuance of common stock | 5,398 | 4,982 |
| Net cash used in financing activities | (84,657) | (9,443) |
| Effect of exchange rate differences | (17,107) | (2,063) |
| Increase in cash and cash equivalents | 41,333 | 182,727 |
| Cash and cash equivalents, beginning of period | 904,984 | 502,408 |
| Cash and cash equivalents, end of period | $ 946,317 | $ 685,135 |

**Noncash activities:**

In connection with the Bridge Trading Company acquisition (see Note 3), the Company recorded a noncash dividend of $50,551 to Reuters during the nine months ended September 30, 2005.

The accompanying notes are an integral part of these consolidated financial statements.

**Note 1. Organization and Description of Business**

Instinet Group Incorporated (the "Company" or "Instinet Group") is a Delaware holding company which, through its operating subsidiaries, provides agency and other brokerage services to broker-dealers, institutional customers, hedge funds and professional traders. The Company is approximately 62% owned by subsidiaries of Reuters Group PLC ("Reuters" or "Parent").

The Company has two distinct business lines:

- Instinet, the Institutional Broker, which services our non-broker-dealer institutional customers as well as customers of Bridge Trading Company ("Bridge").
- INET, the electronic marketplace, our alternative trading system and ECN that services our U.S. broker-dealer customers.

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

***Basis of Presentation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant transactions and balances between and among the Company and its subsidiaries have been eliminated in consolidation. These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles. These unaudited financial statements should be read in conjunction with the Company's audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K, as filed with the SEC.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

***Earnings Per Share***

Basic earnings per share ("EPS") is calculated by dividing net earnings by the weighted average number of common shares outstanding. Common shares outstanding include common stock for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of the common stock deliverable pursuant to stock options and to restricted stock for which future service is required as a condition to the delivery of the underlying common stock.

The computations of basic and diluted EPS are set forth below:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Numerator for basic and diluted EPS available to common shareholders | | | | |
| Income from continuing operations | $ (4,849) | $ 7,832 | $ 13,326 | $ 35,065 |
| Income from discontinued operations | 89,591 | 2,784 | 93,702 | 9,465 |
| Net income | 84,742 | 10,616 | 107,028 | 44,530 |
| Denominator for basic EPS — weighted average number of common shares | 340,474 | 337,327 | 339,513 | 336,127 |
| Effect of dilutive stock options and dilutive potential common shares | 1,402 | 1,899 | 1,531 | 1,984 |
| Denominator for diluted EPS — weighted average number of common shares and dilutive potential common shares | 341,876 | 339,226 | 341,044 | 338,111 |
| Basic EPS | | | | |
| Income from continuing operations | $ (0.01) | $ 0.02 | $ 0.04 | $ 0.10 |
| Income from discontinued operations | 0.26 | 0.01 | 0.28 | 0.03 |
| Net income | $ 0.25 | $ 0.03 | $ 0.32 | $ 0.13 |
| Diluted EPS | | | | |
| Income from continuing operations | $ (0.01) | $ 0.02 | $ 0.04 | $ 0.10 |
| Income from discontinued operations | 0.26 | 0.01 | 0.27 | 0.03 |
| Net income | $ 0.25 | $ 0.03 | $ 0.31 | $ 0.13 |

***Investments***

Investments with a ready market are stated at fair value as determined by available market prices. Investments with no ready market are stated at estimated fair value as determined in good faith by management. Generally, management will initially value investments at cost and require that changes in value be established by meaningful third-party transactions or a significant impairment in the financial condition or operating performance of the issuer, unless meaningful developments occur that otherwise warrant a change in the valuation of an investment. Factors considered in valuing individual investments include, without limitation, available market prices, type of security, purchase price, purchases of the same or similar securities by other investors, marketability, restrictions on disposition, current financial position, operating results and other pertinent information.

Management uses its best judgment in estimating the fair value of these investments. There are inherent limitations in any estimation technique. The fair value estimates presented herein are not necessarily indicative of an amount that the Company could realize in a current transaction. Because of the inherent uncertainty of valuation, these estimated fair values do not necessarily represent amounts that might be ultimately realized, since such amounts depend on future circumstances and the differences could be material.

Realized and unrealized gains and losses from investments are included in investments on the Consolidated Statements of Operations.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

***Securities Borrowed and Loaned***

Securities borrowed and loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed require the Company to deposit cash with the lender. For securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the market value of the securities loaned. The Company monitors the market value of the securities borrowed and loaned on a daily basis, with additional collateral obtained or excess collateral refunded, as necessary.

***Receivable From and Payable to Broker-Dealers***

Receivable from broker-dealers is primarily comprised of fails to deliver with broker-dealers. Fails to deliver arise when the Company does not deliver securities on the settlement date. The Company records the selling price as a receivable due from the purchasing broker-dealer. The receivable is collected upon delivery of the securities. Payable to broker-dealers is primarily comprised of fails to receive. Fails to receive arise when the Company does not receive securities on settlement date. The Company records the amount of the purchase price as a payable due to the selling broker-dealer. The liability is paid upon receipt of the securities.

***Receivable From and Payable to Customers***

Receivable from customers is comprised of institutional debit balances and payable to customers represents free credit balances in customer accounts.

***Commissions and Other Receivables, Net***

Commissions and other receivables are reported net of an allowance for doubtful accounts of $16,729 and $18,830 as of September 30, 2005 and December 31, 2004, respectively. The allowance for doubtful accounts is based on our assessment of the collectibility of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, age of the accounts receivable balances and current economic conditions that may affect a customer's ability to pay.

As of September 30, 2005 and December 31, 2004, included in commissions and other receivables is $17,539 and $15,348, respectively, from Archipelago Holdings, Inc., and REDIBook ECN, LLC of which $9,208 is in arbitration. The Company has commenced arbitration proceedings before the NASD and has established a reserve against this disputed arbitration amount based upon a review of the facts and circumstances surrounding the dispute.

***Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase***

Transactions involving purchases of securities under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are recorded at their contracted resale amounts plus accrued interest. It is the Company's policy to take possession of securities with a market value in excess of the principal amount loaned plus the accrued interest thereon, in order to collateralize reverse repurchase agreements. Similarly, the Company is required to provide securities to counterparties in order to collateralize repurchase agreements. The Company's agreements with counterparties generally contain contractual provisions allowing for additional collateral to be obtained, or excess collateral returned, when necessary. It is the Company's policy to value collateral daily and to obtain additional collateral, or to retrieve excess collateral from counterparties, when deemed appropriate.

***Foreign Currency Translation***

Assets and liabilities of subsidiaries whose functional currency is not the U.S. dollar are translated based on the end of period exchange rates from local currency to U.S. dollars. Results of operations are translated at the average exchange rates in effect during the period. The resulting gains or losses are reported as comprehensive income. The accumulated gains and losses are reported as a component of Stockholder's Equity on the Consolidated Statements of Financial Condition.

***Derivatives***

The Company may enter into forward foreign currency contracts to facilitate customers' settling transactions in various currencies, primarily the U.S. dollar, British pound or euro. These forward foreign currency contracts are entered into with third parties and with terms generally identical to the Company's customers' transactions, thereby mitigating exposure to currency risk. Forward foreign currency contracts generally do not extend beyond 14 days and realized and unrealized gains and losses resulting from these transactions are recognized in the Consolidated Statements of Operations in the period they are incurred. These activities have not resulted in a material impact to the Company's operations to date.

***Restatements and Reclassifications***

All historical information has been restated to include Bridge (see Note 3) as if Bridge had been a wholly-owned subsidiary of the Company since it was acquired by Reuters in September 2001. Bridge is included in the results of the Instinet business segment.

During the fourth quarter of 2004, the Company began classifying transaction related regulatory fees as an expense in brokerage, clearing and exchange fees. These fees had previously been recorded as a reduction of transaction fees and shown on a net basis. For the three months ended September 30, 2005 and 2004, these regulatory fees totaled $18,481 and $9,828, respectively. For the nine months ended September 30, 2005 and 2004, these regulatory fees totaled $54,342 and $42,418, respectively.

The Company's consolidated financial statements have been restated to present Lynch, Jones & Ryan, Inc. ("LJR") as a discontinued operation (see note 10).

Certain other reclassifications of prior year amounts have been made for consistent presentation.

**Note 3. Acquisitions and Other Significant Events**

On March 31, 2005, the Company acquired Bridge, an agency execution broker, from Reuters for 3,752 shares of the Company's common stock, valued at approximately $21,500. The Company's unaudited quarterly financial statements and the accompanying notes reflect the results of operations as if Bridge had been a wholly-owned subsidiary of the Company since it was acquired by Reuters in September 2001. This acquisition was accounted for as a transfer of entities under common control.

On April 22, 2005, the Company announced that it entered into a definitive agreement pursuant to which The NASDAQ Stock Market, Inc. ("NASDAQ") will acquire all outstanding shares of the Company for an aggregate purchase price of approximately $1,769,000 in cash, or $5.10 per share on a fully diluted basis. The estimated merger consideration of $5.10 per share has been adjusted for a special cash dividend of $0.32 per share that was paid on August 15, 2005. The final per share price will vary based on the actual closing date, which is currently estimated to be the end of the fourth quarter, the number of vested employees' stock plan shares outstanding and transaction costs. Upon completion of the transaction, INET will be combined with NASDAQ's current operations. Instinet, The Institutional Broker, along with certain Instinet Group corporate liabilities, will be acquired from NASDAQ by a group led by Silver Lake Partners and Instinet senior management immediately following the NASDAQ acquisition of the Company. On April 22, 2005, the Company also entered into a definitive agreement for the acquisition of the Company's subsidiary, LJR, by The Bank of New York which was completed on July 1, 2005 for $174,000 in cash.

On June 17, 2005 the Department of Justice ("DOJ") issued a Request for Additional Information and Documentary Materials (a "second request") to Instinet Group and NASDAQ in connection with the DOJ's investigation under the Hart-Scott Rodino Antitrust Improvements Act of the pending acquisition of Instinet Group by NASDAQ. Instinet Group certified substantial compliance with the DOJ Second Request on September 30, 2005. Based on discussions with the DOJ staff responsible for reviewing the NASDAQ/Instinet transaction, we understand that the staff has forwarded its recommendation to senior DOJ officials and that we anticipate a formal decision from the DOJ soon.

**Note 4. Cost Reductions and Special Charges**

The Company has initiated several cost reduction programs, which have resulted in restructuring charges.

In December 2002, the Company announced that it had commenced a cost-reduction plan to reduce operating costs in order to achieve cost synergies in connection with its acquisition of Island. This restructuring included reducing staff levels and related occupancy costs. During the year ended December 31, 2002, the Company recorded a charge of $62,405. As of September 30, 2005, the Company carried a liability of $12,074 associated with this restructuring on its Consolidated Statements of Financial Condition, which is reflected as follows:

| | December 31, 2004 | Payments | September 30, 2005 |
|---|---|---|---|
| Workforce reductions | $ 736 | $ — | $ 736 |
| Office closures/consolidations | 12,279 | (941) | 11,338 |
| **Total** | $ 13,015 | $ (941) | $ 12,074 |

The Company expects to pay approximately $659 of the total remaining liability by December 31, 2005.

In December 2003, the Company announced a cost restructuring plan and recorded a charge of $59,497 related to the reduction of workforce by approximately 185 employees and the consolidation of the Company's office space. This cost-reduction is primarily due to the strategic decisions related to the separation of Instinet and INET and the Company's ongoing efforts to streamline its operations. As of September 30, 2005, the Company carried a liability of $9,840 associated with this restructuring on its Consolidated Statements of Financial Condition, which is reflected as follows:

| | December 31, 2004 | Payments | September 30, 2005 |
|---|---|---|---|
| Workforce reductions | $ 1,407 | $ 1,407 | $ — |
| Office closures/consolidations | 13,184 | (3,344) | 9,840 |
| **Total** | $ 14,591 | $ (4,751) | $ 9,840 |

The Company expects to pay approximately $547 of the total remaining liability by December 31, 2005.

**Note 5. Securities Owned, at Market Value**

Securities owned are recorded on a trade date basis and are carried at their current market value with unrealized gains and losses reported in investments on the Consolidated Statements of Operations. Securities owned have maturities of less than 3 years and consist of the following:

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| Municipal bonds | $ — | $ 10,941 |
| Foreign sovereign obligations | 23,437 | 25,216 |
| **Total** | $ 23,437 | $ 36,157 |

**Note 6. Investments**

The Company makes strategic alliances with and long-term investments in other companies. The changes in the carrying values at the end of each period result from additional investments, sales and unrealized and realized gains and losses. The carrying value of the Company's investments consists of the following:

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| Archipelago Holdings, Inc. | $ — | $ 23,838 |
| Starmine Corporation | 33,595 | 7,499 |
| NASDAQ | 2,000 | 2,000 |
| Total | $ 35,595 | $ 33,337 |

The Company's investment in NASDAQ has been recorded at the available quoted market value as of September 30, 2005.

**Note 7. Intangible Assets and Goodwill, Net**

Information regarding the Company's intangible assets and goodwill is as follows:

| | | September 30, 2005 | | | December 31, 2004 | | |
|---|---|---|---|---|---|---|---|
| | Estimated Life (Years) | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| Technology | 7.0 | $102,916 | $ (56,819) | $46,097 | $102,916 | $ (46,294) | $56,622 |
| Customer relationships | 5.0 | 24,778 | (16,723) | 8,055 | 24,778 | (13,006) | 11,772 |
| Goodwill | — | 14,677 | (7,680) | 6,997 | 14,677 | (6,240) | 8,437 |
| **Total** | | $142,371 | $ (81,222) | $61,149 | $142,371 | $ (65,540) | $76,831 |

Intangible assets and goodwill arose in connection with the Company's acquisitions of ProTrader in October 2001, Island in September 2002 and Bridge in March 2005 (see Note 3).

***Intangible Assets***

The intangible assets are amortized on a straight-line basis over their respective estimated useful lives. Amortization expense was $4,747 for the three months ended September 30, 2005 and 2004, and $14,242 for the nine months ended September 30, 2005 and 2004. Estimated amortization expense for the remainder of the year and each of the next four years is as follows:

| | |
|---|---|
| Remainder of year ending December 31, 2005 | $ 4,748 |
| Year ending December 31, 2006 | $18,525 |
| Year ending December 31, 2007 | $16,359 |
| Year ending December 31, 2008 | $11,524 |
| Year ending December 31, 2009 | $ 2,996 |

***Goodwill***

In connection with the acquisition of Bridge (see Note 3), goodwill previously held at Reuters was transferred to the Company. Statement of Financial Accounting Standard ("SFAS") No. 109, *Accounting for Income Taxes*, requires the excess of tax-deductible goodwill over the reported amount of goodwill be applied to reduce to zero the goodwill related to an acquisition.

The amount recorded against goodwill and shown as an additional income tax expense was $480 for the three months ended September 30, 2005 and 2004, and $1,440 for the nine months ended September 30, 2005 and 2004. Estimated income tax expense for the remainder of the year and each of the next four years is as follows:

| | |
|---|---|
| Remainder of year ending December 31, 2005 | $ 480 |
| Year ending December 31, 2006 | $1,920 |
| Year ending December 31, 2007 | $1,920 |
| Year ending December 31, 2008 | $1,920 |
| Year ending December 31, 2009 | $ 757 |

**Note 8. Comprehensive Income**

Comprehensive income includes net income and changes in stockholders' equity except those resulting from investments by or distributions to stockholders. Comprehensive income is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Net income | $84,742 | $10,616 | $107,028 | $44,530 |
| Changes in comprehensive income | | | | |
| Foreign currency translation adjustment | (569) | (1,685) | (17,107) | (2,064) |
| Total comprehensive income | $84,173 | $ 8,931 | $ 89,921 | $42,466 |

**Note 9. Stock-Based Compensation**

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004) ("SFAS No. 123R"), *Share-Based Payment*, that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using the intrinsic value method under Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and generally would require that such transactions be accounted for using a fair-value-based method. The Company is currently evaluating SFAS No. 123R to determine which fair-value-based model and transitional provision it will follow upon adoption. The transition methods as prescribed in SFAS No. 123R include either the modified prospective or the modified retrospective methods. The modified prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock as the requisite service is rendered beginning with the first quarter of adoption, while the modified retrospective method would record compensation expense for stock options and restricted stock beginning with the first period restated. Under the modified retrospective method, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. SFAS No. 123R will be effective for the Company beginning January 1, 2006. Although the Company will continue to evaluate the application of SFAS No. 123R, adoption is expected to have a material impact on its results of operations.

The Company currently measures compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by APB Opinion No. 25. The Company applies the disclosure provisions of SFAS No. 123, *Accounting for Stock-based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-based Compensation – Transition and Disclosure*, as if the fair-value-based method had been applied in measuring compensation expense. Under APB Opinion No. 25, when the exercise price of the Company's employee stock options equals or is less than the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

As required under SFAS No. 123, the pro forma effects of stock-based compensation on net income and earnings per share for employee stock options granted and employee stock purchase plan share purchases have been estimated at the date of grant and beginning of the period, respectively, using an option pricing model. For purposes of pro forma disclosures, the estimated fair value of the options and shares is amortized to pro forma net income over the options' vesting period and the shares' plan period.

The Company's pro forma information for the three and nine months ended September 30, 2005, and 2004 is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Income from continuing operations, as reported | $ (4,849) | $ 7,832 | $ 13,326 | $ 35,065 |
| Add: Stock based employee compensation expense included in income from continuing operations, net of related tax benefit | 2,083 | 682 | 7,334 | 1,583 |
| Deduct: Stock based employee compensation expense determined under fair value based methods for all awards, net of related tax benefit | (5,493) | (4,317) | (17,946) | (14,071) |
| Pro forma income from continuing operations | $ (8,259) | $ 4,197 | $ 2,714 | $ 22,577 |
| Weighted Average Shares Outstanding | | | | |
| Basic | 340,474 | 337,327 | 339,513 | 336,127 |
| Diluted | 341,876 | 339,226 | 341,044 | 338,111 |
| Income from continuing operations per share — as reported | | | | |
| Basic | $ (0.01) | $ 0.02 | $ 0.04 | $ 0.10 |
| Diluted | $ (0.01) | $ 0.02 | $ 0.04 | $ 0.10 |
| Income from continuing operations per share — pro forma | | | | |
| Basic | $ (0.02) | $ 0.01 | $ 0.01 | $ 0.07 |
| Diluted | $ (0.02) | $ 0.01 | $ 0.01 | $ 0.07 |

***Restricted Stock Units***

During the nine months ended September 30, 2005 and 2004, the Company issued restricted stock units ("RSU") to employees under a performance share plan. All of the RSUs require future service, cliff vest over a one or three year period and are based on certain performance criteria of the Company as a condition to the delivery of the underlying shares of common stock. As of September 30, 2005 and December 31, 2004, RSUs remain outstanding and are classified as Unearned Compensation and Restricted Stock Units on the Consolidated Statements of Financial Condition.

| | RSUs Outstanding |
|---|---|
| Outstanding, December 31, 2003 | — |
| Issued 3 Year RSUs | 2,300 |
| Forfeited | (80) |
| Outstanding, December 31, 2004 | 2,220 |
| Issued 1 Year RSUs | 2,245 |
| Issued 3 Year RSUs | 2,113 |
| Forfeited | (1,206) |
| Outstanding, September 30, 2005 | 5,372 |

***Stock Options***

During the nine months ended September 30, 2005 and 2004, the Company issued approximately 6,842 and 5,111 stock options, respectively, that vest 50% after one year and on a pro rata basis over the next 24 to 36 months.

**Note 10. Discontinued Operation**

On July 1, 2005, the Company sold LJR to The Bank of New York for $174 million in cash.

The revenue and results of operations of the discontinued operations for the three months ended September 30, 2005, the three months ended September 30, 2004, the nine months ended September 30, 2005, and nine months ended September 30, 2004 are summarized as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Revenue | $ — | $41,816 | $ 76,178 | $128,103 |
| Pre-tax income from discontinued operation, before transaction-related items | — | 4,853 | 8,111 | 16,551 |
| Proceeds from sale of discontinued operation | 174,000 | — | 174,000 | — |
| Post closing adjustments | 1,301 | — | 1,301 | |
| Net equity in discontinued operations | (21,584) | — | (21,584) | — |
| Transaction-related costs | (3,831) | — | (4,831) | — |
| Pre-tax income from discontinued operations | 149,886 | 4,853 | 156,997 | 16,551 |
| Income tax expense | 60,295 | 2,069 | 63,295 | 7,086 |
| Income from discontinued operations, net of tax | $ 89,591 | $ 2,784 | $ 93,702 | $ 9,465 |

The Consolidated Statements of Financial Condition include assets of discontinued operations and liabilities of discontinued operations. The net balance of these items represents the adjusted book value of the discontinued operations in accordance with the sale of LJR. The major asset and liability classes included within these categories at December 31, 2004 are as follows:

| | December 31, 2004 |
|---|---|
| Cash and cash equivalents | $ 19,553 |
| Cash and securities segregated under federal regulations | 23,050 |
| Receivable from broker-dealers | 5,386 |
| Commissions and other receivable, net | 6,115 |
| Fixed assets and leasehold improvements, net | 162 |
| Deferred tax asset, net | 14,445 |
| Other assets | 159 |
| Assets of discontinued operations | $ 68,870 |
| Taxes payable | $ — |
| Accounts payable, accrued expenses and other liabilities | 40,498 |
| Liabilities of discontinued operations | $ 40,498 |

**Note 11. Income Taxes**

Income tax benefit was $9,779 for the three months ended September 30, 2005 and income tax expense was $1,440 for the three months ended September 30, 2004. Our effective income tax rate was 66.9% for the three months ended September 30, 2005 and 15.5% in the comparable period in 2004. The effective tax rate for the three months ended September 30, 2005 was greater than the comparable period in 2004 primarily due to changes in valuation allowances and other provisions resulting from changes in business conditions.

Income tax expense was $2,521 for the nine months ended September 30, 2005 and $20,961 for the nine months ended September 30, 2004. Our effective income tax rate was 15.9% for the nine months ended September 30, 2005 and 37.4% in the comparable period in 2004. The effective tax rate for the nine months ended September 30, 2005 was less than the comparable period in 2004 primarily due to the offset of a portion of investment gains with capital losses and changes in valuation allowances and other provisions resulting from changes in business conditions.

**Note 12. Commitments and Contingencies**

***Litigation***

In April and May 2005, four purported class action lawsuits were filed in the Court of Chancery in the State of Delaware against Instinet Group, each of our directors and Reuters alleging, among other things, that defendants breached their fiduciary duties as to our public stockholders in connection with the proposed merger by approving the transaction at an allegedly unfair and inadequate price. On June 22, 2005, plaintiffs filed a consolidated amended complaint consolidating three of the lawsuits while voluntarily dismissing the fourth lawsuit. The amended complaint seeks, among other things, class action status, an injunction against consummation of the transaction, invalidation of certain provisions of the Merger Agreement, damages in an unspecified amount, rescission in the event the transaction is consummated and attorney’s fees.

On September 9, 2005, the parties entered into a proposed settlement of the action pursuant to a Stipulation and Agreement of Compromise, Settlement and Release. Pursuant to the proposed settlement: (i) Instinet revised the definitive proxy statement to include certain disclosures that have been agreed upon and reviewed by plaintiffs; (ii)

Nasdaq and Instinet agreed to reduce by 15%, from $66,500,000 to $56,525,000, the break-up fee that Instinet would pay to Nasdaq under certain conditions pursuant to Section 8.6(a) of the merger agreement; and (iii) Nasdaq agreed to waive, with respect to members of the purported plaintiff class only, the provisions of the merger agreement pursuant to which the aggregate merger consideration was to have been reduced by up to $2.5 million based on the total amount of certain of our transaction liabilities, the net effect of which is an increase of approximately $0.007 per share (or approximately $1.0 million in the aggregate) in the merger consideration that will be received by Instinet stockholders other than the defendants.

On September 16, 2005, Instinet mailed a notice of settlement to its stockholders. On October 25, 2005, the Delaware Court of Chancery certified the class of Instinet Group shareholders and approved the proposed settlement as fair and reasonable. Separately, on November 30, 2005, the Court will hold a hearing to consider plaintiffs' counsel's application for an award of attorneys' fees and reimbursement of expenses. The settlement is still subject to the entry of a final and non-appealable judgment dismissing the consolidated action with prejudice and the delivery of appropriate releases.

From time to time, the Company is involved in various legal and regulatory proceedings arising in the ordinary course of business. The Company is also subject to periodic regulatory audits, inspections and investigations. While any litigation contains an element of uncertainty, management believes, after consultation with counsel, that the outcomes of such proceedings or claims are unlikely to have a material adverse effect on the Company.

***Leases***

The Company has contractual obligations to make future payments primarily for operating leases for office space with Reuters and third parties. Certain leases contain renewal options and escalation clauses. The Company's aggregate minimum lease commitments after 5 years primarily relate to the Company's office space leases in New York City and Jersey City, New Jersey, expiring on various dates through 2021. As of September 30, 2005, future minimum rental commitments under non-cancelable operating leases (net of non-cancelable sublease proceeds) for future periods are as follows:

| | Gross Rental Commitments | Sublease Income | Net Rental Commitments |
|---|---|---|---|
| Remainder of the year ending December 31, 2005 | $ 10,499 | $ 3,501 | $ 6,998 |
| Year ending December 31, 2006 | 37,782 | 12,736 | 25,046 |
| Year ending December 31, 2007 | 34,949 | 13,149 | 21,800 |
| Year ending December 31, 2008 | 33,829 | 13,287 | 20,542 |
| Year ending December 31, 2009 | 33,414 | 13,877 | 19,537 |
| Year ending December 31, 2010 and Thereafter | 237,224 | 135,761 | 101,463 |
| Total | $ 387,697 | $ 192,311 | $ 195,386 |

## Note 13. Collateral Arrangements

As of September, 2005 and December 31, 2004, the fair value of collateral held by the Company that could be sold or repledged totaled $201,607 and $185,511, respectively. Such collateral is generally obtained under resale and securities borrowing agreements. Of this collateral, $199,446 and $179,853 had been sold or repledged as of September 30, 2005 and December 31, 2004, respectively, generally to cover short sales or effect deliveries of securities.

## Note 14. Net Capital Requirements

The Company's broker-dealer subsidiaries are subject to the SEC Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934 administered by the SEC, the New York Stock Exchange and the National Association of Securities Dealers, which requires the maintenance of minimum net capital. All subsidiaries have elected to use the alternative method, which requires that they maintain minimum net capital equal to:

- $250 for general broker-dealers;

- 1,000 for market makers; and
- the greater of $1,500 or 2% of aggregate debit items arising from customer transactions for clearing firms.

The table below summarizes the minimum capital requirements for the Company's U.S. broker-dealer subsidiaries.

| | September 30, 2005 | | | December 31, 2004 | | |
|---|---|---|---|---|---|---|
| | Net Capital | Net Capital Requirement | Excess Net Capital | Net Capital | Net Capital Requirement | Excess Net Capital |
| Instinet, LLC | $ 35,295 | $ 250 | $ 35,045 | $ 24,140 | $ 250 | $ 23,890 |
| Inet ATS, Inc. | 36,199 | 1,000 | 35,199 | 29,932 | 1,000 | 28,932 |
| Instinet Clearing Services, Inc. | 20,014 | 1,500 | 18,514 | 7,542 | 1,500 | 6,042 |
| Bridge Trading Company | 3,921 | 250 | 3,671 | 11,227 | 797 | 10,430 |
| Harborview, LLC | 4,820 | 250 | 4,570 | 1,123 | 250 | 873 |
| Island Execution Services, LLC | 1,470 | 1,000 | 470 | 1,449 | 1,000 | 449 |
| **Total** | $ 101,719 | $ 4,250 | $ 97,469 | $ 75,413 | $ 4,797 | $ 70,616 |

The Company's international broker-dealer subsidiaries are subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of September, 2005 and December 31, 2004, these subsidiaries had met their local capital adequacy requirements.

**Note 15. Segment Information**

In reporting to management, the Company's operating results are categorized into two business segments, Instinet and INET. Eliminations represent intercompany revenue and expenses. Segment operating results exclude LJR, which is treated as a discontinued operation.

***Segment Operating Results***

| | Three Months Ended September 30, 2005 | | | | Three Months Ended September 30, 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| | Instinet | INET | Eliminations & Corporate | Total | Instinet | INET | Eliminations & Corporate | Total |
| Transaction fees | $139,638 | $114,865 | $ (8,054) | $ 246,449 | $ 146,605 | $104,057 | $ (4,966) | $ 245,696 |
| Interest income, net | 2,009 | 953 | 5,003 | 7,965 | 2,916 | 402 | — | 3,318 |
| Total revenue, net | 141,647 | 115,818 | (3,051) | 254,414 | 149,521 | 104,459 | (4,966) | 249,014 |
| Total expenses | 169,435 | 111,426 | (11,819) | 269,042 | 149,386 | 99,353 | (8,997) | 239,742 |
| Pre-tax earnings | $ (27,788) | $ 4,392 | $ 8,768 | $ (14,628) | $ 135 | $ 5,106 | $ 4,031 | $ 9,272 |
| Quarter-end total assets | $934,348 | $200,879 | $ 705,631 | $1,840,858 | $1,187,736 | $203,532 | $ 284,323 | $1,675,591 |

| | Nine Months Ended September 30, 2005 | | | | Nine Months Ended September 30, 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| | Instinet | INET | Eliminations & Corporate | Total | Instinet | INET | Eliminations & Corporate | Total |
| Transaction fees | $436,487 | $356,853 | $ (22,340) | $ 771,000 | $ 508,216 | $334,915 | $ (14,746) | $ 828,385 |
| Interest income, net | 6,929 | 1,873 | 10,715 | 19,517 | 9,298 | 1,060 | — | 10,358 |
| Total revenue, net | 443,416 | 358,726 | (11,625) | 790,517 | 517,514 | 335,975 | (14,746) | 838,743 |
| Total expenses | 487,662 | 335,006 | (47,998) | 774,670 | 504,978 | 313,556 | (35,817) | 782,717 |
| Pre-tax earnings | $ (44,246) | $ 23,720 | $ 36,373 | $ 15,847 | $ 12,536 | $ 22,419 | $ 21,071 | $ 56,026 |