



NASDAQ Full-Year and Fourth Quarter 2002 Results

New York, N.Y.—The NASDAQ Stock Market, Inc. ("NASDAQ"; OTCBB: NDAQ), the world's largest electronic stock market, today reported full-year and fourth quarter results for the period ending December 31, 2002.

Significant Accomplishments in 2002:

- Successful Implementation of SuperMontageSM and Associated Data Products
- Launch of Market Intelligence DeskSM
- Reduced Cost Structure and Increased Self-Sufficiency
- Strengthened Corporate Governance Rules and the Quality of the NASDAQ Market

"NASDAQ found 2002 to be a difficult year. Economic conditions, regulatory delays and fundamental changes in the complexion of our market all posed challenges for us," noted Wick Simmons, Chairman and Chief Executive Officer of The NASDAQ Stock Market. "However, within this environment NASDAQ improved the transaction quality and transparency of its market for investors, supplied new, value added services for our listed companies, furthered our drive toward self-sufficiency, and reduced the effective cost of running the business. In sum, NASDAQ continued to improve the competitiveness of its platform as it sought to increase investor trust."

Net Income

NASDAQ continued to streamline its cost structure in 2002, focusing on fundamental business operations, and its separation from the National Association of Securities Dealers, Inc. ("NASD"):

- Net income for 2002 was \$43.1 million, up 6.4% from \$40.5 million in 2001. Net income in the fourth quarter was \$0.3 million compared to a net loss of \$13.3 million in the fourth quarter of 2001, an increase of \$13.6 million.
- Total expenses for 2002 were \$720.1 million, down 9.5% from \$796.1 million in 2001. Total expenses decreased 22.1% to \$184.3 million during the fourth quarter from \$236.6 million in the fourth quarter of 2001.
- NASDAQ reported 2002 net income applicable to common stockholders of \$33.4 million or \$0.40 per share, up 14.3% from \$0.35 per share in 2001. In the fourth quarter, NASDAQ reported a

net loss applicable to common stockholders of \$2.1 million or (\$0.03) per share compared to a net loss of \$13.3 million or (\$0.12) per share a year ago. Impacting earnings per share during the year was the repurchase of 33.8 million shares of common stock from the NASD in the first quarter of 2002.

Revenue

NASDAQ's full-year and fourth quarter 2002 revenue reflected the continuation of difficult market conditions and increased competition:

- Revenue decreased 6.8% in 2002 to \$799.2 million, down from \$857.2 million in 2001. Fourth quarter revenue was \$183.6 million, down 14.8% from \$215.5 million in the prior year.

EBITDA ¹

NASDAQ's operating performance remained strong in 2002:

- EBITDA was \$177.0 million in 2002, up 14.6% over \$154.5 million in 2001. EBITDA in the fourth quarter was \$22.0 million compared to \$4.7 million in the fourth quarter of 2001, an improvement of \$17.3 million.

Mr. Simmons continued: "NASDAQ successfully completed the launch of SuperMontage and initiated the rollout of related data products, the ViewSuiteSM, designed to improve the speed and transparency of our market. We introduced the Market Intelligence Desk, providing valuable market insight to all NASDAQ-listed companies. We announced the formation of a joint venture through NASDAQ Europe, NASDAQ Deutschland AG, supported by a customized version of the SuperMontage platform, SuperMontage Europe. Finally, NASDAQ continued to work toward operating as a self-sufficient, for profit, shareholder-owned company."

"To address issues of investor confidence, NASDAQ further strengthened its focus on corporate governance in 2002, we proposed tightened standards for our listed companies, seeking greater independence among corporate boards of directors and shareholder approval for stock option plans. The standards were proposed in an effort to strike a balance between companies' ability to access the capital markets to fund their growth and the protection of investors providing liquidity to those markets. While NASDAQ has always supported high standards for its market and listed companies, the scandals that plagued corporate America in late 2001 and throughout 2002 emphasized the fact that regulation of the financial markets needs to keep pace with the evolution of the markets themselves."

2003 Objectives

NASDAQ intends to develop and deliver highly competitive products and services for its listed companies, traders and investors by leveraging the NASDAQ brand and the Company's core strengths, innovative technology and market quality. Specific goals include:

- Proliferate SuperMontage by enhancing its functionality and availability to investors and traders, both domestically and internationally.
- Launch new value-added products and further improve the quality of the equity markets through stronger corporate governance standards.
- Attract and retain listings by providing growing companies the opportunity to access the capital markets, while continuing the company's marketing campaign featuring NASDAQ-listed companies.

Combined, these initiatives are expected to enable NASDAQ to grow what is today a more efficient pool of liquidity, featuring faster executions, superior quoted spreads and lower transaction costs than traditionally achieved in NASDAQ's systems.

Business Line Results

Transaction Services

Transaction Services revenue was \$380.7 million in 2002, down 7.6% compared with revenue of \$412.1 million in 2001. Fourth quarter revenue declined 23.9% to \$78.8 million compared with revenue of \$103.6 million in the fourth quarter of 2001.

- Access Services revenue declined 14.9% in 2002 to \$140.8 million, and declined 20.3% in the fourth quarter to \$31.5 million.
- Execution Services revenue increased 2.0% in 2002 to \$157.5 million, despite declining 23.8% in the fourth quarter to \$31.4 million.
- Trade Reporting revenue declined 10.0% in 2002 to \$78.6 million, and fell 21.7% in the fourth quarter to \$17.0 million.

Underlying the performance during the year were depressed trading volumes across the equity markets as concerns over corporate governance, softness in the U.S. economy and geopolitical instability weighed on investor confidence. Increased competition and shifts in market composition placed additional pressure on revenue throughout the year as firms executed transactions and reported trades in NASDAQ-listed securities outside of NASDAQ's systems:

- Average daily share volume declined 7.8% in 2002 to 1.75 billion shares per day from an average of 1.90 billion shares in 2001. Average daily share volume in the fourth quarter fell 11.7% to 1.64 billion shares from 1.86 billion shares in the fourth quarter of 2001.
- Average daily trade volume decreased 1.9% in 2002 to 2.38 million trades from an average of 2.43 million trades in 2001. Fourth quarter average daily trade volume increased 5.1% to 2.42 million trades from an average of 2.30 million trades in the fourth quarter of 2001.
- The percent of share volume executed in NASDAQ's systems fell to 26.4% in 2002 from 29.0% in 2001. The percent of share volume

executed in its system during the fourth quarter decreased to 20.1% from 30.6% in the fourth quarter of 2001. These decreases were due to increased competition [2](#).

- The percent of trades executed in NASDAQ's systems fell to 30.1% in 2002 from 38.4% in 2001. The percent of trades executed in its systems during the fourth quarter decreased to 24.3% from 37.6% in the fourth quarter of 2001. These decreases were due to increased competition [2](#).

Impacting the decline in NASDAQ's Access Services business was a reduction in the number of subscriber log-ons to NASDAQ's systems as consolidation across the industry and cost savings initiatives resulted in broad reductions in force.

Despite the difficult operating environment, NASDAQ executed on its stated goal to launch SuperMontage, its new trading system, during 2002:

- After successful user acceptance tests during the first three quarters of 2002, NASDAQ rolled out SuperMontage on October 14, 2002.
- As of December 2, 2002, all NASDAQ-listed securities were trading on SuperMontage.
- To date, SuperMontage has significantly improved the quality of the NASDAQ market, providing faster transactions, greater depth and increased transparency.

In 2002, NASDAQ Transaction Services derived revenue primarily from transactions associated with SuperMontage, SelectNetSM, SuperSoesSM, SOESSM, trade reporting fees associated with ACT and system access fees. SOES, SuperSoes and SelectNet were retired on December 31, 2002 after being replaced by SuperMontage.

Market Information Services

Market Information Services revenue declined 17.0% in 2002 to \$202.4 million from \$243.9 million in 2001. Fourth quarter revenue declined 23.1% to \$49.5 million from \$64.4 million in the fourth quarter 2001.

- NASDAQ's Level 1 revenue fell 12.1% in 2002 to \$142.3 million and decreased 17.2% in the fourth quarter to \$34.2 million. NASDAQ Quotation Dissemination Service (NQDS) revenue fell 13.6% in 2002 to \$37.5 million and decreased 15.4% in the fourth quarter to \$8.8 million. These decreases were primarily due to cost savings initiatives and consolidation among NASDAQ market participants, as well as, decreased interest in equity investing by retail investors.
- NASDAQ InterMarket Tape revenue increased 18.8% in 2002 to \$38.6 million, but decreased 14.6% in the fourth quarter to \$8.8 million. The increase in 2002 was primarily due to a favorable resolution of revenue sharing arrangements. The decrease in the fourth quarter was the result of competition from regional

exchanges as certain Alternative Trading Systems reported or executed trades in exchange-listed securities outside NASDAQ's InterMarket systems.

In the fourth quarter of 2002, NASDAQ rolled out Liquidity TrackerSM and its ViewSuite of data products, both of which, in conjunction with SuperMontage, were designed to increase market transparency and maximize trading efficiency for NASDAQ's customers.

Market Information Services derives revenue primarily from Level 1 and NQDS data, and receipt of Consolidated Quotation Plan and the Consolidated Tape Association Plan (CQ/CTA) tape revenue for trades processed through the NASDAQ InterMarket.

Corporate Client Group

Corporate Client Group revenue increased 13.2% in 2002 to \$176.7 million from \$156.1 million in 2001 and increased 12.3% in the fourth quarter to \$44.6 million from \$39.7 million in the fourth quarter of 2001.

- Annual renewal fee revenue increased 23.7% in 2002 to \$102.8 million and increased 17.6% in the fourth quarter to \$25.4 million. The improvement was primarily the result of the introduction of a revised fee structure for annual renewal fees in January 2002.
- Listing of additional shares revenue was up 4.5% in 2002 at \$37.5 million after finishing the fourth quarter flat at \$9.3 million. Underlying this performance, there were 23 secondary offerings during the fourth quarter and 139 during 2002, compared to 56 in the fourth quarter of 2001 and 168 during the full year. The decrease in secondary offerings was primarily the result of the depressed equity markets and the availability of lower cost funding in the debt market due to historically low interest rates.
- Initial listing revenue declined 5.9% in 2002 to \$33.6 million and declined 2.3% in the fourth quarter to \$8.4 million, reflecting continued weakness in the Initial Public Offering (IPO) market. There were 16 IPOs on NASDAQ during the fourth quarter and 51 during 2002, versus 24 IPOs and 63 IPOs in the same, respective periods last year. The broader IPO market continued to be weak in 2002 as the softness in the equity markets caused many to postpone or cancel plans to seek financing through an equity offering.

In June 2002, the Corporate Client Group launched the Market Intelligence Desk, a value-added service designed to provide NASDAQ's listed companies with a centralized point-of-contact for detailed information regarding their stocks' trading activity, news coverage and analyst opinion revisions.

Corporate Client Group revenue is primarily earned through initial listing fees, fees associated with the listing of additional shares and annual renewal fees for companies listed on NASDAQ. Initial listing fees and fees

associated with the listing of additional shares are amortized over six-year and four-year periods, respectively, in accordance with the adoption of SEC Staff Accounting Bulletin 101, applied retroactively as of January 1, 2000.

Other

Other revenue fell 12.6% in 2002 to \$39.4 million from \$45.1 million in 2001, despite rising 37.2% in the fourth quarter to \$10.7 million from \$7.8 million in the fourth quarter of 2001. The decrease during the year was partially the result of a decrease in licensing revenue related to NASDAQ-100 Index Tracking Stock (QQQ) trades occurring outside the NASDAQ InterMarket. This decline in trademark revenue was effectively offset by the higher tape revenue received by NASDAQ InterMarket, which is reflected in Market Information Services, as a result of its increased market share.

In the fourth quarter of 2002, NASDAQ Financial Products Services, Inc. expanded its footprint in the exchange-traded fund (ETF) market. NASDAQ established itself as a listing market for ETFs with the launch of a family of four BLDRSSSM ETFs based on The Bank of New York ADR IndexesSM, listed on NASDAQ, and traded on NASDAQ's new SuperMontage trading platform. Additionally, the NASDAQ-100 European TrackerSM ETF, the first European ETF based upon the NASDAQ-100 Index[®], was launched, listed on NASDAQ Europe, traded on the SuperMontage Europe platform and registered for sale in the U.K., Belgium, Germany and Ireland.

NASDAQ generates revenue related to the licensing of NASDAQ Indexes for financial instruments, including the NASDAQ-100 Index[®], which is the benchmark for financial products such as the QQQ. The Index, launched in 1985, includes the 100 largest non-financial stocks traded on The NASDAQ Stock Market. The NASDAQ-100 Index[®] is one of the world's most widely watched financial barometers and has become the basis for a broad range of financial instruments, including futures contracts, mutual funds, index options, structured products and exchange-traded funds. NASDAQ also generates revenue from NASDAQ.com and advertising revenue from the MarketSite tower.

Other Initiatives

On November 8, 2002, NASDAQ LIFFE Markets, LLC ("NQLX"), a fifty-percent joint venture with The London International Financial Futures and Options Exchange (LIFFE), began listing futures contracts on individual equity securities. The joint venture is a wholly electronic exchange offering a broad range of futures contracts. NQLX is an independent exchange and uses LIFFE CONNECT[™], the world's most advanced derivatives trading system, as its trading platform.

Expenses

Total expenses decreased 9.5% in 2002 to \$720.1 million from \$796.1 million in 2001. Total expenses in the fourth quarter were \$184.3 million versus \$236.6 million in the year-earlier period, an improvement of 22.1%. Included in the improvement during 2002 was a higher expense-base in 2001 due to several adjustments related to NASDAQ's on-going separation from the NASD. Offsetting this in 2002, NASDAQ exited certain foreign investments and technology initiatives resulting in after-tax charges of \$10.3 million in the second quarter of the year, and the recording of costs associated with NASDAQ's proposed separation from the NASD and associated transitional support costs to be funded to the American Stock Exchange ("Amex").

Direct Expenses

Direct expenses were down 7.1% in 2002 to \$645.1 million from \$694.3 million in 2001. In the fourth quarter, NASDAQ reduced direct expenses by 21.4% to \$165.8 million from \$210.9 million in the fourth quarter of 2001.

In 2002, NASDAQ continued to benefit from initiatives taken to reduce the fundamental costs required to run the business, namely:

- Professional and contract services improved 6.1% in 2002 to \$71.4 million primarily due to less reliance on outside contractors, with regard to NASDAQ's self-sufficiency efforts and a decrease in development costs associated with SuperMontage. This was partially offset by an increase in costs associated with NASDAQ's global initiatives, as well as, a 2.3% increase in professional and contract services to \$22.1 million in the fourth quarter of the year as compared to the fourth quarter of 2001.
- Computer operations and data communication improved 15.8% in 2002 to \$147.3 million, and improved 20.6% in the fourth quarter to \$34.2 million as compared to the fourth quarter of 2001. The improvement was due to the renegotiation of certain key contracts during 2002.
- Marketing and advertising, travel meetings and training, and publications supplies and postage decreased 5.9% in 2002 to \$51.4 million. This was offset by a 16.2% increase in these expenses in the fourth quarter of 2002 to \$20.1 million. The increase in the fourth quarter was primarily due to higher marketing and advertising expenses related to NASDAQ's planned "Listed on NASDAQ" marketing campaign, as well as, increased travel, meeting and training expenses compared to the fourth quarter of 2001.
- Continued attention to headcount, which resulted in a 3.4% reduction in employees during 2002 as compared to 2001.

Offsetting these efficiencies during the year:

- Compensation and benefits increased 4.9% in 2002 to \$192.4 million reflecting NASDAQ's increased self-sufficiency and

severance costs of \$4.5 million associated with a targeted reduction in force, as well as additional benefit obligations. This full-year increase was tempered by lower overall compensation costs in the fourth quarter as NASDAQ realized the benefit of a reduction in force taken in the fourth quarter of 2001, resulting in a 4.2% decrease in compensation expenses to \$50.0 million in the fourth quarter of 2002 as compared to the fourth quarter of 2001.

- Depreciation and amortization increased 4.8% in 2002 to \$97.9 million due to capacity and technology infrastructure improvements required to support market activity and new initiatives. This was offset slightly by a 12.0% decrease in depreciation and amortization in the fourth quarter to \$22.7 million as compared to the fourth quarter of 2001. In addition, \$2.8 million of additional depreciation and amortization expense was recognized in 2002 related to NASDAQ Europe, which was not consolidated until March 27, 2001.
- Occupancy expense increased 26.5% in 2002 to \$34.4 million and increased 35.6% in the fourth quarter to \$9.9 million. This increase is due to the direct payment of occupancy expenses to third party vendors previously paid to NASD and recorded in support costs from related parties.

Support Costs from Related Parties

Support Costs from Related Parties decreased 26.3% in 2002 to \$75.0 million, and fell 28.0% in the fourth quarter to \$18.5 million. Two factors contribute to NASDAQ's support costs:

- The first is related to the regulatory role that NASD performs for The NASDAQ Stock Market, Inc.
- The second is related to the support functions that the NASD has traditionally provided NASDAQ.
The improvement during the quarter and the year is due to NASDAQ's decreased reliance on the NASD for administrative support functions as NASDAQ continued the development of its independent infrastructure.

Net Income and Earnings Per Share

Net income for 2002 was \$43.1 million, up 6.4% from \$40.5 million in 2001. Net income in the fourth quarter was \$0.3 million compared to a net loss of \$13.3 million in the fourth quarter of 2001, an increase of \$13.6 million.

NASDAQ reported 2002 net income applicable to common stockholders of \$33.4 million or \$0.40 per share, up 14.3% from \$0.35 per share in 2001. In the fourth quarter, NASDAQ reported a net loss applicable to common stockholders of \$2.1 million or (\$0.03) per share compared to a net loss of \$13.3 million or (\$0.12) per share a year ago. Impacting earnings per share during the year was the repurchase of 33.8 million

shares of common stock from the NASD in the first quarter of 2002.

Share Repurchase

On March 8, 2002 NASDAQ completed the second and final stage of its repurchase of NASDAQ Common Stock from the NASD in which an additional 33.8 million shares of Common Stock were repurchased from the NASD; representing all of the outstanding shares of Common Stock owned by the NASD, except for the 43.2 million shares of Common Stock underlying the warrants issued by the NASD in two private placements in 2000 and 2001.

Private Placement of Notes

On May 9, 2002, NASDAQ completed a \$150.0 million private placement of five-year senior notes due in 2007. The proceeds of the transaction were used to replace a portion of the cash used to repurchase the above-mentioned 33.8 million shares of NASDAQ common stock from the NASD.

Conclusion

Mr. Simmons reiterated NASDAQ's commitment to market quality and customer service stating: "NASDAQ continues to support an open, competitive market environment with exceptional integrity and transparency. To that end, NASDAQ will continue to hold its listed companies, market participants and the investment community to higher standards as the equity markets evolve. SuperMontage and the associated data products that NASDAQ rolled out in 2002 will provide traders and investors with greater visibility into the market, while NASDAQ's listing standards will ensure that companies have the access to the capital markets needed to grow their businesses and strengthen the health of the economy throughout 2003."

NASDAQ is the world's largest electronic stock market. With approximately 3,600 companies, NASDAQ lists more companies and, on average, trades more shares per day than any other U.S. market. It is home to category-defining companies that are leaders across all areas of business including technology, retail, communications, financial services, media and biotechnology industries. NASDAQ is a key driver of capital formation.

For more information about NASDAQ, visit the NASDAQ Web site at www.NASDAQ.com or the NASDAQ NewsroomSM at www.nasdaq.com/newsroom.

Cautionary Note Regarding Forward-Looking Statements

The matters described herein may contain forward-looking statements that are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve a number of risks, uncertainties or other factors beyond the

control of The NASDAQ Stock Market, Inc. (the "Company"), which could cause actual results to differ materially from historical results, performance or other expectations and from any opinions or statements expressed or implied with respect to future periods. These factors include, but are not limited to, the Company's ability to implement its strategic initiatives, economic, political and market conditions and fluctuations, government and industry regulation, interest rate risk, U.S. and global competition, and other factors detailed in the Company's annual report on Form 10-K, as amended, and periodic reports filed with the U.S. Securities and Exchange Commission. We undertake no obligation to release any revisions to any forward-looking statements.

1 EBITDA throughout this release is defined as earnings before interest, taxes, depreciation, amortization and minority interests.

2 In order to use data more consistent with the separation of the Securities Information Processor (SIP) function from The Nasdaq Stock Market that began in July 2002, the methodology for calculating systems market share of volume and trades was adjusted. As a result, information on volume market share and trade market share provided here may not be comparable to such data previously provided by NASDAQ for prior periods based on the old methodology. A discussion of the SIP separation is contained in NASDAQ's Form 10-K, as amended.

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The Nasdaq Stock Market, Inc.
Consolidated Balance Sheets
(in thousands, except share and par value amounts)

	December 31,	
	2002	2001
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 204,271	\$ 293,731
Investments:		
Available for sale, at fair value	222,125	228,029
Held to maturity, at amortized cost	18,674	—
Receivables, net.....	166,471	200,057
Receivables from related parties.....	11,274	28,936
Deferred tax asset.....	53,048	51,170
Other current assets.....	<u>21,143</u>	<u>13,249</u>
Total current assets.....	697,006	815,172
Investments:		
Held to maturity, at amortized cost	9,756	28,569

Property and equipment:

Land, buildings, and improvements.....	94,549	88,861
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